THE LEAD
https://theleadleft.com/and-you-thought-cov-lite-was-a-problem/

And You Thought Cov-Lite Was a Problem

THE LEAD | September 18, 2019

Two years ago we featured on these pages Oumuamua, a comet masquerading as an alien space ship [link]. Last we heard it was heading out of the solar system.

Now the Crimean Astrophysics Observatory has detected another interstellar visitor – Borisov, named after its discoverer. About six miles in diameter, this comet has a hyperbolic orbit that will swing it close to the Earth just in time for Christmas.

"It might behave the same as comets from our own sun," said one astronomer, "or it might not."

Closer to home, similar uncertainty surrounds the behavior of interest rates. The Fed will signal to markets, after yesterday's 25 bp rate cut, to expect one more this year, in its ongoing effort to combat a sluggish economy and trade worries. Or it might not.

Unfortunately for policy makers, there are no clear signs one way or the other. Evidence exists of a still-growing economy as reflected in recently higher Treasury yields. But a long list of headline risks (add the offline Saudi refinery) are having a dampening effect. Not to mention the political risk of a less-than-dovish Fed.

Not helping is the outlook for growth in Europe. The central bank there has lowered its deposit rate to minus 0.5%. Compare that to the current Fed rate of 1.75-2.00%. Sluggish economies have pushed bond yields down to where, according to FT, one-quarter of all global bonds carry negative interest rates. That's about $15 trillion.

The concept of negative interest is hard to wrap your brain around. The Danish Jyske Bank last month offered homeowners a 10-year mortgage loan at -0.5%. So instead of paying the bank for the privilege of using their money, the bank pays you for the privilege of taking money off their hands. Sign us up!

The flip side is also true. UBS is charging customers 0.6% for any deposits over €500,000. No word whether the bank is demanding toasters as well.

Minus mania has reached into both the emerging and junk bond markets. Sovereign debt of Hungary, Poland, and the Czech Republic all are in the less-than-zero zone. And with a growing share of European corporates trading with minus signs, it begs the question: where's the "high" in high-yield?

All of which makes US debt relatively attractive globally. As low as 2% appears historically, there's plenty of room between it and the Z-word. If the Fed cuts rates at a 25 basis point clip each quarter, we won't reach negativity until the summer of 2021.

Meanwhile, back at the leveraged loan ranch, the prospects of further rate cuts only exacerbates investors' thirst for yield. Balancing that appetite against a possible slowdown, credit managers are cautiously optimistic new issues will be received well. If past trends are any indication, lower Libor might result in offsetting higher spreads.

How low will Libor go? As one analyst said, “Zero has just become another number.”