

24 August 2020 /// n°30-2020

New guidance from Jackson Hole?

Key Points

- **Jackson Hole: the Fed may unveil policy options**
- **Stable yields, tighter sovereign spreads**
- **US equities at record highs powered by FANG**
- **European credit outperforms US credit**

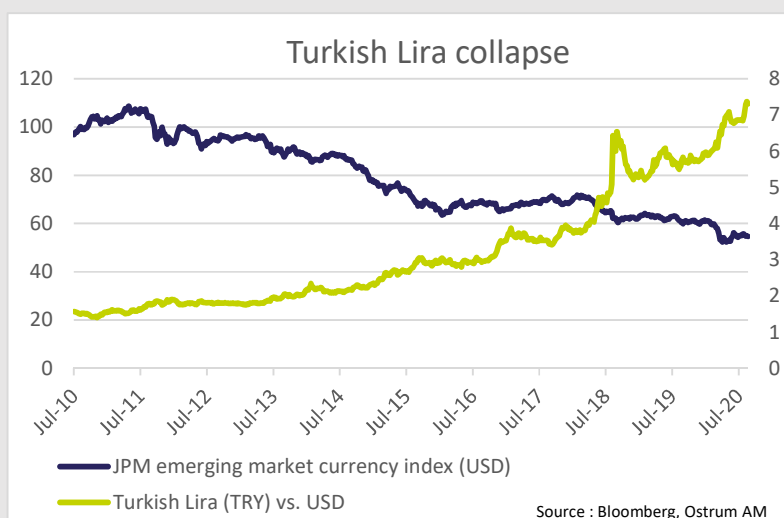
Financial markets were well oriented in August despite ongoing concerns about the evolution of the epidemic. Stock indices are up 5% in Europe. The S&P 500 is up about 4% from the end of July.

Risk-free rates rebounded in the US, particularly at the long end of the curve (+11bp on 10-year notes). Bunds oscillate about -0.50% whilst steepening pressure in the US pushed 30-year Treasury yields back above 1.30%. TIPS also benefitted from the upside surprise on the July CPI. Credit spreads tightened in part due to lower seasonal supply.

European high yield followed on from risky assets. Conversely, US corporate credit appears less supported by the Fed. Emerging bonds labelled in USD keeps outperforming at 422bp spread vs. USTs.

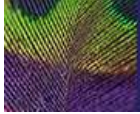
The dollar slide continued. The euro is trading above \$1.18. CAD appreciated towards 1.315 against the greenback. Gold's acceleration to the upside (beyond \$2000 in early August) has given way to greater volatility in past few weeks.

Chart of the week



The Turkish Lira keeps plunging despite broad signs of stabilization across EM currency markets. The economic crisis, the challenging situation in neighboring Lebanon, restrictions to trade liras and the international lack of confidence in Erdogan's regime sparked capital outflows.

The Central Bank, using highly expansionary policy, magnified the downside risk on the Turkish Lira. The M1 monetary aggregate is up 70% YTD. Meanwhile, Turkey's gross FX reserves have halved.



The sustainability of the recovery remains an open question

Concerns regarding the evolution of the epidemic continue to dominate headlines but it is undeniable that the US economic situation has been improving. Manufacturing surveys for the month of August confirmed that activity is gaining traction. Regional Fed surveys (Empire, Phil Fed), July ISM and August PMI (53.6) depict a net rebound since the April low. Activity in services is also more vigorous. Return to employment accelerated so that unemployment rate declined to 10.2% in July. The housing sector is a driving force behind the recovery. Homebuilders' confidence remains very elevated (NAHB at 78). Housing starts and permits rose sharply in the past three months. Housing starts (1496k at annual rate) are back to pre-crisis levels.

That said, the sustainability of the US recovery remains questionable at this juncture. Initial jobless claims climbed back above 1.1mn last week. Unemployment duration is increasing all the more so that the number of bankruptcies is up since late June. It is estimated that up to a quarter of jobs lost during the crisis may not be recouped. Household consumption sustained by large Federal transfers since March may slow as inflation creeps higher with the rebound in apparel, energy and auto prices. Part of pent-up demand built-up in the confinement period has already been consumed. The 5.6% rebound in household spending in July may start to wane (+12.5% is the consensus estimate for August). Auto sales climbed back near 15mn units at annual rate still shy of the 16-17mn that prevailed before the Covid crisis. Shenanigans in Congress so far prevented the implementation of a new fiscal stimulus plan, which should include some form of extension of federal unemployment benefits which expired at the end of July. The dire financial situations in several US states will prevent stimulus to be deployed without federal aid. A halving of weekly benefits to \$300 is being debated.

