Monthly Fixed Income Perspective –

Jan 21 review & Feb 21 outlook

US Bond market

- **In January**, US Treasuries (UST's) ended mostly weaker extending out from the short-ends compared to prior month's levels as Congress approved the RM900b economic stimulus bill. Levels partly reflected the strong ISM Manufacturing and Services reports, combined with a stronger than forecast ADP national employment number which overshadowed disappointing NFP jobs data for December. The curve bear-steepened as benchmark **UST yields spiked between 5-18bps across the curve save for the ultra-short end (prior month saw declines of between 0-8bps across).** The UST 2Y yield closed unchanged at 0.11% whilst the 10Y yield spiked 14bps at 1.07% (at the time of writing yields have risen to an 11-month high at 1.16% levels) as the yield curve portends the widest 2s10s and 5s30s spreads of 105bps and 145bps respectively since May 2017 and September 2015.

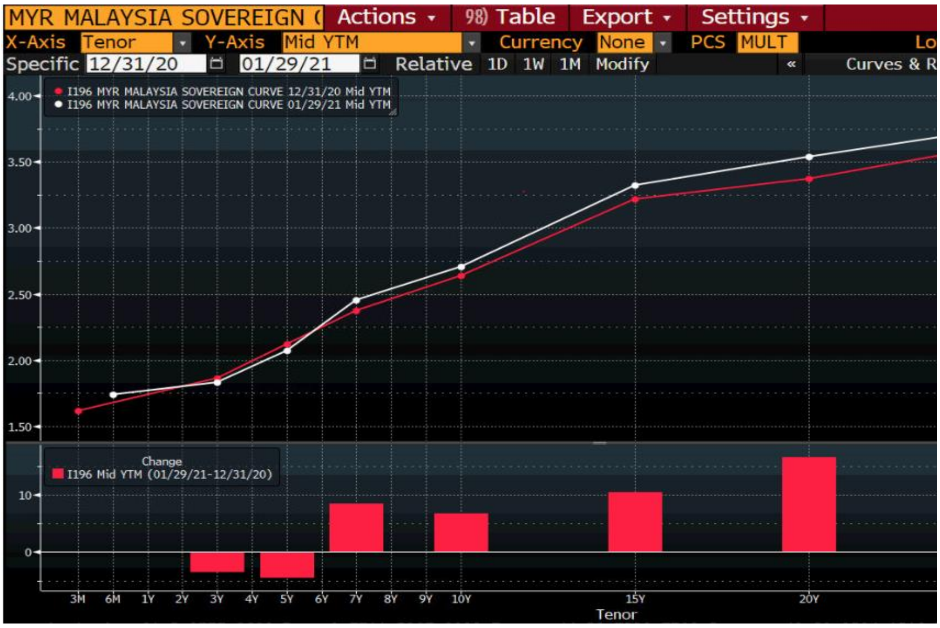
- **For February**, the weaker-than-expected US labor market doesn't change the outlook for fiscal policy which is expected to be the main driver of US growth. A return of the reflation trade will be seen pushing the US yield curve higher as investors who were short volatility, hedge positions in view of rising interest-rate swaps. 1Q2021 GDP is expected to improve on positive vaccine developments and quicker rollouts. Larger-sized auctions for UST's coupled with a $1.9 trillion relief plan to ensure continued fiscal spending may exert further steepening of the yield curve. **The 10-year UST is expected to stay above the 1.00% threshold whilst ranging between 1.05– 1.25%; finding support at key 1.25% levels for this month.** Our preferred IG bond issuances are within the 5-10Y tenures in essential service sectors such as telecommunications (which include cable satellite, wireless and media entertainment), power and water**.**

MYR Bond Market

- **In January**, MYR government bond curve steepened with both **MGS/GII bonds reversing prior month's gains by closing mixed on yields; with the front ends richer whilst the longer-ends were largely pressured as overall benchmark yields closed between -5 to +17bps.** The benchmark 5Y MGS 9/25 yield rallied 5bps to 2.05% m/m whilst the 10Y MGS 4/31 rose 5bps instead at 2.70%. Foreign holdings of MYR government bonds (MGS + GII + SPK) ended higher in January; with net inflows of RM3.2b totaling RM205.3b (representing 24.2% of total outstanding)). All three (3) auctions saw strong participation with overall BTC ratios at~ 2.27x.

