

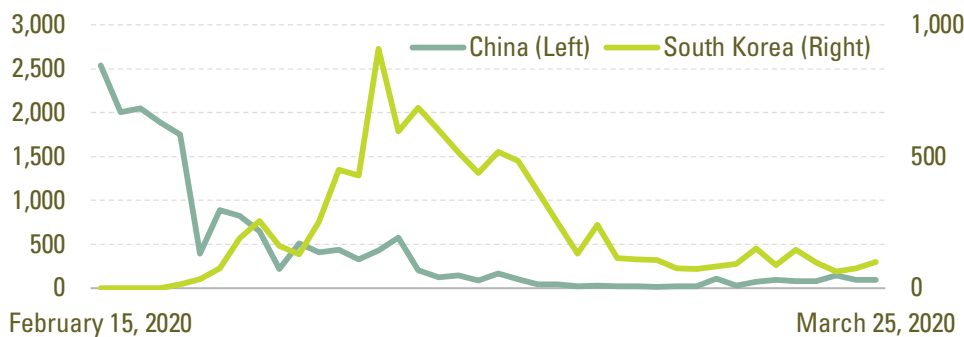
COVID-19 Research Update

Global Fixed Income Themes & Market Conditions

Here's our recap of current market conditions based on a collection of charts.

Figure 1 New Cases in China versus South Korea

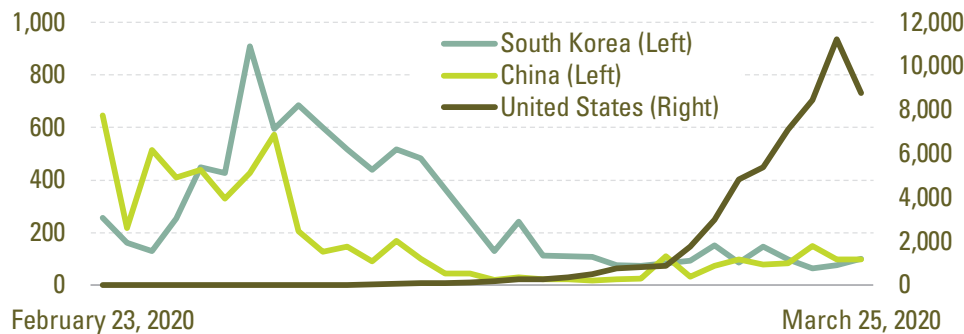
As of 3/25/2020



Source: Macrobond, ECDC

Figure 2 Novel Coronavirus (COVID-19) Confirmed Cases

As of 3/25/2020



Source: Macrobond, ECDC

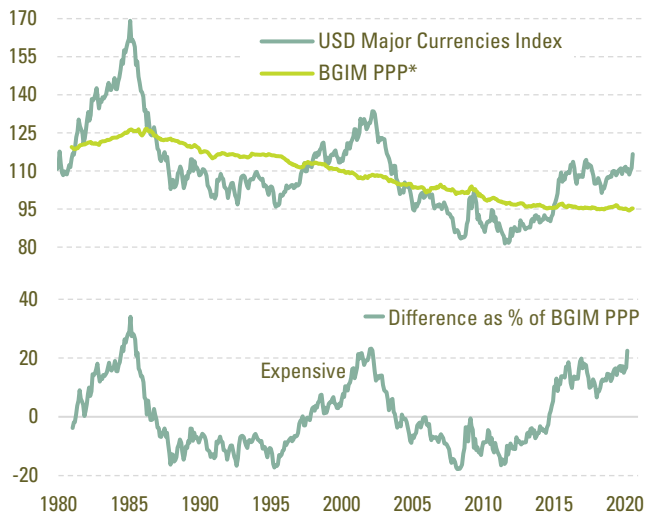
- China recently reported no domestic new cases, though we will be monitoring whether COVID-19 infections resurface as the workforce returns, especially in industrials/manufacturing. See **Figure 1** for a comparison of China and South Korea.
- We have also seen preliminary data suggesting the risk of imported cases in China and Singapore that may cause a second wave of infections. Government officials may reinstitute stringent immigration/customs procedures and containment measures to prevent the virus from resurfacing.
- South Korea remains a model for containing the virus. In addition to new cases, we are monitoring economic activity.
- We continue to believe that economic activity in Southeast Asia—Korea in particular—will rebound earlier than the rest of the world.
- Although the number of new cases in the U.S. looks to have peaked according to the chart, we expect this number to rise substantially as testing increases. **Figure 2** compares cases in the U.S. to China and Korea.



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Figure 3 U.S. Dollar Valuation

As of 3/24/2020

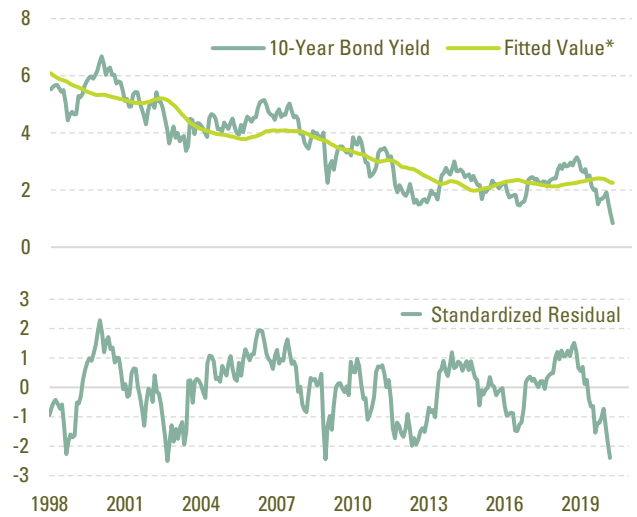


*Based on GDP Weighted PPI of 6 Countries: Euroland, Japan, UK, Canada, Switzerland, Sweden

