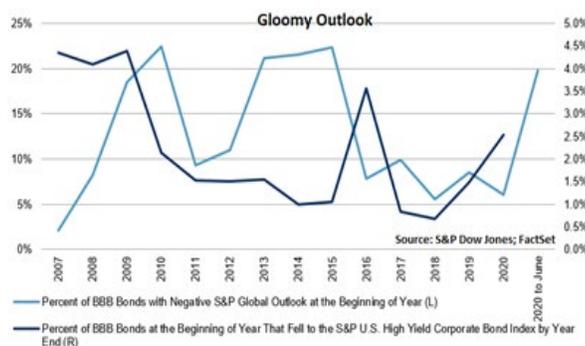


## Fixed Income – A Gloomy Look

We have documented in prior reports the surge of bond issuance that occurred in late 2019 and early 2020, particularly debt that was issued at the bottom end of the investment grade spectrum. The impact of the coronavirus on the global economy is creating concern that many companies with BBB bonds will be downgraded and result in a glut of high yield bonds. If the supply of high yield bonds exceeds demand for the bonds, you will see prices drop and the entire bond market will likely come under pressure. You can see that the light blue line indicates that just over 20% of all BBB-rated bonds have a negative outlook and potentially face a downgrade to junk status. Through the first half of 2020 2.5% of all BBB bonds were downgraded. That number may reach levels that occurred during the recession of 2008/2009.



## Technical – Mega Caps Dominating

Mega stock companies like Apple, Amazon, Facebook, Netflix and Microsoft have been dominant this year, particularly after the March bottom caused by the pandemic. This handful of stocks is why the broad S&P index is not much lower on the year. You can see from the trendline of the S&P 500 ex-mega cap that it is essentially flat following the bounce in early April, while mega cap growth stocks have risen sharply. It will be interesting to see how long this trend can remain in place and what could derail these stocks. Because the mega cap names are mostly technology-driven companies, they have benefitted from the many shifts occurring like working from home and fewer entertainment options outside of the house. Time will tell if the stocks are being accurately priced for the future or are simply over priced waiting for a correction.