- **For February,** expect some pressure especially on the longer-ends which are more sensitive due to the nation's elevated fiscal deficit arising from the various economic stimulus packages totaling RM320b. The containment measures which may trigger downside growth risks may cause investors to speculate on interest rate cut. Nevertheless rising UST yields and EPF's potential restraint in buying activities may stem further rallies in govvies. The front-loading of issuances as per 2021 Auction Calendar and sovereign rating updates by Moody's and S&P's cannot be discounted**. The 5-7Y and 15Y space for both MGS/GII continue to reflect decent relative values along the curve. We expect the 10Y to range slightly higher between 2.70-2.90%** with support pegged at 2.90% levels. **We also like the 3Y and 15-20Y GG-space, in addition to the shorter-end 2-3Y and also 15-20Y AAA and AA2-rated papers.**

YR sovereign curve (MGS)



Source : Bloomberg

A somewhat softer NFP data for January resuscitates US Treasuries; as relevant data may bolster the case for President Biden's $1.9 trillion COVID-19 relief package….

January Non-Farm Payrolls ("NFP") missed consensus estimate by notching a muted 49K increase compared to the consensus of an increase of 105K which implies that the recent wave of COVID-19 infections is still weighing on the economy. The unemployment rate however brought some cheer as it fell to 6.3% in January, way lower than expectations of 6.7% believed to be due to the losses led by leisure and hospitality, retail trade, health care and in transportation and warehousing. The participation rate also steadied at 61.4% indicating that labor force participation rate remained decent for the month although it remained far below pre-pandemic levels of around 63%. The average hourly wages growth however moderated to +0.2% m/m (previous month: +0.8%) whilst the y/y figures jumped 5.4% (previous month 5.1%). Recovery in the labor market may take longer judging by the drop of 227k of jobs in December and the cumulative shedding of 178k of jobs since November. US PMI and ISM manufacturing data for January remained strong and expansionary despite a slight pullback @ between 57- 59, compared to the previous month. Separately, the Fed's preferred inflation measure i.e. core PCE spiked m/m to 0.4% in December and at +1.3% y/y which has had some marginal effect on UST yields for now.

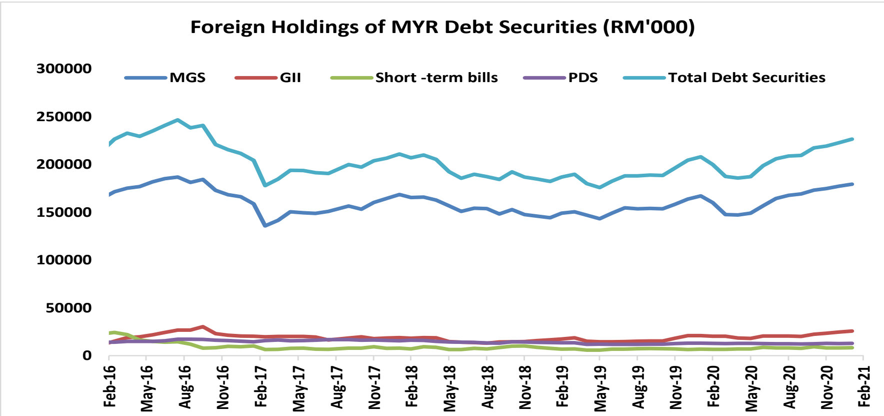
There was no change in interest rates with the Fed leaving the Fed Fund Rates unchanged between 0.00- 0.25% at its latest FOMC on 27th January **following** total rate cuts amounting to 150bps in 2020. The FOMC meeting on 28th January broadly met expectations of no change in policy and only nuanced changes to officials' assessment of the outlook for growth and inflation. The post-meeting communique nodded to a moderating pace of recovery in the economic data since the Fed's December meeting, but also stressed that weakness was concentrated in specific sectors which are particularly vulnerable to the pandemic. The **Fed's current dot plot still pins rates unchanged at current level through 2023. Nevertheless, data from the Fed Fund Futures now reflect a probability of traders' hypothetical expectations of a 0.5% (previous month: 4.0%) chance of a 25bps rate cut in the next FOMC meeting on 17th March whilst CME FedWatch Tool continues to maintain a 100% chance of a**

