TIMELY INSIGHTS FROM JAG'S RESEARCH TEAM

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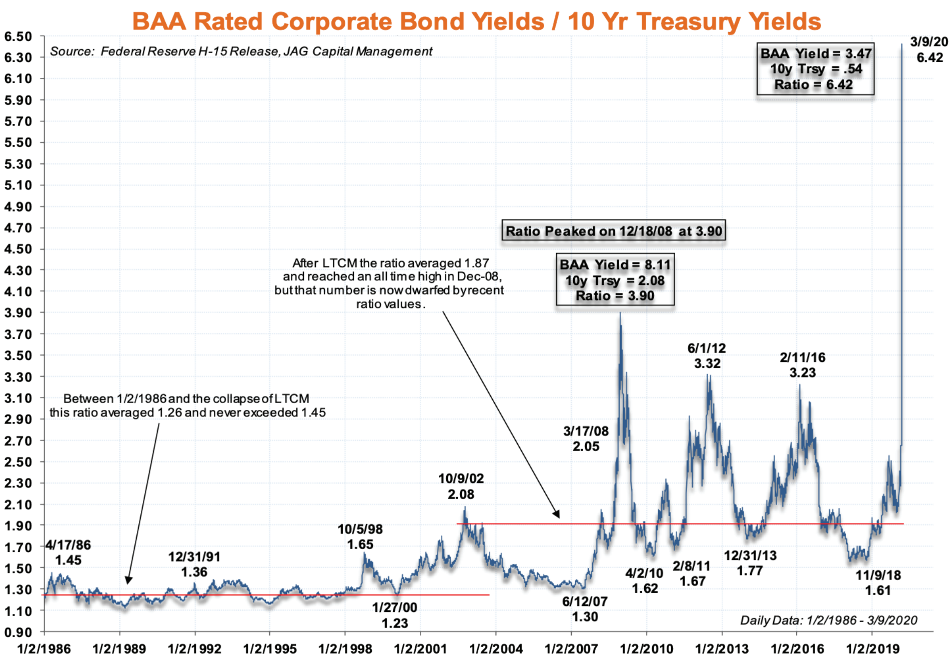

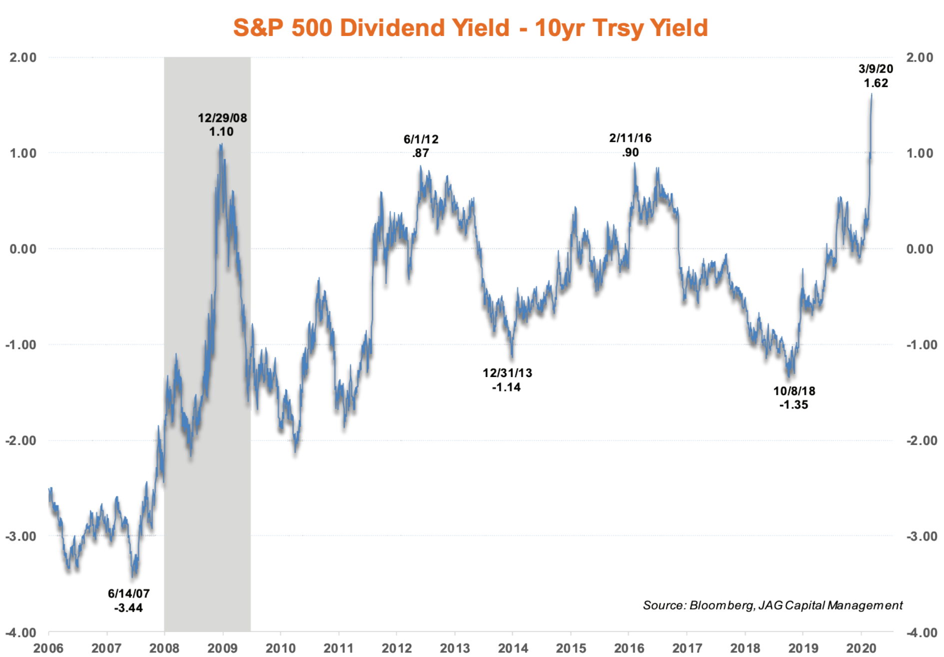

Coronavirus fears have driven an epic cascade of capital into risk-free assets like US Treasuries. 10-year Treasury yields have collapsed from 1.9% to less than .6% since the end of 2019. Meanwhile, investment-grade credit spreads have widened. The result? A truly extreme relationship between BAA-rated bond yields and Treasury yields. **As of 3/9/2020, the average BAA-rated bond yielded 3.47%, more than 6.42x the yield on 10-year Treasuries.** This ratio is now more extreme than it has ever been, far outstripping the previous highs of 3.9x during the Great Financial Crisis.

Meanwhile, the near-20% correction in the S&P 500 has left the blue-chip index with a dividend yield of nearly 2%, a huge premium to the tiny cash flows provided by Treasuries.

To us at JAG, **these two charts highlight how incredibly expensive the "flight to safety" trade has become.** Back in 2008, the BAA/10 Yr chart reflected outlier metrics in both the numerator (BAA yields were >8%, and credit spreads were extremely wide) and the denominator (Treasury yields had collapsed to then-historically low levels of c. 2%). Stated another way, in late 2008, the BAA/10 Year yield ratio pointed to the potential for equity-like returns in investment-grade credit. While we do not anticipate such extraordinarily high returns for investment-grade bonds in 2020-2021, we do think that credit looks extremely attractive relative to Treasuries for those with intermediate- to longer-term investment horizons.

Similarly, while we have no special insight into the near-term path for the stock market, **the fact that the S&P 500 offers much more than 2x the yield of the 10-year Treasuries probably indicates that opportunities are developing for longer-term equity investors.** At the same time, we think the "safety trade" into intermediate- to long-duration Treasuries could prove to be anything but "safe" for long-term bond investors.

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