Weekly bond recommendations. Blackfort.

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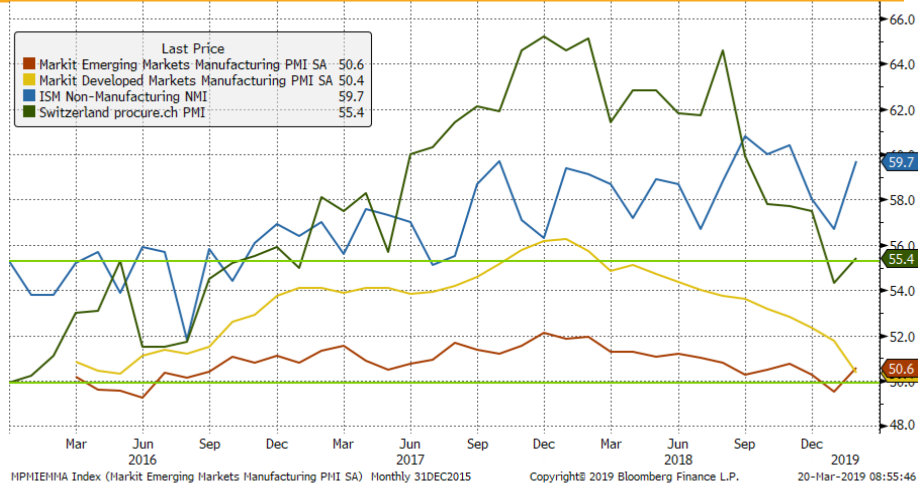
The FED has for the 2nd time in a row over delivered meanwhile USD bonds rallied

- The German council of economic experts has cut their GDP forecast by 50%. They expect that Germany will grow 0,8% in 2019 Like most commentators they expect that the global economy will re-accelerate in H2 2019.
- Last week the ECB has reduced their GDP growth outlook for the Eurozone. This week the Swiss SECO has as well reduced their growth outlook for 2019, both however, emphasize that in H2 2019 and especially in 2020 we will see a reacceleration of growth.
- Bond and equity markets have risen although the global growth outlook got weaker. US high yields for instance are up around 6.5%, most of the return came from a spread tightening of around 115 basis points. In case of an anticipated recession one would expect losses, spread widening and rising default rates. Nothing of this has happened.
- Economic indicators are mixed. While the aggregated PMI for developed countries is still falling the aggregated PMI for emerging markets has risen in 2019. Both are in the growth area (above 50). Digging deeper, Swiss Industrial PMI has risen above 55, i.e. purchasing manager expect an acceleration of international exports. The US non manufacturing PMI is even higher at 59.7.

Emerging market PMIs rise, while the PMIs for developed countries still fall



Dr. Copper has risen around 13% in 2019: Will global growth pick up?

- Dr. Copper, normally a very good leading indicator, has risen more than 13% in 2019. The rent for container ships is for the first time since two years rising. China's credit market is stimulated by the government. As a consequence China's PMIs have stopped falling. All these indicates a reacceleration of economic activities.
- Therefore, we agree with the positive global growth outlook for H2 2019, which would support our opinion that for the rest of 2019 bond investors should earn the coupon and rate level or spread changes should not dominate returns. Another implication is that the default rate of non investment grade bonds should stay at (very) low levels until the end of 2019.
- The Fed has for the 2nd time in a row over delivered. Not only will there be no rate hike in 2019 but also the balance sheet reduction will slow in May and end completely in September 2019. And even the CPI outlook is now in line with market participants expectations, i.e. the Fed expect disinflation. As an immediate consequence the US 10-year treasury yield dropped almost 10 basis points.
- USD corporate bonds rallied after the Fed announcement and US-dollar depreciated against most other currencies, which gives additional support for emerging markets and might be reflected in the next PMI data release.

We appreciate your interest.

If you like to read more, please contact us.

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actual yield to maturity over 6% as attractive.

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