We are monitoring developments related to the Coronavirus and assessing the overall impact to issuers. It remains unclear as to whether this will be a short-term one quarter or possibly two quarter event before the virus is contained. What is clear is the disruption to supply chains, lower global economic projections and reactionary cuts to central bank policy rates amidst volatile financial market activity. We expect these forces to impact issuers to varying degrees from both an earnings and asset quality perspective in the coming quarter, but generally view the issuers on our approved list to have the financial flexibility and balance sheet strength to withstand the near-term market stresses. As such, we are not looking to make any wholesale limit changes and do not expect a swath of rating downgrades, but would not be surprised to see selective rating actions and/or possible limit adjustments that may be warranted as the situation develops.

As this is a fluid situation, we offer the following perspective and areas we will be monitoring:

- We do not have any direct exposure to issuers domiciled in China, Korea, Iran and Italy which collectively account for 96% of global Coronavirus cases and are the jurisdictions that look to be the most acutely impacted by weakened economic conditions.
- Several corporate and financial issuers have provided reduced earnings guidance but all have lacked substance other than revenue targets would not be met. This comes off the heels of a relatively uneventful 4Q19 earnings season.
- For corporates, a few technology and consumer products companies offered broad commentary that supply chain disruptions and/or plant closures would have an impact, but all will depend on the length and breadth of the disruption.
- Financial issuers have not disclosed any specific guidance with respect to lending exposure that might be impacted by the Coronavirus. We suspect that exposure to airlines, cruise lines and hotels are limited. Lending exposure we will be monitoring is exposure to shipping (Nordic Banks), Oil & Gas/Commodities (Canadian, Japanese, Singaporean and Nordic banks). We will also be monitoring banks that have meaningful indirect exposure to China/HK (HSBC, Standard Chartered, Singaporean banks) and Italy (BNP and Credit Ag). Overall, we expect credit costs to increase by way of higher provisions, albeit off of a low basis as global credit conditions had remained benign up to this point.
- Aside from potential asset quality pressures, bank earnings will likely be pressured by reduced net interest margins due to policy rate cuts in the U.S., Canada and Australia, although since the crisis banks have become accustomed to low interest rates and adapted business models to become more efficient and increase the level of fee based businesses.
- We will also be focusing on the impact of financial market volatility, which could impact financial issuers with meaningful capital markets and investment banking businesses, although these business lines have been scaled back since the financial crisis. There will also be an impact on issuers with large investment portfolios such as the Japanese banks.

In Summary, we will continue to monitor the credit impact of the Coronavirus and market conditions as the situation evolves.
All investments involve risks, including loss of principal. Certain investments involve greater risks that should be considered along with the objectives, fees and expenses before investing.

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