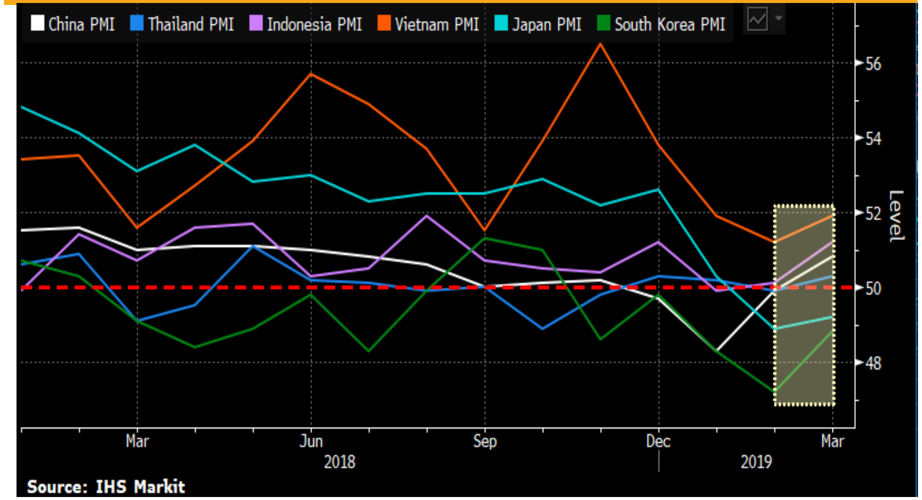
# Weekly bond recommendations. Blackfort.

BLACKFORT

# US and Asian PMIs are up ticking: High yield spreads do not show sings of stress

- Newspapers and research reports are full of Q1 reviews and Q2 outlooks. Most are astonished by the strong performance of both bonds and equities. One newspaper shows in a summary of 10 local investment strategies that all are neutral on equities and underweight bonds. Further more they expect a further slowdown and a selloff in bonds.
- We would like to stress that recent PMI data out of Asia and the US ISM non manufacturing PMI are all showing up ticks. In Europe the picture looks different, but for instance Germany's industrial production is strongly correlated to the development in China. Both Chinese PMI indicators are rising. The massive stimulus seems to be working out.
- The PMI of other important countries such as India, Brazil, Russia or Mexico is still falling. Overall the picture is rather positive as China and the US continue to grow. Both account for more than 50% of global GDP.
- As a consequence market participants expect now that the Fed might cut rates in 2019. The positive US economic data (apart from disinflation) is not supporting this view. I.e. a tight US labor market and rising PMIs are rather pointing to a rise in rates. Therefore, we expect the Fed to stay on hold until December 2019.

**Asian industrial PMIs (and US) do not indicate a further slowdown**




**US and European High Yield spreads have not widened in recent weeks**


- The recent turmoil's in Turkey have not affected the high yield markets. The European and US high yield option adjusted spreads have not moved over the last two weeks. Compared to Q3 2018 there is even room for a further spread tightening. We would argue that during a global slowdown without a recession in the US or China a sideways trade of these spreads is a reasonable assumption.
- We don't expect to earn substantial capital gains over the coming months and concentrate on coupon income.
- Additional to the slowdown central banks have to deal with disinflation and with various political uncertainties, i.e Brexit and tariff conflicts. Both however could push central banks to further stimulate the economy with unconventional measures. "Don't fight the Fed" is therefore a sensible guide for asset allocation during the coming months.
- For the time being that means risk on. During such a phase both corporate bonds and equities should deliver positive returns.
- In case of bad company results bonds and equities will react sharply as on average bonds are expensive. However, they can stay on this elevated levels as long as the economy is growing at a moderate pace and political events (e.g. Brexit, China/US trade or European/US tariff) conflicts will be smoothly solved.

Bond

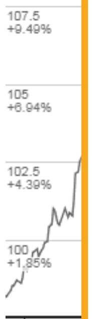
## We appreciate your interest.

## If you like to read more, please contact us.

**Disclaimer**

These Bond Recommendations (hereafter «BR») are provided for information purposes only and for the use by the recipient. This document was produced by Blackfort Capital AG (hereafter «BF») with the greatest of care and to the best of its knowledge and belief. Although information and data contained in this document originate from sources that are deemed to be reliable, no guarantee is offered regarding the accuracy or completeness. Therefore, BF does not accept any liability for losses that might occur through the use of this information. The BR does not purport to contain all of the information that may be required to evaluate all of the factors that would be relevant to a recipient considering entering into any transaction and any recipient hereof should conduct its own investigation and analysis. In addition, the BR includes certain projections and forward-looking statements. Such projections and forward-looking statements are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control. Accordingly, there can be no assurance that such projections and forward-looking statements will be realised. The actual results may vary from the anticipated results and such variations may be material. No representations or warranties are made as to the accuracy or reasonableness of such assumptions or the projections or forward-looking statements based thereon. This document is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law. It may not be reproduced either in part or in full without the written permission of BF.

Price D




i.e. mobile data, pay TV and to attract new clients through advertising.

# Contacts

BLACKFORT

Blackfort Capital AG · Freigutstrasse 8 · 8002 Zürich · Switzerland
Tel. +41 44 585 78 78 · Fax. +41 44 585 78 70 · info@blackfort.ch · www.blackfort.ch

# Disclaimer

These Bond Recommendations (hereafter «BR») are provided for information purposes only and for the use by the recipient. This document was produced by Blackfort Capital AG (hereafter «BF») with the greatest of care and to the best of its knowledge and belief. Although information and data contained in this document originate from sources that are deemed to be reliable, no guarantee is offered regarding the accuracy or completeness. Therefore, BF does not accept any liability for losses that might occur through the use of this information. The BR does not purport to contain all of the information that may be required to evaluate all of the factors that would be relevant to a recipient considering entering into any transaction and any recipient hereof should conduct its own investigation and analysis. In addition, the BR includes certain projections and forward-looking statements. Such projections and forward-looking statements are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control. Accordingly, there can be no assurance that such projections and forward-looking statements will be realised. The actual results may vary from the anticipated results and such variations may be material. No representations or warranties are made as to the accuracy or reasonableness of such assumptions or the projections or forward-looking statements based thereon. This document is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law. It may not be reproduced either in part or in full without the written permission of BF.