Virtual, yet crucial, Jackson Hole

The Jackson Hole symposium scheduled on 27-28 August will be held virtually for the first time. The event is usually a great opportunity for central bankers to pre-announce possible change to policy in the months ahead. Fed policymakers are widely expected to touch upon yield curve control policies. The uncontrolled increase in US government deficits obliges the Fed to absorb much of the US government borrowing needs, especially as foreign demand for Treasuries collapsed early on this year. In this situation (sometimes coined 'fiscal dominance'), the Fed is no longer truly in control of the money supply, which is de facto dictated by government budget deficits. The possibility of yields

targeting also carries some problems in terms of economic cycle management. The cushioning effect of lower interest rates when demand declines would disappear, which could be conducive of greater volatility, especially if private sector borrowing continued to expand. The Fed could also reinforce its forward guidance by committing to keep rates at zero for longer than 2 years. The inflation objective may be amended shortly to take into account the prolonged period of sub-target inflation. The Fed appears quite open to overshooting its 2% goal.

Neutral stance on rates

In bond markets, neutrality prevails in terms of duration. The possibility of yield curve control is comforting our neutral stance on US 10-year bonds. That said, as the maturity of US Treasury bond issuance increases as announced in early August, 10s30s spread wideners (71bp) still make sense in our opinion. German Bunds oscillate about -0.50% and tend to underperform swaps in the past few weeks. Curve moves are quite limited. Swap spreads are within 24 and 30bp. Japanese bonds are least attractive in G4 space. That said, JGB swapped back into USD offer a significant pickup against US Treasuries.

Expansionary monetary policies have lowered volatility, which fosters carry trades on spread assets. In fact, spreads on peripheral sovereign bonds and euro credit continued to narrow through the summer. Investor surveys indeed indicate a broad-based bullish consensus on peripheral debt. Primary market issuance seasonality and ongoing ECB buying underpin these markets. Spreads on French 10-year debt narrowed by 3bp since the end of July. Furthermore, Italy is trading at 145bp spreads vs. Bunds on 10-year maturities, 9bp less than at the start of the month. High-grade credit in euros returned 0.51% so far this month thanks to financial sub debt and good performance from select industrial sectors. Institutional accounts have little choice but to accumulate credit holdings to reduce book yield erosion. Conversely, US credit appears less supported by the Fed than at the height of the crisis. The net amount of corporate credit held by the Fed is a mere \$44b, just \$10b more than end-of-May holdings. Both corporate credit facilities have total capacity of \$750b, which hence may never be reached as part of the Fed's current operations is to reallocate ETF holdings into eligible single-name corporate bonds. Fed action is likely a key reason behind the underperformance of US credit.

Lastly, in equity space, major US indices (S&P, Nasdaq) keep making record highs powered by top-tier big technology companies. The FANG+ index is up 71% in 2020 whilst the rest of the pack lost ground.

