BondCliQ

Institutional Market Monitor

May 11th, 2020

You must SEE the market to BEAT the market

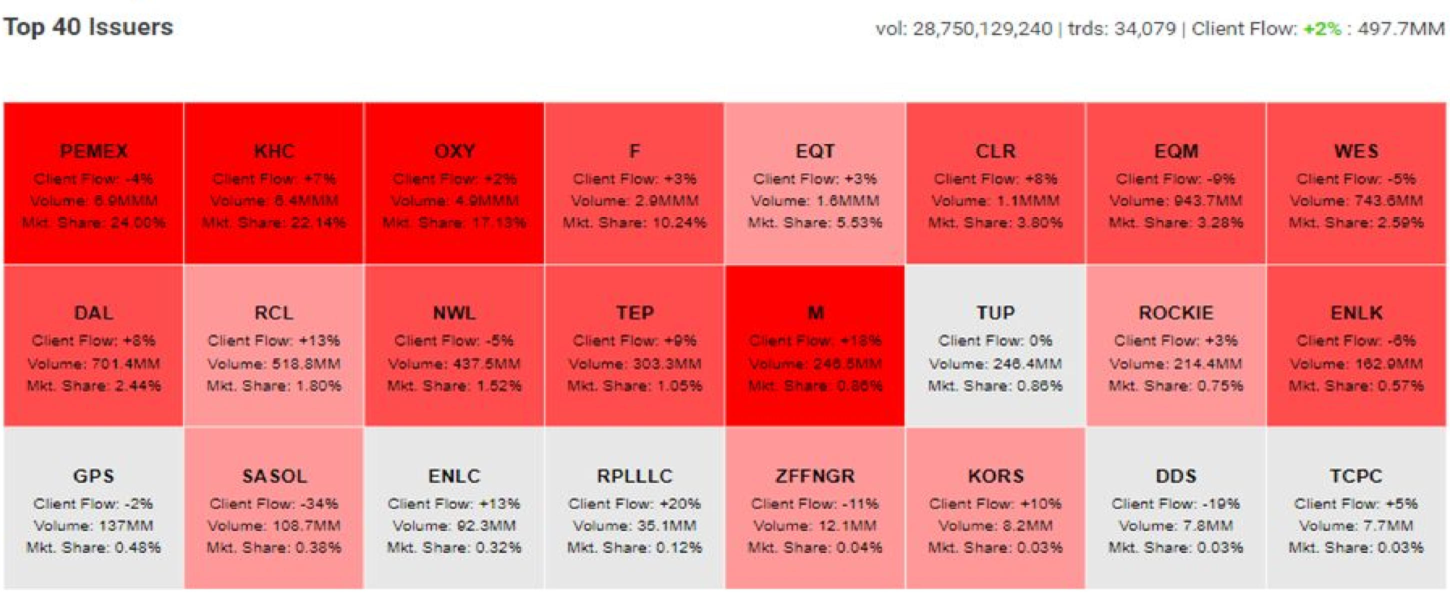
As the market continues to battle through the COVID-19 crisis, we looked at the effect that the NY Federal Reserve ("Fed") announcements on March 23rd and April 9th have had on corporate bond markets, particularly high yield. "The April 9th Fed announcement, to us, served two purposes," said **Fran Rodilosso, Head of Fixed Income ETF Portfolio Management at VanEck**. "First, it was a clarification of the March announcement and made it clear that the Fed could buy Ford bonds in particular, and subsequently other large and strategically significant issuers. Second, intended or not, it was a signal that if things got worse, the Fed was willing to go even further down the credit spectrum."

Using the BondTiQ application, we drilled down into "fallen angels;" investment-grade corporate bonds that were subsequently downgraded to high yield. The BondTiQ Issuer Screens below show fallen angel performance, customer flow, and volume activity before, in between, and after these Fed announcements.

Wings Clipped: Angels Begin to Fall

Prior to Fed involvement, the high yield market was experiencing major negative performance and customer flows due to the illiquidity caused by the COVID-19 crisis.