rate pause in the next FOMC. Despite the above along with the **Fed's robust ongoing purchase of bonds** across the curve by $80b a month in Treasuries and $40b a month in agency MBS which has boosted its balance sheet to ~$7.4 trillion as at end-Jan2021 vs ~$4.2 trillion end-Feb 2020); concerns arise over the strong possibility of further stimulus bills under President Biden's stewardship will be a crucial factor that may impact on UST yields.

Foreign holdings of overall MYR bonds rose again albeit by 1.6% or RM3.7b for the 9th month-in-row in January amid slightly weaker MYR @ 4.0400 which has drifted higher to ~4.0665 at the time of writing…

Foreign holdings of overall MYR bonds rose in January by RM3.7b or 1.6% to RM226.6b. Non-resident holdings of MGS rose by RM2.4b from RM177.3b to RM179.6b (representing 40.5% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM3.2b to RM205.3b (representing 24.2% of total outstanding) amid a higher net issuances of +RM12.0b for the month (Dec: net issuances of +RM4.5b). Additional supply concerns arising from the higher fiscal deficit unveiled by the recently approved 2021 National Budget in Parliament and the rating downgrade by Fitch Ratings were shrugged-off by foreign investors.

The risk-on appetite for Asian Rates asset class did not deter real-money investors from purchasing MYR government bonds for January. **Overall MYR govvies saw cumulative net inflows of RM3.1b for January 2021 up whilst 12-month rolling inflows notched an impressive RM17.1b. Net equity outflows edged higher by RM835m in January 2021 compared to the 12-month rolling outflows of RM25.3b.** On the currency side, the MYR weakened slightly against USD to 4.0400 as at end-Jan and hover at 4.0665 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

No surprises as OPR stayed pat at 1.75% at the recent MPC meeting in January; in line with our house view….

BNM in its 1st monetary policy committee (MPC) meeting for the year on 20th of January, left the OPR unchanged at 1.75%. The tone of monetary policy statement was neutral despite renewed pandemic-related risks; acknowledging improvements in manufacturing and export activities globally whilst stating that the introduction of targeted containment measures has affected the recovery momentum in 4Q2020.

On inflation outlook, the average headline inflation averaged -1.2% y/y in 2020 as expected due mainly to the substantially lower global oil prices. December continued to see negative print for the 10th consecutive month falling 1.4% (Nov: -1.7%). Core CPI stabilized at 0.7% y/y in December, while services inflation also held steady at 0.9% y/y in December, suggesting well-contained underlying inflation amid benign demand conditions. Inflation rebounded m/m to +0.5% (Nov: -0.2%), pointing to some pick-up in price pressure. For 2021, headline inflation is projected to average higher, primarily due to higher global oil prices. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. Our estimate shows CPI will likely rebound but remain subdued at ~1.3% y/y, in anticipation of benign supply and demand dynamics amid lukewarm economic conditions.

On balance overall, BNM has room for further policy easing, with the degree of monetary policy response to remain data dependent. The upside surprise in December's Industrial Production Index (IPI) rebound of 1.7% y/y (Nov: -2.2%) may spring a surprise to the upside for 4Q2020 data which will be released on 11th February (3Q2020 GDP: -2.7%) due to the government's economic proposals/assistance and ongoing vaccine rollouts.

Following the MPC's affirmation that the stance of monetary policy is appropriate and accommodative, **we maintain our house view for an OPR pause barring further escalation in downside risks.** Nevertheless, **we now see upside risks to our full year GDP growth projection of a 6.0% contraction for 2020 (YTD 3Q2020: -6.4%)**.

MYR government bond auction saw strong bidding metrics for the three (3) auctions in January…..

