NB GLOBAL CORPORATE INCOME TRUST

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Coronavirus Update as of 26 February 2020

Overview

The coronavirus had spread to Italy/Europe and Middle East/Iran over the weekend causing a sell-off across most asset classes with the exception of "safe haven" type assets such as US Treasuries and gold.

The new cases in Italy were concentrated in the North, primarily in Lombardy (172) and Veneto (33)[1]. In the most affected cities, preventative measures were put in place as 53,000 people have been quarantined in the region. Northern Italy accounts for 56% of total GDP for the country, but at less than the size of the California economy, the impact to global growth should be somewhat minimal. That said, the sentiment surrounding uncertainty of the spread is the larger concern at this point.

The virus is disrupting global markets driven primarily by investor sentiment, uncertainty of spread and severity of impact, expectations for lower demand via supply chain disruptions and changes in consumer and business behavior. The spread of the virus will have varying impacts on regional economies, sectors and links along the supply chain but we believe it is unlikely to cause an outright global recession. The US economy (15% of global GDP) is less exposed to the impact due to (1) the strength and size of both the US consumer and services sectors, (2) lower interest rates give a proactive FOMC which will boost demand for housing and durables, (3) lower share of exports in the economy and (4) preventative measures taken to deal with any potential contagion.

1. Source: Reuters.

Impact to the Broader Market

As seen in the table below, the riskier the asset class, the lower the returns. Most of the media coverage is focused on equities and US Treasury bonds; however, there are parts of the market that are holding up rather well. The drawdown of global high yield relative to global and Australia equities has been much less severe.

Major indices performance comparison (as of 25 February 2020)

	MTD	SINCE 21 FEB 2020
MSCI World (AUD Hedged)	-2.55	-5.70
S&P 500 (AUD Hedged)	-2.98	-6.35
ASX 200 TR	-1.72	-3.66
GHY (AUD Hedged)[2]	0.36	-0.80

2. GHY (AUD Hedged) represented by ICE BofA Global High Yield Index. Performance shown in AUD terms.

Strong Demand for Yield

We expect the demand for fixed Income to remain very high given (a) the uncertainty, higher risk and more global nature of the equity markets, (b) historically low interest rates, and (c) the persistent need for institutions to produce stable, risk-adjusted returns to meet long-term liabilities. Currently the yield on the 10-Year UST is 1.317%, which is an historical low. As of 25 February 2020, the yield (YTW) on the overall US High Yield Index was 5.63% with BB's at a yield of 4.05% and the non-distressed index is currently yielding 4.68%. These are compelling levels compared to the recent past as well as to measures of the risk-free rate, such as 10Y USTs.[3]

3. Source: Bloomberg.

High Yield Outlook

Our team's view on high yield remains constructive due to the view that, even with the outbreak, the US economy is unlikely to go into a recession in the near-term. The US consumer is 68% of the economy and the fundamentals of wage growth, low inflation, falling interest rates and very good job growth remain supportive of economic growth in the US. That said, European and SE Asian real GDP growth is likely more at risk at this point but we do not foresee a global recession given where growth is currently.

NBI Positioning

Historically, high yield has provided lesser drawdowns and quicker rebounds as compared to equity in periods of volatility. We are seeing this play out in the current environment. While volatility will likely persist in the near term, we believe that yields and spreads are compensating investors for the commensurate risks.

Our team is focused on higher quality issuers with sustainable capital structures as well as positioning in the middle of the yield distribution (underweight the lowest and highest yielding cohorts). Additionally, we have been underweight energy, deep cyclicals sectors and had been positioned away from US-China trade war risk. Currently, the team is finding opportunities in the recent sell-off and assessing which issuers are best positioned to weather the impact of both demand and supply-chain disruptions from the virus.

NBI invests in a diversified portfolio of corporate bonds issued by large, liquid global companies which we believe will continue to provide stable income streams. To view the historical distribution of NBI, please click here.