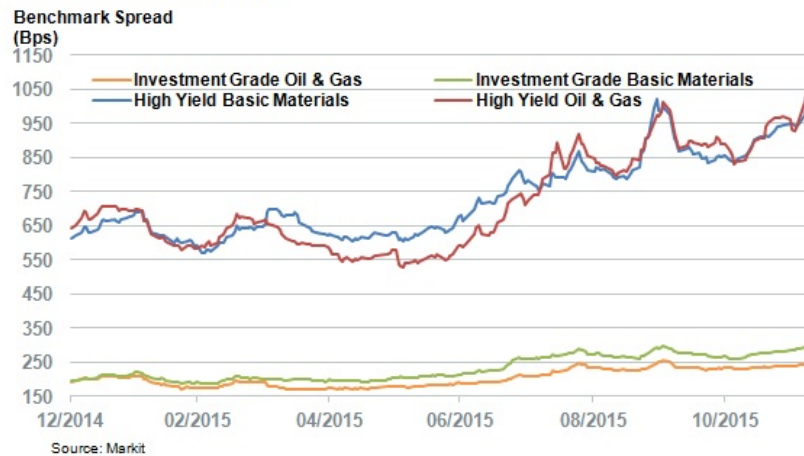


Markit Recap – 12/7/2015

THE LEAD | December 10, 2015

The commodities rout continued in earnest this week as oil prices hit recent multi year lows, while industrial metal prices also retreated to levels lower than those seen in the depths of the volatility earlier in the year. These developments are not surprisingly translating into further pain for bond investors in resource dependent sectors with both investment grade and high yield bonds in the oil & gas and resources sector posting steep losses for the month so far.

iBoxx USD Liquid Indices



While the entire commodities sector has been tricky for bond investors, high quality oil & gas bonds have proven to be a spot of relative calm in the recent selloff given that their credit risk as gauged by the benchmark spread priced into the Markit iBoxx USD Liquid Investment Grade Oil & Gas index is below yearly highs seen earlier in the year. That spread now stands at 250bps, 6bps off the yearly highs seen at the start of October. Oil traded at \$45 a barrel during the previous peak in credit risk which goes to show that while the current price slump has had an impact on the asset class, the relatively diverse business models and cash positions of the large established players have provided a cushion for bond investors.

Resources names have not been given the same benefit of the doubt from the market given that the benchmark spread of the iBoxx USD Liquid Investment Grade Basic Materials index now trades just shy of 300 bps which is 40 bps more than their oil & gas peers. These spreads marks a four year high for the asset class.

This differential in credit risk that the iBoxx USD Liquid Investment Grade Basic Materials index has delivered negative total returns of 6% for the year to date, twice those seen by the Markit iBoxx USD Liquid Investment Grade Oil & Gas index.

While both investment grade materials and oil & gas bonds have been tough trades in the current market, their performance over their high yield peers makes them relative high flyers given that both the iBoxx USD Liquid High Yield Basic Materials and iBoxx USD Liquid High Yield Oil & Gas indices are down 3% and 6.2% respectively so far in December. This poor performance marks a new yearly low for both sets of indices as both

their year to date total returns now stands at -20%.

These negative returns are driven by a total collapse in investor confidence in the sector given that the benchmark spread of both indices is now back above 1,000bps, a level viewed by many as a sign of distress.

Contact: Neil Mehta

Email: Neil.Mehta@markit.com