The three (3) government bond tenders concluded for the month of January 2021 under the auction calendar saw a better average BTC ratios which ended above the 2.0x handle at 2.27x (Dec: 2.62x for the sole 10Y GII reopening and Nov: 1.69x). The new issuance of 15Y GII 7/36 saw the strongest BTC ratio of 2.92x; attracting a total sum of bids of RM8.75b despite the availability of a Private Placement of RM1.5b; whilst both the re-openings of 7Y MGS 6/28 and 10Y MGS 4/31 recorded BTC ratios of 2.03x and 1.99x respectively with bids totaling between RM7.0-8.0b. We note at the time of writing, the recently-concluded auction involving the re-opening of 5Y GII 3/26 in early-February also saw admirable bidding metrics i.e. BTC ratio @2.07x); tailing a mere 0.8bps with total bids submitted amounting to RM9.3b. The table below summarizes the recent tenders and also our projected sizes for MGS/GII auctions in 2021.

MGS/GII issuance pipeline in 2021

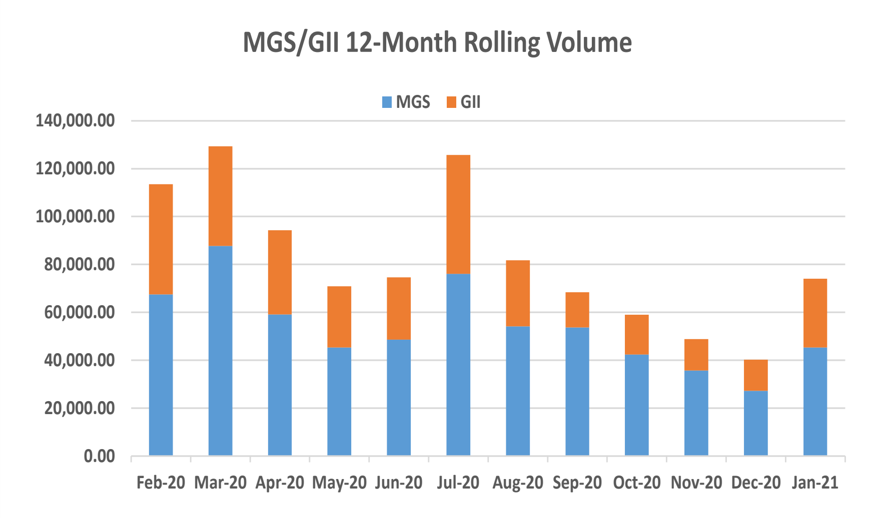
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Auction Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 06/28)	7	Jan	Q1	6/1/2021	3,500	3,500		3,500	2.026	2.406	2.449	2.463	50.0%
2	15.5-yr new Issuance of GII (Mat on 7/36)	15	Jan	Q1	14/1/2021	3,000	3,000	1,500	6,500	2.917	3.385	3.447	3.475	95.5%
3	10-yr Reopening of MGS (Mat on 04/31)	10	Jan	Q1	21/1/2021	4,000	4,000		10,500	1.992	2.684	2.714	2.730	91.7%
4	5-yr Reopening of GII (Mat on 03/26)	5	Feb	Q1	3/2/2021	4,500	4,500		15,000	2.067	2.230	2.252	2.260	63.2%
5	20-yr Reopening of MGS (Mat on 05/40)	20	Feb	Q1		2,000		2,500						
6	7-yr Reopening of GII (Mat on 09/27)	7	Feb	Q1		3,500								
7	30-yr Reopening of MGS (Mat on 06/50)	30	Mar	Q1		2,000		2,000						
8	10-yr Reopening of GII (Mat on 10/30)	10	Mar	Q1		4,000								
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1		4,500								
10	20.5-yr New Issue of GII (Mat on 09/41)	20	Mar	Q1		2,000		2,500						
11	7-yr Reopening of MGS (Mat on 06/28)	7	Apr	Q2		4,000								
12	15-yr Reopening of GII (Mat on 7/36)	15	Apr	Q2		3,000		1,000						
13	3-yr Reopening of MGS (Mat on 06/24)	3	Apr	Q2		4,000								
14	30-yr Reopening of GII (Mat on 11/49)	30	May	Q2		2,000		2,000						
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2		3,000		1,500						
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2		4,000								
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2		3,500		1,000						
18	3-yr Reopening of GII (Mat on 10/24)	3	Jun	Q2		4,500								
19	20-yr Reopening MGS (Mat on 05/40)	20	Jun	Q2		2,000		2,000						
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3		3,000		1,500						
21	5-yr Reopening of MGS (Mat on 11/26)	5	Jul	Q3		4,000								
22	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		2,500		1,500						
23	30-yr Reopening of MGS (Mat on 06/50)	30	Aug	Q3		2,000		2,500						
24	7-yr Reopening of GII (Mat on 08/28)	7	Aug	Q3		4,500								
25	3-yr Reopening of MGS (Mat on 06/24)	3	Aug	Q3		4,000								
26	20-yr Reopening of GII (Mat on 09/41)	20	Sep	Q3		3,000		1,500						
27	10-yr Reopening of MGS (Mat on 04/31)	10	Sep	Q3		3,500		1,000						
28	5-yr Reopening of GII (Mat on 03/26)	5	Sep	Q3		4,000								
29	7-yr Reopening of MGS (Mat on 06/28)	7	Oct	Q4		4,000								
30	30-yr Reopening of GII (Mat on 11/49)	30	Oct	Q4		2,000		2,000						
31	5-yr Reopening of MGS (Mat on 11/26)	5	Oct	Q4		4,000								
32	10-yr Reopening of GII (Mat on 10/30)	10	Oct	Q4		2,000		2,000						
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4		3,000		1,500						
34	3-yr Reopening of GII (Mat on 10/24)	3	Nov	Q4		4,000								
35	20-yr Reopening of MGS (Mat on 05/40)	20	Nov	Q4		2,000		2,000						
36	7-yr Reopening of GII (Mat on 08/28)	7	Dec	Q4		3,500								
37	3-yr Reopening of MGS (Mat on 06/24)	3	Dec	Q4		3,000								
	Gross MGS/GII supply in 2021					121,000		31,500		PROJECTED TOTAL ISSUANCE SIZE = 152,500				