February 24 - March 20:



The new issue market was stagnant for almost all of March, and negative performance could be seen across the curve. Through April, over $130bn of investment-grade corporate debt has been downgraded to high yield, with estimates of over an additional $200bn to follow suit. To combat this, the Fed stepped in to stop the bleeding in the corporate markets.

When the Fed Talks, People Listen

On March 23rd, the Fed announced the launch of the Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF). Under these terms, Fed-backed special purpose vehicles (SPVs) were given the responsibility to provide lending and purchasing backstops for eligible investment-grade corporate bonds and ETFs.

The liquidity support promised by the Fed has been universally praised for triggering a substantial turnaround in the credit markets. A clear uptick in performance and customer flows can be seen below in the weeks following the Fed's first announcement.

March 23 – April 8:

Top 40 Issuers

vol: 26,716,616,830 | trds: 29,016 | Client Flow: +5% : 1.2MMM

F Client Flow: +7% Volume: 8.3MMM Mkt. Share: 31.03%	**OXY** Client Flow: +5% Volume: 5.6MMM Mkt. Share: 20.86%	**PEMEX** Client Flow: 0% Volume: 3.1MMM Mkt. Share: 11.51%	**WES** Client Flow: +5% Volume: 2.6MMM Mkt. Share: 9.87%	**KHC** Client Flow: +15% Volume: 1.8MMM Mkt. Share: 6.80%	**CLR** Client Flow: 0% Volume: 1.4MMM Mkt. Share: 5.29%	**EQT** Client Flow: +11% Volume: 629.9MM Mkt. Share: 2.36%	**M** Client Flow: +2% Volume: 619.5MM Mkt. Share: 2.32%
DAL Client Flow: +4% Volume: 559.9MM Mkt. Share: 2.10%	**EQM** Client Flow: +8% Volume: 284.9MM Mkt. Share: 1.07%	**ENLK** Client Flow: +8% Volume: 273MM Mkt. Share: 1.02%	**RCL** Client Flow: +5% Volume: 250.9MM Mkt. Share: 0.94%	**NWL** Client Flow: -22% Volume: 223.9MM Mkt. Share: 0.84%	**TEP** Client Flow: -11% Volume: 209.5MM Mkt. Share: 0.78%	**ROCKIE** Client Flow: -2% Volume: 183.4MM Mkt. Share: 0.69%	**SASOL** Client Flow: -51% Volume: 178.9MM Mkt. Share: 0.67%
TUP Client Flow: -9% Volume: 153.3MM Mkt. Share: 0.57%	**ZFFNGR** Client Flow: +6% Volume: 132.9MM Mkt. Share: 0.50%	**GPS** Client Flow: +7% Volume: 86.6MM Mkt. Share: 0.32%	**ENLC** Client Flow: +4% Volume: 61.8MM Mkt. Share: 0.23%	**TCPC** Client Flow: +25% Volume: 46.7MM Mkt. Share: 0.17%	**DDS** Client Flow: +6% Volume: 5.4MM Mkt. Share: 0.02%	**RPLLLC** Client Flow: -85% Volume: 4.4MM Mkt. Share: 0.02%	**HI** Client Flow: +44% Volume: 2.3MM Mkt. Share: 0.01%

A Rising Tide Lifts All Boats

On April 9th, the Fed announced its plan to expand its program to support recently fallen angels. The new terms offer Fed support to those names that were investment grade as of March 22nd but were subsequently downgraded to high yield. Those eligible issuers and bonds must be rated investment grade by two or more NRSROs as of March 22nd, and eligible issuers may not have received support under the CARES Act. "At this point, it's difficult to estimate how much the Fed will actually participate in the high yield bond secondary market," **said Rodilosso**. "Two-thirds of the facility are earmarked for the primary market, and the leverage applied to high yield purchases will be lower than for investment-grade purchases, leaving less buying power for high yield. We also believe that only seven of the 19 fallen angels that we have seen so far in 2020 qualify for the program."

