Breckinridge CAPITAL ADVISORS

PERSPECTIVES

MONITORING THE CORONAVIRUS FOR RISKS TO BOND STRATEGIES

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The Wuhan Coronavirus may present risks to corporate bond investment strategies. Breckinridge has been monitoring developments in order to assess risks to sectors and industry groups. To date, our review suggests that, in light of market uncertainty brought about by the news, continued monitoring is warranted with attention to specific sectors and industries based on potential direct and indirect effects.

As we assess the scope of any broad-based impact, some of our initial observations, based on news reports, industry data and internal research, include:

- Key segments of China's economy are now on extended idling, including regions that are home to plants and factories associated with well-known U.S. companies in transportation, retail and technology.

- More than 20% of global intermediate imports come from China and among larger countries Japan (approximately 40%) and the U.S. (approximately 30%) are notably exposed to supply chain disruptions.

- U.S. multinationals operating in China are idling plants, closing retail outlets, withdrawing expatriate employees and addressing supply chain disruptions and contingency plans. Larger U.S. companies with operations in China likely may have business disruption insurance to partially mitigate losses related to the outbreak.

- All corporate sectors could be impacted if the outbreak drags on longer than the SARS epidemic of 15 years ago and impacts global economic growth. Particular attention is accorded to industries that may be directly affected.

  - They include Restaurants, Brick-and-Mortar Retailers, Luxury Goods & Department Stores, Autos, Airlines, Lodging and Leisure and Shipping.

  - Note that certain of these industries tend not to be large sectors within investment grade (IG) bond indexes.

- Sectors that may experience indirect impacts include Technology, Basic Materials, Energy, and Health Insurance.

  - The Technology sector has material exposure to China when comparing global companies who generate more than 15% of their revenue from China. Additionally, supply chains could be impacted by manufacturing plant shutdowns.

  - China is the world's top oil importer bringing in the equivalent of 10 million barrels per day. Oil prices have declined due to reduced air travel to and within China and with much of the country's transportation ground to a halt.

  - China consumes approximately 50% of the world's copper output. Copper has thousands of industrial uses and is a key indicator for economic growth. The drop in copper prices has implications for the Metals & Mining sector.

Our research team continues to monitor the outbreak, company responses and whether any shifts in our internal ratings assessments are appropriate. We continue to conduct our ongoing surveillance of the broad market. We believe some issuers will be impacted over the near-term by the outbreak in China depending on how long it takes to effectively contain it and/or to develop an antidote.

At Breckinridge, we recognize that unforeseen events can happen at any time and that the downside to investing in a holding negatively affected by those events can be significant. As investors, we view thorough research as the driver of security selection decisions. We believe fundamental bottom-up research and environmental, social and governance (ESG) analysis of financial and extra financial factors are paramount in helping us identify risks and opportunities.

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