Source: BNM, HLBB Global Markets Research

MGS/GII sees secondary market activity spike in January….

Trading volume for MYR govvies i.e. MGS + GII bonds jumped further again albeit by bigger margin of 21.5% m/m to ~RM74.5b in December compared to prior month's RM40.3b due to emerging values which overcame earlier jitters over Fitch Rating's downgrade of the nation's long-term issuer default rating from A- to BBB+/Stable coupled with fiscal deficit concerns. Interest was mainly seen across the short-end and the belly with substantial and frequent trades done predominantly in MGS/GII off-the-run 21-22's (altogether RM21.2b or 28.5% of overall volume of RM74.5b; compared to prior month's RM12.7b) and also the 28-29's. This was followed by tremendous interest in the 7Y and 10Y benchmarks which churned a solid secondary market volume of ~ RM7.2b and RM6.1b each which altogether maintained a lower 18% of overall volume for the month. Investors were seen active mainly in the short-ends and also the 5Y space.

We opine that the secondary market volume for local govvies may continue to see active participation despite the short February month on speculation of interest rate cuts and relative yield-carry differentials in EM Asia being hunted especially by foreign funds. These may overshadow concerns over the projected front-loading of issuances under the 2021 Auction Calendar and upcoming potential rating concerns by S&P Global Ratings on Malaysia's sovereign rating.

