

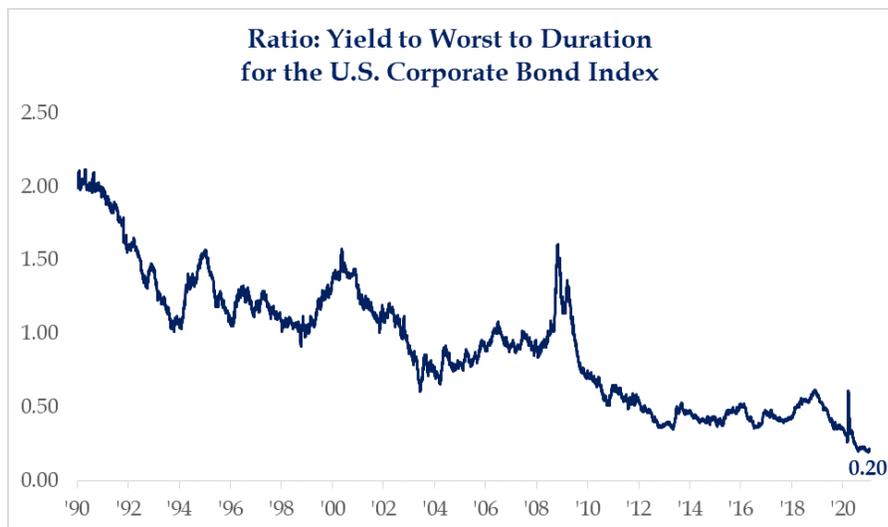
# Strategas Daily Macro Brief

Prepared by Strategas Securities, a Baird Company

## January 15, 2021

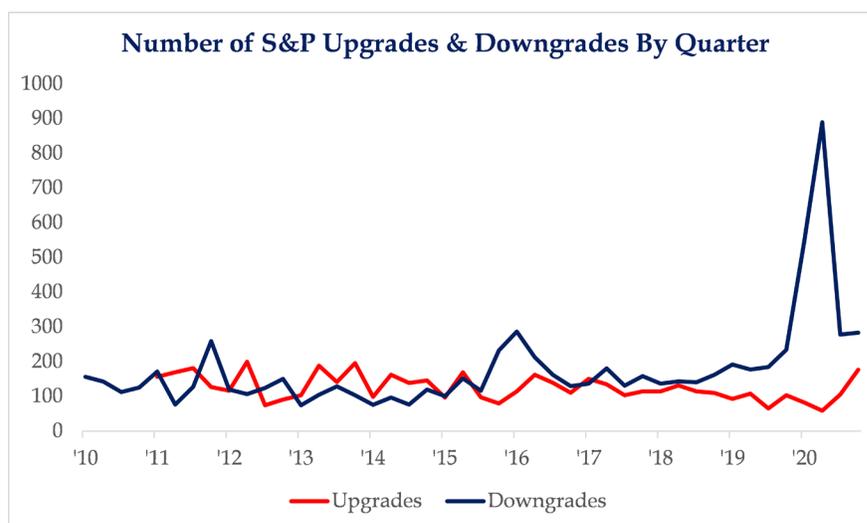
### BOND INVESTORS NOT GETTING PAID FOR THE RISKS THEY ARE TAKING

Thanks to record low interest rates and spreads, the amount of yield bond investors are earning for each unit of duration has fallen to the lowest level in the last three decades. While many bond funds are actively managed, it's important to be aware that it would not take much of a move in yields to wipe out the income return on the index or a fund tracking it.



