products and high-quality, shorter-duration investment-grade corporate bonds rallied strongly and largely recovered. However, the second leg of the spread recovery still has room to play out in some portions of the market. In particular, the credit crossover corridor of BBB and BB appears attractive. Historically, in the repair part of the credit cycle, fallen angels in the crossover corridor represent a "gift from above," and segmentation in the fixed income markets is particularly acute in the crossover corridor, which subsequently creates a meaningful source of potential alpha for multi-sector investors. Default and downgrade activity could pick up materially should the economic environment deteriorate, and credit selection remains paramount, but we believe that spreads still provide investors with more than adequate compensation for that risk.

2. **Balance sheet repair:** Credit investing is a rare world in which not-so-favorable news can improve the investment outlook. Essentially, credit investors benefit the most when companies are in free cash flow conservation mode and they pull back on balance sheet destructive activities, such as share repurchases, dividends, and capital expenditures. We expect corporations to embark on multi-faceted balance sheet repair over the coming quarters and years. Provided that a company doesn't default, of course, the direction of a credit's travel may actually be a better determinant of its performance, rather than simply assessing the current state of its credit profile.

3. **Slow growth is good growth:** The sudden stop in the global economy in the early part of 2020 will likely have lasting effects on growth and the future economic trajectory. The extent of the scarring is not completely known at this stage, and while we believe ultimately that a U-shaped recovery is the most probable, alternate scenarios cannot be dismissed. Nonetheless, we see a long road back to trendline growth, which should keep corporations in free cash flow conservation mode for some time to come. In fact, the longer and harder the economic road to recovery, the more likely that companies will remain friendly to bondholders (or at least less hostile).

4. **Ongoing support:** The global fiscal and monetary responses to the pandemic have been nothing short of astounding. These often-coordinated, swift and decisive actions arguably staved off the worst-case scenario for the global economy and, thus, the markets. Crucially, the economic state of the COVID-19 crisis is unlike the Global Financial Crisis, where fiscal and monetary authorities were worried about "bailing out" bad behavior and actors. The current lack of villains strongly suggests that both governments and central banks will continue to do whatever it takes to support their citizens and the global economy.

We see the post-virus world carrying forward many of the demographically related themes that have characterized the past decade — restrained global growth, low inflation (which will require central banks to remain stimulative), and low long-term interest rates. This, in turn, should translate into a low volatility macro-financial environment. Taken cumulatively, we believe that the sun is far from setting on the Golden Age of Credit.

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