



## **The Corona Crisis and its impact on Bond Markets**

### *A brief analysis of recent events*

For several weeks now, world bond markets have been in turmoil. As economic activity closes down around the world (an event never seen to this extent in the history of mankind), the ensuing disruption has been at the heart of the operational malfunction in this investment space.

During this period, the demand for US Dollar (USD) liquidity (a currency considered by many as a safe haven in times of crisis) has been considerable. Certain holders were so desperate to generate USD cash, they dumped their Fixed Income assets into the market at any price. Potential buyers were sidelined waiting for this selling flow to pass, constrained by operational and organizational issues following the confinement imposed on them and/or on their institution. In this exceptionally chaotic moment, bond assets were valued at levels disconnected to any economic or financial reality.

### *The present day situation*

As spectators of disorderly world equity, bond and currency markets, major Central Banks were slow off the mark to fully comprehend the extent of the stress building up in the financial system as a whole. They have taken action since then with drastic measures, injecting Trillions to restore the USD liquidity which had been cruelly lacking weeks before. These colossal interventions have subsequently stabilized investment markets. Bond price levels are progressively starting to improve. However, the full effects of these recent monetary injections have yet to be seen. These should impact markets more positively in the days and weeks to come.

Nevertheless, these Central Bank moves are not enough. Closing down world activity is not without significant consequences. The governments of

major nations have had 'to step up to the plate'. Over the past two weeks, world political leaders have committed to massive spending (in the Trillions) to 'kick start' economic activity, once the Corona Crisis behind us.

### *An overview on how economic and financial events could evolve*

Many analysts are currently focused on the length and cost of the present day crisis. Few have accounted for the consequence of limitless monetary and fiscal injections in the world's financial system, which could well bring about a totally new paradigm.

As markets stabilize and the sanitary crisis evolves more favorably, the Fixed Income market could find itself overwhelmed with abundant liquidity at zero interest rates. If this were to be the case, subordinated bonds of large quality institutions with high relative returns could stand out on the investment radar for investors looking for more than just zero future returns.

### *ASG's management approach to the Corona Crisis*

ASG's investment focus has always been on bonds issued by large systemic issuers. These corporations are at the very heart of our capitalist system. Large banks, insurance companies and industrial entities are essential for any reconstruction process post Corona Crisis. Governments and Central Banks will come to rely on these same corporations to revive the world's economic system.

The ASG team brings to the table a unique know-how in the asset management industry. We are focused on a niche segment of the Fixed Income world, the subordinated debt market. ASG is permanently on the look out for new opportunities both sides of the Atlantic, which the present day crisis is bringing to the fore. We will strive to restore the performance lost over the last few weeks and target creating further value in the future as we have done in the past.

*ASG Capital*

*ASG Capital is a Registered Investment Advisor. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments or investment strategies. Investment involve risk and unless otherwise stated are not guaranteed. Be sure to first consult with a qualified financial advisor and/or tax professional before implementing any strategy discussed herein.*