Main Market Indicators

G4 Government Bonds	24-Aug-20	-1w k (bp)	-1m (bp)	YTD (bp)
EUR Bunds 2y	-0.68 %	-2	-3	-8
EUR Bunds 10y	-0.49%	-4	-4	-31
EUR Bunds 2s10s	19 bp	-2	-2	-23
USD Treasuries 2y	0.15 %	+0	+0	-142
USD Treasuries 10y	0.65 %	-4	+6	-127
USD Treasuries 2s10s	50 bp	-4	+5	+15
GBP Gilt 10y	0.21 %	0	+7	-61
JPY JGB 10y	0.03 %	-2	+1	+4
€ Sovereign Spreads (10y)	24-Aug-20	-1w k (bp)	-1m (bp)	YTD (bp)
France	30 bp	+1	0	0
Italy	144 bp	+5	-1	-16
Spain	82 bp	+4	+2	+16
Inflation Break-evens (10y)	24-Aug-20	-1w k (bp)	-1m (bp)	YTD (bp)
EUR OATi (9y)	59 bp	-3	-1	-
USD TIPS	169 bp	+3	+19	-10
GBP Gilt Index-Linked	307 bp	+9	+13	-5
EUR Credit Indices	24-Aug-20	-1w k (bp)	-1m (bp)	YTD (bp)
EUR Corporate Credit OAS	116 bp	+1	-12	+23
EUR Agencies OAS	49 bp	+1	-2	+5
EUR Securitized - Covered OAS	38 bp	+1	-1	-3
EUR Pan-European High Yield OAS	464 bp	+6	-28	+160
EUR/USD CDS Indices 5y	24-Aug-20	-1w k (bp)	-1m (bp)	YTD (bp)
iTraxx IG	54 bp	0	-4	+10
iTraxx Crossover	328 bp	-13	-18	+121
CDX IG	66 bp	-1	-4	+21
CDX High Yield	384 bp	-14	-79	+104
Emerging Markets	24-Aug-20	-1w k (bp)	-1m (bp)	YTD (bp)
JPM EMBI Global Div. Spread	422 bp	+9	-25	+132
Currencies	24-Aug-20	-1w k (%)	-1m (%)	YTD (%)
EUR/USD	\$1.180	-0.6	+1.21	+5.06
GBP/USD	\$1.307	-0.27	+2.14	-1.47
USD/JPY	¥105.9	+0.09	+0.23	+2.53
Commodity Futures	24-Aug-20	-1w k (\$)	-1m (\$)	YTD (\$)
Crude Brent	\$44.9	-\$0.5	\$1.1	-\$17.1
Gold	\$1 931.5	-\$56.0	\$29.4	\$408.7
Equity Market Indices	24-Aug-20	-1w k (%)	-1m (%)	YTD (%)
S&P 500	3 419	1.10	6.33	5.83
EuroStoxx 50	3 332	0.78	0.63	-11.04
CAC 40	5 008	0.72	1.04	-16.23
Nikkei 225	22 986	-0.48	1.03	-2.84
Shanghai Composite	3 386	-1.55	5.91	11.00
VIX - Implied Volatility Index	22.59	5.81	-12.58	63.93

Source: Bloomberg, Ostrum Asset Management

Writing



AXEL BOTTE
STRATEGIST
axel.botte@ostrum.com

Legal information

This document is intended for professional clients in accordance with MiFID. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorization of Ostrum Asset Management.

None of the information contained in this document should be interpreted as having any contractual value. This document is produced purely for the purposes of providing indicative information.

This document consists of a presentation created and prepared by Ostrum Asset Management based on sources it considers to be reliable. Ostrum Asset Management reserves the right to modify the information presented in this document at any time without notice, and in particular anything relating to the description of the investment process, which under no circumstances constitutes a commitment from Ostrum Asset Management.

Ostrum Asset Management will not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor in the use that a third party might make of the information.

Figures mentioned refer to previous years. Past performance does not guarantee future results. Any reference to a ranking, a rating or an award provides no guarantee for future performance and is not constant over time. Reference to a ranking and/or an award does not indicate the future performance of the UCITS/AIF or the fund manager.

Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no. 23458.3). Registered office: Via Larga, 2 - 20122, Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carree, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number: 516405-9501 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España, Serrano nº90, 8th Floor, 28006, Madrid, Spain.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland SArl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zurich.

In the U.K.: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258). This material is intended to be communicated to and/or directed at persons (1) in the United Kingdom, and should not to be regarded as an offer to buy or sell, or the solicitation of any offer to buy or sell securities in any other jurisdiction than the United Kingdom; and (2) who are authorised under the Financial Services and Markets Act 2000 (FSMA 2000); or are high net worth businesses with called up share capital or net assets of at least £5 million or in the case of a trust assets of at least £10 million; or any other person to whom the material may otherwise lawfully be distributed in accordance with the FSMA 2000 (Financial Promotion) Order 2005 or the FSMA 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Intended Recipients"). The fund, services or opinions referred to in this material are only available to the Intended Recipients and this material must not be relied nor acted upon by any other persons. Registered Office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other person should act upon this material. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, Dubai, United Arab Emirates.

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068806.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, oficina 102B, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.



www.ostrum.com

Ostrum Asset Management

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 27 772 359 euros

Trade register n°525 192 753 Paris – VAT: FR 93 525 192 753 – Registered Office: 43, avenue Pierre Mendès-France, 75013 Paris – www.ostrum.com

Tél. : 01 58 19 09 80