### S&P CREDIT DOWNGRADES SLOWING NOTABLY

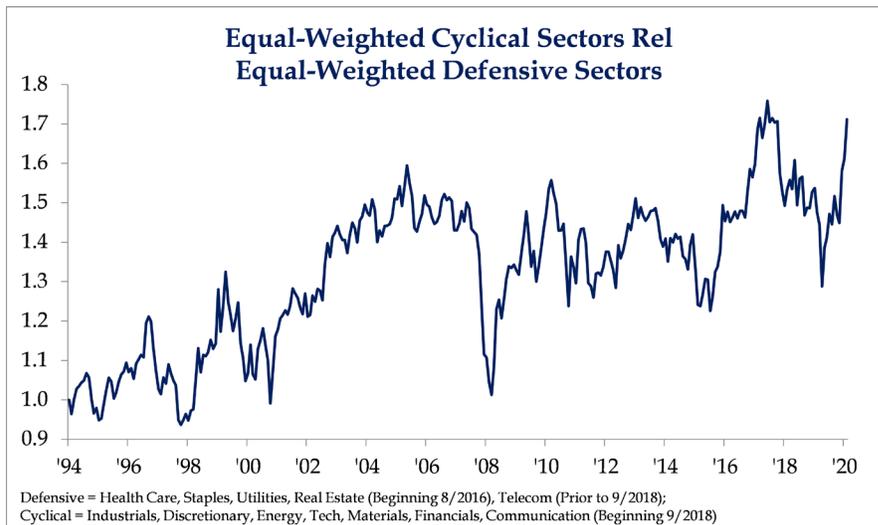
At the start of the Covid-19 pandemic, S&P credit downgrades rapidly increased as the ratings agency attempted to quickly evaluate the rapidly deteriorating economy. It now appears that the record pace of downgrades peaked in the 2Q'20, with almost 900 credit downgrades. The number has since decreased, but remains elevated relative to history. What will be key to watch is the number of credit upgrades, slowly rising as the U.S. economy begins its long path of recovery.



Please see the Appendix on page 3 for important disclosures.

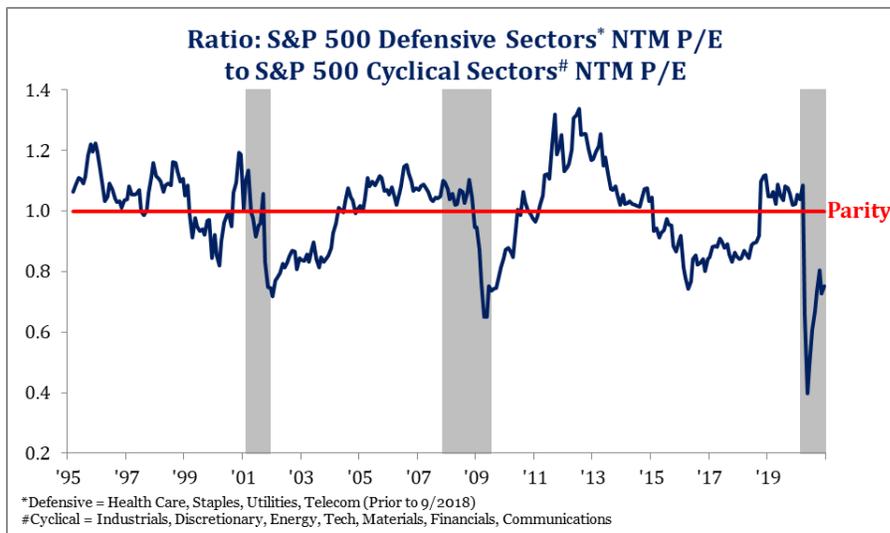
### CYCLICAL SECTORS SHOWING IMPRESSIVE RELATIVE PERFORMANCE

What initially began as a nascent and dubious rally in cyclicals in late-March has evolved into a legitimate trend change as the cyclical sectors outpace defensives on impressive momentum. It's fair to argue that the cyclical trade may be extended in the short-term, but on the back of a prospectively recovering U.S. economy, the fundamental set-up for cyclicals is supportive for a sustainable move higher.



### CYCLICAL SECTORS OFTEN LOOK EXPENSIVE EARLY IN RECOVERIES

The ratio of cyclical sector NTM P/E's to defensive sector NTM P/E's historically has been below parity in the early stages of a recovery due the fact that earnings for those sectors have not yet normalized while defensive sectors have continued to see earnings support. Over the coming quarters we would look for this ratio to move higher as the economy continues to recover.



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