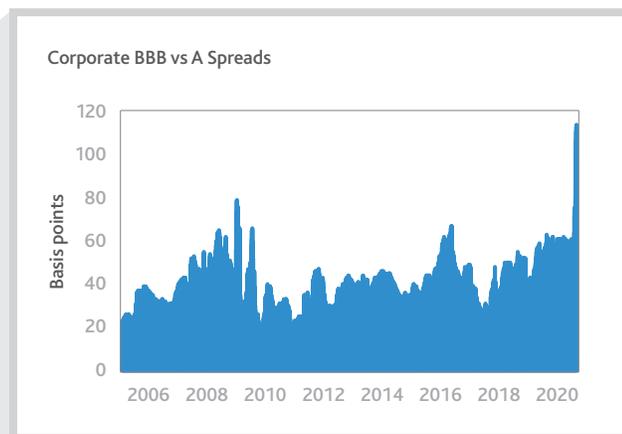


Spread Widening: Opportunity or Threat?

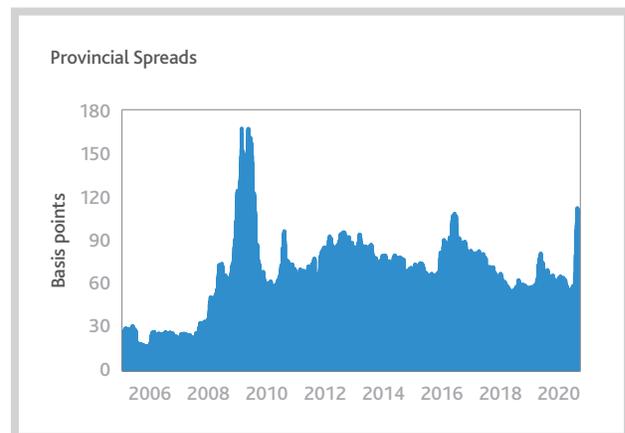
Since the COVID-19 outbreak, credit spreads have widened to levels not seen since the Global Financial Crisis (GFC), as investors are bracing for a severe recession – potentially the worst one since the Great Depression, at least in the view of the International Monetary Fund.

All the uncertainty surrounding the timing and the shape of an economic recovery is clearly a major threat to credit markets, and to measure its amplitude, we like to look at the spreads between BBB-rated and A-rated corporate bonds; the higher the spread, the greater the priced-in likelihood for downgrades and defaults. Despite governments and central banks implementing unprecedented measures to support businesses and consumers, we can see on the chart that investors are anticipating an even more challenging period ahead for Canadian corporations than they were in the last recession, and we don't disagree with the market.

forcefully than during the GFC – and launched an important bond purchasing program for provincials to support market liquidity, limiting the potential downside of these issues. Thus, the recent spread widening was in fact a great opportunity for us to increase our exposure to high-quality credit with virtually no default risk ahead of what is all but certain to be a recession for the ages.



Source: Mid-term bonds; Bloomberg as of April 6, 2020



Source: Mid-term bonds, versus Federal bonds; Bloomberg as of April 6, 2020

Call us eternal optimists, but we'd rather see the bright side and pay attention to the opportunities that have arisen thanks to the recent market correction. For example, provincial bonds have become very attractive on a risk/reward basis. The Bank of Canada has stepped in this time around – much more quickly and

Therein lies the beauty of the bond market and an active approach: no matter how big the threat is, there will always be opportunities to be seized.

Jean-Guy Mérette
 Vice President and Portfolio Manager
 Active and Strategic Fixed Income Team



From the Bond Desk

fiera.com

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