Source: Brandywine Global

Figure 4 10-Year Treasury Bond Model

As of 3/24/2020



*Estimation interval: 1998M1 – 2020/02

Source: Brandywine Global

- Global investors sought refuge in dollar cash particularly versus U.S. Treasuries, causing dollar scarcity, and driving up the currency's relative value. See **Figure 3**. Treasury market illiquidity was also a residual effect of the demand for dollar cash.
- We expect the U.S. dollar to gradually drift lower as the Department of Treasury and Federal Reserve (Fed) increase supply and access to the currency. Providing swap lines and increasing their frequency to global central banks was a crucial step in this process.
- The U.S. Treasury market should begin to function normally as the Fed increases purchases. **Figure 4** provides our bond model for the 10-year U.S. Treasury valuation.
- At this juncture, we are simply looking for the U.S. stock market to stabilize and not necessarily make gains. Similarly, we are looking for stability in the Treasury market as well. See **Figure 5**.

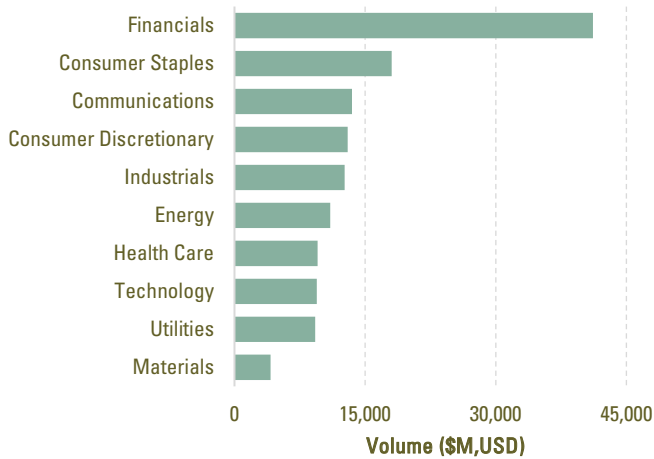
Figure 5 S&P 500 Index

As of 3/24/2020



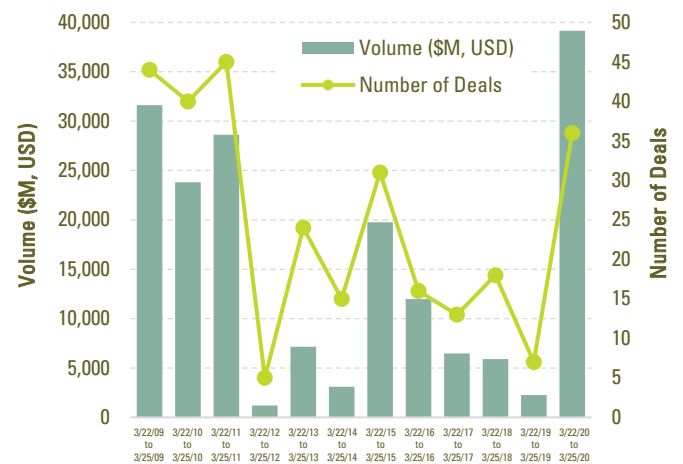
Source: Bloomberg (© 2020, Bloomberg Finance LP)

Figure 6 U.S. Investment-Grade New Issuance
March 2020



Source: Bloomberg (© 2020, Bloomberg Finance LP)

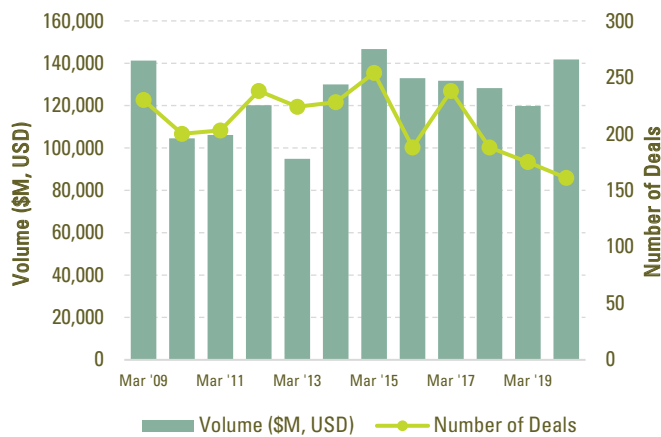
Figure 7 Week-to-Date U.S. Investment-Grade New Issuance
As of 3/24/2020



Source: Bloomberg (© 2020, Bloomberg Finance LP)

- Recent Fed action has revived activity in U.S. investment grade credit markets.
- New issuance activity has increased significantly, particularly on a week over week basis. See [Figure 7](#).
- Financials have dominated the new issuance schedule, as shown in [Figure 6](#).
- Investor demand has been strong, particularly in light of the dislocation in the Treasury market.
- As a result of strong demand, individual issues have seen spreads compress by double digits the same day the deal went to market.
- We have participated in a number of primary new issuances within the investment grade universe, including in financials and across many other sectors. Global Fixed Income and Global Multi-Sector strategies have continued to purchase high-quality corporates.
- We believe the spread-widening in investment grade corporates will be temporary and opportunistically allocated to this universe.

Figure 8 Year-Over Year U.S. Investment-Grade New Issuance
As of 3/24/2020



Source: Bloomberg (© 2020, Bloomberg Finance LP)

- Credit new issuance has recovered to levels not seen in five years, according to [Figure 8](#).