This announcement has had a profound effect on the high yield market and the broader corporate debt market as a whole. With BondTiQ, we can easily take a look at the effect this announcement had across all fallen angel issuers. Using our Issuer Screens below, you can see the overwhelmingly positive performance of these names since the announcement. For illustrative purposes, we added an "E" for eligible issuers and an "NE" for non-eligible issuers. Through our data interface, you can see the shift in consumer sentiment on these fallen angels, regardless of their eligibility for Fed support.

April 9 – May 8

Top 40 Issuers

vol: 41,697,677,300 | trds: 46,138 | Client Flow: -3% : 1.4MMM

E F Client Flow: -2% Volume: 10.3MMM Mkt. Share: 24.79%	NE PEMEX Client Flow: -9% Volume: 8.5MMM Mkt. Share: 20.45%	NE OXY Client Flow: +3% Volume: 5.5MMM Mkt. Share: 13.30%	E DAL Client Flow: -8% Volume: 2.7MMM Mkt. Share: 6.59%	NE KHC Client Flow: -11% Volume: 2.6MMM Mkt. Share: 6.33%	E WES Client Flow: -1% Volume: 2.6MMM Mkt. Share: 6.16%	E CLR Client Flow: -1% Volume: 2MMM Mkt. Share: 4.71%	NE EQT Client Flow: +6% Volume: 1.8MMM Mkt. Share: 4.28%
E GPS Client Flow: -8% Volume: 1.6MMM Mkt. Share: 3.85%	NE EQM Client Flow: +6% Volume: 821.2MM Mkt. Share: 1.97%	E M Client Flow: -2% Volume: 648.9MM Mkt. Share: 1.56%	E RCL Client Flow: -1% Volume: 608.4MM Mkt. Share: 1.46%	NE ROCKIE Client Flow: +4% Volume: 577.6MM Mkt. Share: 1.39%	NE NWL Client Flow: -13% Volume: 312.7MM Mkt. Share: 0.75%	E ZFFNGR Client Flow: -25% Volume: 182.8MM Mkt. Share: 0.44%	NE TEP Client Flow: +8% Volume: 171.2MM Mkt. Share: 0.41%
NE ENLK Client Flow: -6% Volume: 162.1MM Mkt. Share: 0.39%	NE TUP Client Flow: +2% Volume: 134.7MM Mkt. Share: 0.32%	NE SASOL Client Flow: -15% Volume: 109.7MM Mkt. Share: 0.26%	E TCPC Client Flow: -2% Volume: 57.1MM Mkt. Share: 0.14%	E HI Client Flow: -19% Volume: 55.6MM Mkt. Share: 0.13%	NE ENLC Client Flow: -11% Volume: 36.3MM Mkt. Share: 0.09%	E KORS Client Flow: +14% Volume: 33.4MM Mkt. Share: 0.08%	E RPLLLC Client Flow: -29% Volume: 28.7MM Mkt. Share: 0.07%

The "Announcement Effect" of the Federal Reserve

The Federal Reserve's April 9th announcement to buy fallen angels reversed the downturn in the high yield market and, according to their latest balance sheet to date, they have achieved this without buying a single bond. In his April 29th Federal Reserve Coronavirus Press Conference, Chairman Jerome Powell describes this phenomenon as the "announcement effect;" that the promise alone of Fed backing can and has had substantial effects on the liquidity and performance of the market.

As the risk for more fallen angels stays high, it will be interesting to further observe the trends in the market as the Fed ultimately begins its planned purchase program. "We wonder if they would consider saving some of these bullets given how much the market has recovered already," **said Rodilosso**. Using BondTiQ, you can easily, quickly, and accurately observe these trends in real-time, providing a unique look into this unprecedented federal backstop for the secondary corporate bond market.

If you are interested in a free trial of BondTiQ, reach out to us at info@bondcliq.com.