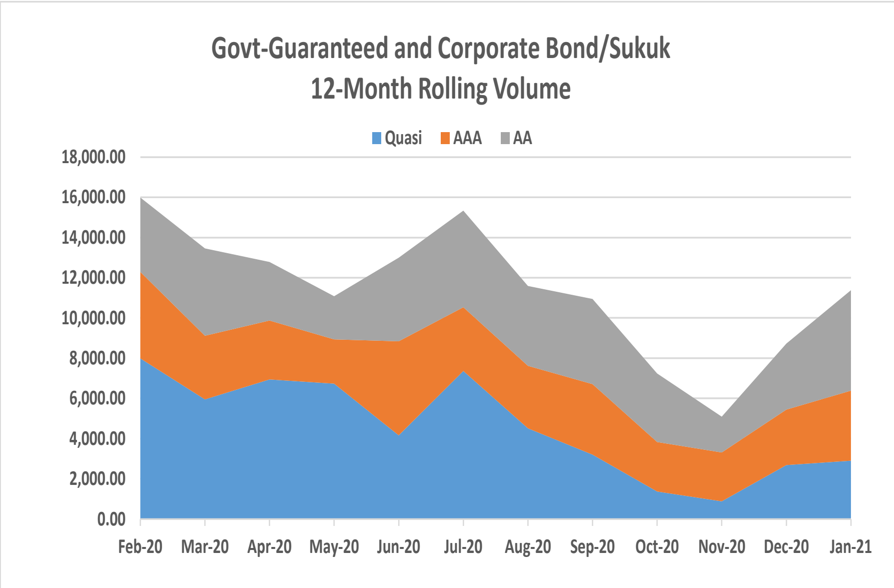


Source : BPAM, Bloomberg, HLBB Global Markets Research

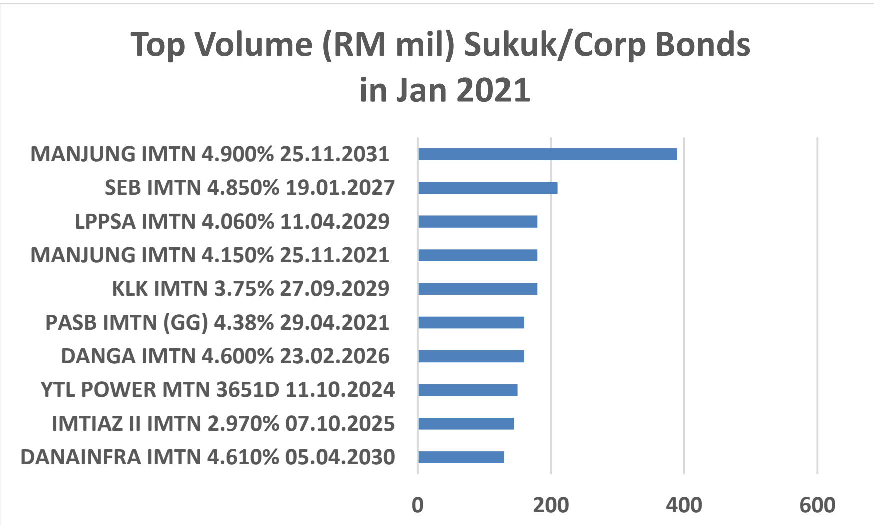
Corporate Bonds/Sukuk activity take the cue from government bonds as trading activity ramps up for the first month of January 2021…

Similar to local govvies, overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) notched higher secondary market trading volume of ~RM11.52b in January (i.e. 19.4% rise) compared to RM9.65b in December. The stronger momentum was partly due to decent yield-carry requirements as some fund managers were believed to be actively realigning portfolios at the beginning of the fresh financial year. BNM's decision to stay pat on the OPR in January helped stabilize and influence ongoing portfolio turnover. Institutional buyers and lifers were seen shrugging of concerns over the largest private pension fund's reputed profit-taking activities as overall yields were ended mostly lower instead. Yield spreads ended mostly tighter in the belly; settling between 18-34bps in the GG-segment, between 45-60bps for AAA-rated bonds and also between 65-90bps for the AA2-segment (nevertheless tenures extending out from 10y tenures and 5Y tenures saw an increase in yields). We note that foreign holdings for both GG and pure Credits inched up slightly at ~ RM12.96b.

