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Newfleet: Remain Focused on Valuations in an Environment of Uncertainty Created by the Coronavirus

We know that the outbreak of the coronavirus (COVID-19) is going to disrupt supply chains, reduce demand as well as slow economic activity and growth. All of these factors will have an impact on inflation. Economic growth in China will be most severely impacted, but the effects will be felt globally. It is still too early to be able to estimate with any sort of accuracy how much economic growth in China and globally will be impacted.

The fear right now is that the coronavirus spreads widely outside of China and the associated uncertainty around the duration and magnitude of the effect of the virus. We expect global central banks will be aggressive in their policy response by providing liquidity to the market if the virus continues to spread and the economic effect of the virus is significant (some have already started to respond, i.e., China).

Credit sensitive sectors with global exposure would likely be impacted more than others. In addition, certain industries within the fixed income credit markets will likely be impacted more than others. These would include energy, and travel and tourism industries such as airlines, cruise line operators, and hotels. Industries tied to public gatherings are also likely to be impacted such as restaurants, movie theaters, and casinos.

Other areas of the fixed income markets that have and will likely be more resilient include U.S. Treasuries, municipal bonds, and senior tranches of securitized sectors. Certain ecommerce companies like a Netflix are among those that could benefit, but overall there are no industries as a whole that would be clear winners.

We expect that growth will bounce back once the coronavirus fades, confidence returns, and central banks respond by providing liquidity to the markets. This environment should continue to be supportive for fixed income credit.

The coronavirus remains a fluid situation that Newfleet is watching closely. The coronavirus, like other events that trigger volatility in the market, can affect valuations and create opportunities that Newfleet can take advantage of in the course of implementing its multi-sector relative value approach.

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