MAY 2020 - VOLUME II

Bond Markets and the New Normal

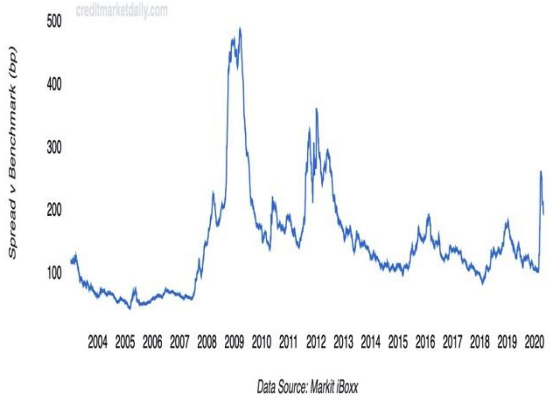
INTUITION PUBLISHING PTE LIMITED

Bonds are currently creating a confusing picture for investors globally. Economies are in a bind due to COVID19, stories of vaccines are elevating peoples hopes for a quick return to the 'old normal', and the FED is throwing stimulus and rescue packages at it all, including corporate bonds. As a result, Equity Indexes are rallying and challenging previous highs, powering ahead despite these high levels and serious concerns over dividends. Then we have a trade war that was simmering before this started and is now showing signs of escalating and further throwing supply chains into disarray and damaging earnings of large global companies in a complex and difficult to predict manner.

We have huge national debts that are ballooning by the hour. Companies that have on the one hand been severely restricted in their activity have on the other had demand for their goods and services damaged. Consequently, most companies are in need of cash flow and in need of investments.

Government Bond yields have remained at low levels in the US as yields have been pushed down by the crisis and are being further held down by stimulus measures. Corporate spreads however have widened significantly, especially for high yielders, with concerns over business flow and revenues being hurt by COVID 19 and trade wars.

High Yield Bond Index – Corp



Euro IG Bond Index – Corp

The cost of trading debt is about 3x the average pre-COVID19, but we are not at 2009 levels yet. This is due to two reasons; 1. Financial support from governments, and 2. It is early in the crisis still. It is very likely that companies will come under increasing stress and need to raise capital in a progressively more difficult environment. As company and economic reports are published it is highly probable that optimism will be dampened as realism sets in and Bond Spreads may yet push out much further if that happens.

For companies trying to raise debt now, there is a growing trend of companies reporting earnings before COVID19, which tries to imply conditions will return to the 'old normal' quickly and these are the numbers which investors should base their investment decisions on, not any numbers published during mid COVID19 crisis. Some companies are reporting EBITDAC– earnings before interest, tax, depreciation, amortisation, and coronavirus– for the first quarter of 2020. This is an estimate to show profits were it not for the impact of COVID19.

ELFA has warned that anyone relying on such fictitious figures will help companies raise debt that they can probably not repay, and that the pricing attached would not be a true reflection of the risk taken.

The future certainly looks interesting, potentially rewarding and exciting, but very risky. There is therefore a subsequent need to understand debt and where the value is, both now and historically during other crises, to better understand the changes and decisions that are being made.

The topics covered in Intuition Asia Perspectives are current developments or topics currently in the market. Intuition Asia provides bespoke learning solutions, both eLearning and Instructor-led courses. These can also be blended in a program to provide the most effective form of learning. These workshops can be structured as lunch & learns, webinars or full day deliveries. Clients can use these to keep their workforce updated with the latest developments in the market and complete their mandatory CPD learning hours.

Intuition – Blended Learning

The Intuition online learning library consists several tutorials related to this article:

- **Bond Markets**
  - Bond Markets – An Introduction
  - Bond Markets – Issuing and Trading
  - Eurobonds & International Bonds
  - Municipal Bonds (US) – An Introduction
  - Municipal Bonds (US) – Investing
  - As well as individual tutorials on the Bond Markets in Hong Kong, Japan, Singapore, China, Australia, Canada, Europe, UK, and USA
- **Fixed Income Strategies**
  - Fixed Income Strategies – An Introduction
  - Relative Value Trading
  - Fixed Income Strategies – Running a Book
- **Fixed Income Analysis**
  - Fixed Income Analysis – An Introduction
  - Bond Prices & Yields – Excel Interactive
  - Yield Curves
  - Zero-Coupon Securities
  - Duration Analysis
  - Convexity Analysis
  - Fixed Income Analysis – Credit Risk
  - High Yield Debt
  - Floating Rate Notes (FRNs)
  - FRN Structures
  - Option-Linked Securities
  - Inflation-Linked Securities
  - Fixed Income Derivatives

For Intuition blended learning related to this article, some of our popular workshops include:

- Bonds – Understanding Risks & Identifying Opportunities
- Corporate Financing & Fintech – Debt Capital Markets

Get in touch with your Intuition account manager at apacinfo@intuition.com for more details

Other Asia Perspectives Articles

- Language Barriers and their Implications – A Cyber Security Perspective
- First Negative Yields – Now Negative Oil Prices
- Evolving Learning Technologies

Download the Asia Perspectives free app to get the latest news and articles.

Get the app

Related News Articles

- Bond investors balk at use of 'EBITDAC' to skirt restrictions – 19 May FT
- The market is getting excited as the Fed prepares to buy corporate bonds – 05 May CNBC
- Municipal Bonds are being left behind – 15 May S&P Global
- Fed actions in corporate debt point to crisis averted, for now – 18 May MarketWatch