Total transactions for GG bonds fell to form ~25.5% of overall volume; quite the reverse of both AAA and AA-rated bonds in the secondary market. AAA-rated papers saw a 26.3% increase in volume m/m resulting in 30.6% of overall trades whilst AA-rated ones surged in activity by 43.9%; ultimately forming the bulk of investor interest overall at 52.1%. The GG-space was again mainly centered on DANAINFRA, PRASARANA and LPPSA bonds followed by quasi-govt entity i.e. CAGAMAS Bhd. **Bonds that garnered top volume for the month were the longer-end MANJUNG 11/31 (AAA) that declined 9bps at 3.29% and also SEB 1/27 (AAA) which closed 2bps lower at 2.77%. This was followed by LPPSA 4/29 (GG) which rallied 12bps at 2.97%.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DANUM 25-35's, DANGA 26-33's, KLK 26-34's, UMW Holdings 22-25's, MMC 25-28's and infrastructure-cum construction/property/toll (i.e. PLUS 22-31's, PKNS 22-24's, Putrajaya 23-26's, UEM SUNRISE 21-25's), utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 21-27's, TENAGA 33-40's, TELEKOM 21-38, DIGI 22-29's, CTX 22-27's, MANJUNG 21-31's, SARAWAKHIDRO 22-31's, AA-rated EDRA 25-38's, Southern Power 24-35's, MALAKOFF 21-31's, JEP 22-32's, SEB 22-32's, WESTPORT 21-26's, YTL Power 21-27's, IMTIAZ 21-27's, PRESS Metal 25-26's, MACB 22-24's, MERCEDEZ 23's and Fortune Premier 22-26's. The banking sector saw UOB 2030NC25, SABAH DEV 24-26's and also MBSB-related bonds traded. Odd-lot denominated trades involving banking names such as AFFIN Islamic, AFFIN Bank, CIMB Bank perps and also ALLIANCE Bank 2032NC27 and 2035NC30 unrated ECO Capital 24's, YNH PROPERTIES perps, IJM Land perps, Tropicana 23-25's & perps were also prevalent.



Source : BPAM, Bloomberg, HLBB Global Markets Research



Source : BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance print in January driven by the following:

Notable issuances in Jan-21	Rating	Amount Issued (RM mil)
BGMC BRAS Power Sdn Berhad	NR	11
Cagamas Berhad	AAA	110
Danga Capital Berhad	AAA	1,500
Damansara Uptown Retail Centre Sdn Berhad	NR	20
Fenghuang Development Sdn Berhad	NR	3
Idiwan Solar Sdn Berhad	NR	14
MAG Holdings Berhad (fka Xinghe Holdings Berhad)	NR	2
OCR Land Holdings Sdn Berhad	NR	15
Tradewinds Plantation Capital Sdn Berhad	NR	334
		2,009

Source : BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk nosedived to a 4-year low of ~RM2.01b (Dec 20: RM8.48b) with DANGA Capital Bhd (DANGA) and CAGAMAS Bhd being the more prominent ones. DANGA issued 3Y, 7Y bonds totaling RM2.0b at coupons of 2.32% and 2.96% each whilst CAGAMAS successfully arranged 1-3Y papers amounting to RM110m at coupons of 2.12% and 2.38%.

Outlook for Feb 2021

Expect bond yields to drift slightly higher....

The MYR bond market which saw strong bidding metrics for all of its auction exercises in January including the recently-concluded auction involving the re-opening of 5Y GII 3/26 in early-February also saw admirable bidding metrics i.e. BTC ratio @2.07x); tailing a mere 0.8bps with total bids submitted amounting to RM9.3b. Nevertheless, we note several concerns going forward:

- Ongoing supply concerns due to the forecasted elevated fiscal deficit of 5.4% of GDP for 2021.
- Faster deployment of vaccine rollouts that would enable economic recovery
- Upcoming sovereign rating updates by S&P
- EPF's potential passive investment strategy due to lower contribution rate and sizeable withdrawals under the various economic stimulus packages

The downgrade of the country's long-term issuer default rating from A- to BBB+/Stable by Fitch Ratings in early December may be on the back-burner for now whilst S&P Global Ratings is expected to follow suit with its reports. The heavy responsibility shouldered by the EPF with regards to the government's decision to allow for lesser contributions coupled with easier withdrawals by the Rakyat may see slightly lesser deployment of funds for purchases in both the fixed income and equities space for 1H2021. This may however be mitigated by the well-capitalized and depth of other institutions in the country coupled with the likelihood of BNM maintaining the present low OPR rate of 1.75%.

