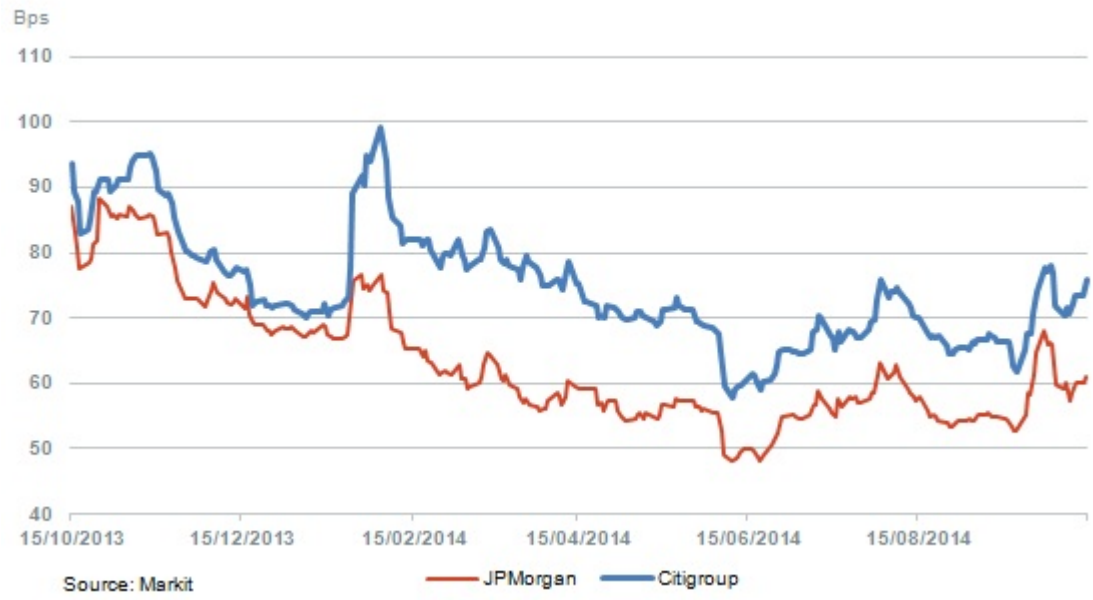
# Markit Recap – 10/13/2014

THE LEAD | October 15, 2014

The global macro picture remains a concern, but credit investors will turn their attentions to micro factors over the next few weeks as earnings season gains momentum.

US banks, as usual, will set the tone, and so far the indications are that results will be mixed. JPMorgan's third-quarter net income of $1.36 per share was slightly below expectations, but total revenues of $25.16 were ahead of consensus estimates. Citigroup's adjusted EPS and revenues ($1.15 and $19.6bn) managed to beat expectations, and both banks posted an improvement compared to last year.




Aside from the headline figures, the most closely watched segment of the banks' results was the performance of fixed income trading. The whole sector has suffered in recent times from a lack of volatility, so the recent pick up in asset price fluctuations was expected to benefit investment banks. Both JPM and Citigroup reported higher fixed income revenues, though the increases weren't dramatic. Regulatory change, particularly onerous capital requirements, will continue to weigh on revenues for the foreseeable future. JPM's CDS spreads have widened 8bps to 61bps over the past month, while Citigroup's gave up 14bps to 76bps.

Volatility may continue to affect credit spreads as earnings season unfolds, but it is more likely that the macro environment will determine market direction ahead of year-end. The growth outlook for the eurozone seems to be getting grimmer with each economic release. Germany, the region's powerhouse, is spluttering, while France and most of the periphery are in the doldrums. The ECB will probably wait and see the effect of the TLTROs and the "private QE" programme – purchase of ABS and covered bonds – before "full QE" is considered. Meanwhile, the Federal Reserve is set to end its bond purchase programme, which could deprive credit of the central banks liquidity that it has depended on in recent years.

Stagnation in Europe and a concomitant rise in the US dollar could pose serious problems for a global economy still suffering from imbalances. The Markit iTraxx Europe was trading at 75bps on October 14, 10bps wider than the first day of the index roll on October 6. The Markit CDX.NA.IG was also quoted at 75bps, some 7.5bps wider over the same period. Both indices may oscillate ahead of the EU AQR and stress test results on October 26.

**Contact: Gavan Nolan**

Gavan.Nolan@markit.com