RUBRICS

Rubrics Fixed Income Update

18th March 2020

Central Banking

Announcements of new monetary and fiscal programmes seem to be growing exponentially by the day. Every time the policy makers think they have fixed a leak in the financial markets' plumbing another pipe cracks. We have frequently discussed over the last week or so the ability of central banks to shore up the balance sheets of domestic banks with shock and awe levels of liquidity. This was/is essential as lots of people will be drawing down their cash deposits/credit revolvers over the next number of weeks. In response to this the central banks have made unlimited balances available to banks, particularly in the US.

The next shoe to drop has been the credit markets along with the global dollar funding market. The first place to look for signs of stress in this area is the commercial paper market which, as it did in 2008, provides lots of short-term liquidity for businesses. Similar to what was put in place in 2008/09, the Federal Reserve has re-introduced a number of emergency programmes (e.g CP funding facility and emergency primary dealer credit facility) targeting specific areas of stress as did successfully in 2008. We would also expect to some form of back-stop provided by the Treasury on any banking losses due to credit that has been extended on an emergency basis. This means that banks won't feel inhibited in lending out money given to them by the central banks and is a crucial part of the recovery. Healthy banks are therefore essential.

The next step is the expansion of the recently announced G7 dollar swap programme to include a much wider audience including EM central banks. The dramatic increase in dollar deposits in the system has in large part been due to the massive money supply expansion by the Federal Reserve. It is now time for them to pay the price and put a leash on the animal that they have created.

Markets are still trading very erratically, like wild bats you might say. US treasuries selling off when they should be rallying and rallying when they should be selling off are symptoms of the extreme volatility that has taken hold. The USTs have come under-some pressure from the "bond-vigilantes" we are told – looking at a plethora of fiscal spending coming down the pipeline. This however does not explain why German Bunds are performing as badly as US Treasuries given Germany is yet to announce anything like the fiscal programmes that we have seen from other countries. I personally believe that this is more of a 2014/5 like scenario where dollar cash is king, and markets are selling anything they can in a scramble to acquire them. Recent data on emerging market holdings of Treasuries indicates that along with the likes of risk parity funds, EMs are currently big sellers. The same phenomenon is at play in the credit markets with various market participants looking to liquidate what they can regardless of price. We have seen called bank bonds with 2 weeks to maturity being sold 2 points below par as an example of this. As a result mark-to-market volatility across the whole spectrum has been significant.

On the positive side, we believe the Fed will continue to increase its daily purchases until the extreme volatility subsides. This will start with the US Treasury market and hopefully filter through to other markets. With each passing day, it seems new and more aggressive packages are being announced in an effort to fight the impact of the virus, we may even see the 'helicopter money' touted by the US rolled out in other parts of the world. For sure we are witnessing volatility on a scale not seen since the financial crisis, but we will get through it and continued evidence of global governments and central banks beginning to work together is an encouraging sign.

IMPORTANT INFORMATION

March 2020

Rubrics Global UCITS Funds Plc is a variable capital umbrella investment company with segregated liability between sub-funds; incorporated with limited liability in Ireland under the Companies Acts 2014 with registration number 426263; and authorised by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended). This document is for information only and does not constitute an offer or solicitation to deal, whether directly or indirectly, in any particular fund. Nothing in this document should be taken as an expressed or implied indication, representation, warranty or guarantee of performance whether in respect of income or capital growth. No warranty or representation is given as to the accuracy or completeness of this document and no liability is accepted for any errors or omissions that the document may contain. The Key Investor Information Documents ("KIIDs") and prospectus (including supplements) for Rubrics Global UCITS Funds Plc are available at www.rubricsam.com. The management company of Rubrics Global UCITS Funds Plc is Carne Global Fund Managers (Ireland) Limited (the "Management Company"). The Management Company is a private limited company, incorporated in Ireland on 16 August, 2013 under registration number 377914. The investment manager of Rubrics Global UCITS Funds Plc is Rubrics Asset Management (Ireland) Limited (the "Investment Manager"). The Investment Manager is a private company registered in Ireland (reference number:613956) and regulated by the Central Bank of Ireland in the conduct of financial services (reference number:C173854). Details about the extent of its authorisation and regulation is available on request. Rubrics Asset Management (UK) Limited is an appointed representative of Laven Advisors LLP, which is authorised and regulated by the Financial Conduct Authority of the United Kingdom (Reference number: 447282). Laven Advisors LLP is not authorised to promote products to retail clients, all communications originating from either Laven Advisors LLP or Rubrics Asset Management (UK) Limited is therefore intended for professionals and eligible counterparties only. Data Source: © 2016 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. www.morningstar.co.uk.

For South African investors: In the Republic of South Africa this fund is registered with the Financial Sector Conduct Authority and may be distributed to members of the public. In addition to the other information and warnings in this document, the Financial Sector Conduct Authority of South Africa requires us to tell South African recipients of this document that collective investment schemes are generally medium to long-term investments, collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending and that a schedule of fees and charges and maximum commissions is available on request from the manager. Because foreign securities are included in the investments within this collective investment scheme, we are also required to disclose to you that there may be additional risks that arise because of events in different jurisdictions: these may include, but are not limited to potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks and potential limitations on the availability of market information.

Additional Information for Switzerland: The prospectus and the Key Investor Information Documents for Switzerland, the articles of association, the annual and semi-annual report in French, and further information can be obtained free of charge from the representative in Switzerland: Carnegie Fund Services S.A., 11, rue du Général-Dufour, CH-1204 Geneva, Switzerland, tel.: + 41 22 7051178, fax: + 41 22 7051179, web: www.carnegie-fund-services.ch. The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva. The last share prices can be found on www.fundinfo.com. For the shares of the Funds distributed to non-qualified investors in and from Switzerland and for the shares of the Funds distributed to qualified investors in Switzerland, the place of performance is Geneva.