Our projected total gross issuances for 2021 of about RM152.5b is undoubtedly higher than the actual overall issuance size of RM148.8b in 2020 understandably despite the lower projected fiscal deficit of 5.4% for this year. Notably, the USDMYR pair which fell to 4.0203 month-end has however climbed higher to 4.0606 levels at the time of writing as a result of a stronger greenback. However, we expect MYR to be well-supported by steady oil prices.

No change to our view for OPR to stay unchanged at 1.75% in the immediate foreseeable future although the risk has risen. Expect intermittent institutional support on weakness despite slight pressure on the curve. The positive interest-rate differentials may maintain offshore real money investor interest like pension funds, central banks, global asset managers and lifers into the local sovereign debt space although the regional competition for offshore funds remains a challenge. We note that despite a RM3.5b govvies maturity in February, there may be slight pressure on yields due to our projection of ~ RM12.5b of MGS/GII issuances for this month as per the auction calendar for the year. **The 5-7Y and 15Y space for both MGS/GII continue to reflect decent relative values along the curve. We expect the 10Y to range slightly higher between 2.70-2.90%** with support pegged at 2.90% levels. We continue to expect the shorter-end i.e. 21-22's and benchmark 5Y, 10Y bonds to attract attention.

We also like the 3Y and 15-20Y GG-space, in addition to the shorter-end 2-3Y and also 15-20Y AAA and AA2-rated papers. The GG bond names like LPPSA, DANAINFRA, PRASARANA are expected to be well-sought by portfolio managers on better liquidity and lesser portfolio slippage. We still advocate caution in sectors involving, retail, leisure, gaming and high-end property but prefer those in conglomerates (with a diversified business profile), toll-operators, power generation/distribution and utilities.

US rates market expected to face challenges in February amid additional fiscal stimulus expected to impact the longer-ends....

The Federal Reserve will be having its next FOMC meeting on the 18th of March to decide on its current policy rate which has been pegged between 0.00 - 0.25% since March 2020. The US ISM Manufacturing PMI although lower at @ 58.7 in January (Dec: 60.7) still denotes expansionary status whilst Markit's US Manufacturing PMI maintained strength at 59.2 (Dec: 59.1) whilst unemployment rate dropped substantially at 6.3% (Dec: 6.7%). The containment measures across the US due to ongoing COVID-19 infections may see a reprieve whilst inflationary conditions will have to be monitored for any signs of a bond selloff. Elsewhere for many advanced economies, 2021 is still wobbly with virus cases up and slow economic activity. The potential appetite for risky-assets following the change in the US government leadership may see equities outperform UST's with funds seeking alpha in EM Asia. The earlier massive $2.9 trillion + $900b policy stimulus along with another $1.9 trillion spending bill is expected to improve economic conditions.

The Fed's neutral view on the rate outlook suggests further rate cuts are unlikely through 2023. T**he Fed could embark on forward guidance on the target and future path for the Fed Fund rate and also yield curve control to cap yields on certain maturities**. The fast-tracking of vaccine rollouts for COVID-19 virus and additional fiscal stimulus may however weigh on UST yields**. The UST 7Y and 10Y tenures are seen to offer relative value at this juncture.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a monthly loss of 1.28% in January with OAS spreads rising a mere basis point to ~ 97bps (compared to 2020's solid +9.8% returns). Issuances for January saw $140b priced (mainly in financials), just shy of the 5-year average of $145b, whilst just $32b in corporate bonds matured. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) which produced a 7.1% return for 2020, managed 0.33% for January with spreads rising 13bps to ~360bps. **The 10-year UST is expected to stay above the 1.00% threshold whilst ranging between 1.05– 1.25%; finding support at key 1.25% levels for this month. Our preferred IG bond issuances are within the 5-10Y tenures in** essential service sectors such as telecommunications (which include cable satellite, wireless and media entertainment), **power and water.** We continue to advocate a cautious stance in the High Yield (HY) sector due to record issuances and concerns over potentially stretched balance sheets.

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