Why So Much Negativity?

November 2019
Joe Ramos
Head of US Fixed Income
Agenda

- US Rates: Unchartered Waters
- The State of the US Economy: A Sea of Calm
- Outside the United States: Is a Storm Brewing?
- What’s Driving Interest Rate Policy?
Negative Yielding Debt Now Exceeds $15 Trillion

As of 30 September 2019
Source: Bloomberg
The 10-Year US Treasury Yield Has Sunk to An All-Time Low

US 10-Year Treasury Rate

NBER Recession

10-Year US Treasury

As of 31 August 2019
Source: Bloomberg, Federal Reserve Bank
Unemployment Has Fallen to a 50-Year Low

As of July 31, 2019

Source: Bloomberg
US Nominal GDP

As of July 31, 2019
Source: Bloomberg, MeasuringWorth
US Inflation Is Anchored Around 2%

US Historical CPI
YOY (%)

Fed Breakeven CPI 5-Year Forward

As of 25 October 2019
Source: Bloomberg
Financial Lending Conditions Remain Healthy

As of 25 October 2019
Source: Bloomberg, Chicago Federal Reserve
US Corporate Default Rates Are Expected to Remain Low

US Default Rates

- JPMorgan Default Rate: 1.8% as of 12/31/18
- JPMorgan Forecasted Default Rate: 2.0% as of 12/31/20
- Moody's Default Rate: 2.3% as of 12/31/18
- Moody's Forecasted Default Rate: 3.3% as of 12/31/19

Source: Bloomberg
German Inflation and Expectations Remain Below 2%

**German CPI**

YOY (%)

![Graph showing German CPI from 2007 to 2018](chart1.png)

**German CPI Expectations**

ZEW Germany Inflation Expectations

![Graph showing German CPI expectations from 2007 to 2018](chart2.png)

As of 31 August 2019
Source: Bloomberg
Germany is Entering Recession Territory

As of 28 June 2019
Source: Bloomberg
It Costs Money to Hold German Bunds and JPY 10-Years

10-Year German Bund Yield

10-Year Japanese Government Bond Yield

As of 5 November 2019
Source: Bloomberg
The 10-Year US Treasury Term Premium Is at an All-Time Low

As of 10 October 2019

Source: Bloomberg
US Business Confidence Remains High

CEO Confidence

CEO Confidence Index

US Small Business Optimism

NFIB Small Business Optimism Index

As of 31 October 2019
Source: Bloomberg
Capital Spending Plans Are Steady

US Small Business Capital Spending Plans (NFIB)

As of 30 September 2019
Source: Bloomberg
Avoid Investment Fragility – We Believe Security Selection is Key

- We believe investors should select securities based on sound balance sheet lending:
  - Credit quality – ability and willingness to get paid back
  - Structure – standardized legal contracts that protect lender
  - Market sponsorship – long-only institutional demand is key

- We believe investors should aim to concentrate in high conviction investments, diversification does not protect

- We believe a willingness to step away from benchmark exposures may help reduce chances of capital impairment
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Joe Ramos is a Managing Director and Head of US Fixed Income. He is also Portfolio Manager/Analyst on the US Fixed Income team. He began working in the investment industry in 1978. Prior to joining Lazard in 2006, Joe was the Chief Investment Officer of Ambac Financial Group, Inc., where he was responsible for the oversight and management of Ambac's balance sheet investment strategies, including the Excess Liquidity, Core Capital, Plus, and levered IA portfolios. Previously, Joe was a member at E.H. Capital Group, LLC, a Senior Vice President and Portfolio Manager at Lazard Asset Management, a First Vice President and Senior Portfolio Manager at Lehman Management Co., and a Senior Analyst in the Lehman Brothers Kuhn Loeb Fixed Income Research Department. He has a BS from New York University. Joe Ramos is a member of the CFA Institute, the NYSSA and the Economic Club of New York.
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