

Markit Recap – 3/14/2016

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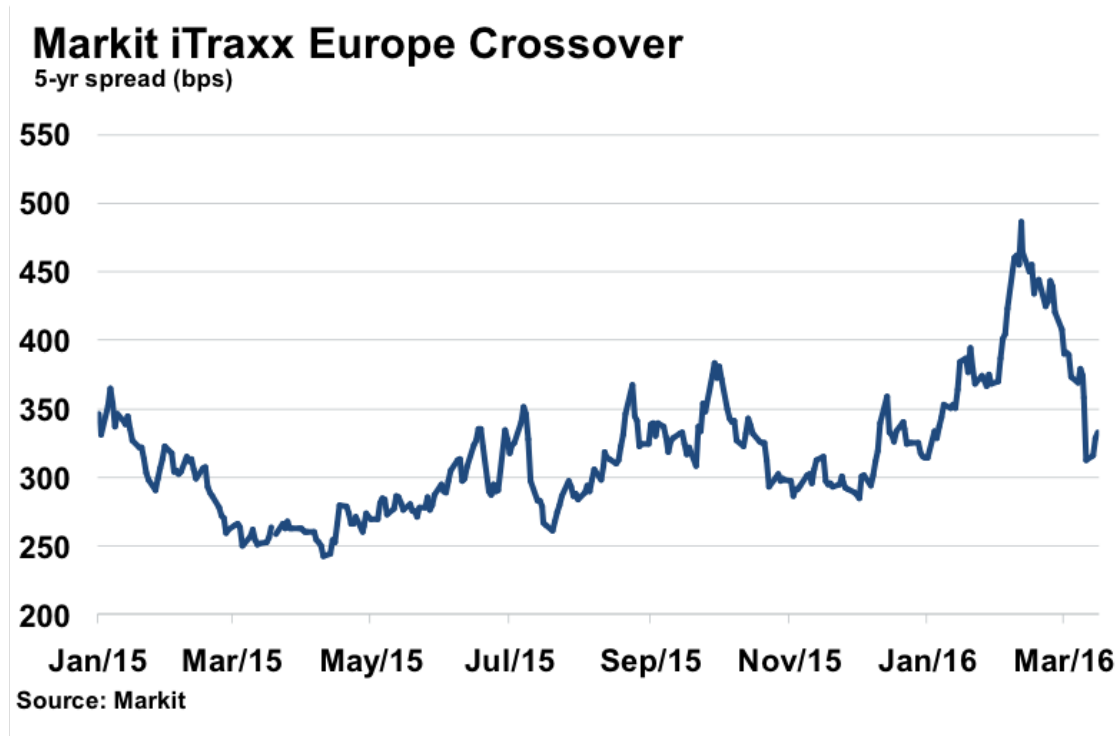
Investors embrace HY ETFs as sentiment turns

High yield credit has enjoyed a sustained rally over the past five weeks and investors have taken advantage through ETFs.

- High yield bond ETFs have seen five consecutive weeks of positive inflows
- Markit iTraxx Europe Crossover index has seen its spread fall from 486bps to 332bps
- Oil & Gas, Basic Materials, Utilities and Financials have led the HY recovery

The recent rally in risky assets has seen investors continue to embrace high yield (HY) exchange traded funds (ETFs), with positive inflows into the funds now entering their fifth consecutive week.

A rebound in commodity prices from February's lows and stimulatory action from major central banks has improved global macroeconomic sentiment. As a result HY bond risk has fallen across the board, with credit indices seeing spreads considerably tighter – the Markit iTraxx Europe Crossover index has seen its spread fall from 486bps to 332bps over the past five weeks.



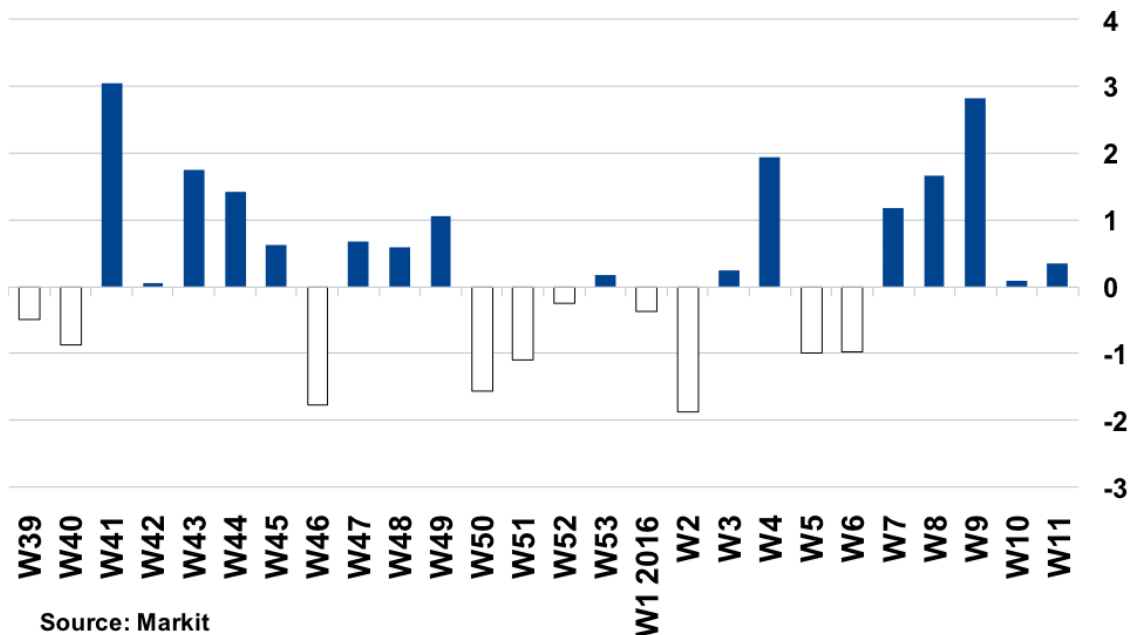
Investors have been keen to take advantage of the improving macroeconomic backdrop by taking on risk through HY ETFs. The last five weeks have seen consecutive inflows totalling \$6.1bn, reminiscent of the inflows seen last October as global credit markets rallied on diminishing fears over a China/emerging markets slowdown.

Investors go to ETFs

ETFs have been increasingly gaining popularity amid volatile market conditions as a method for investors to express their macro view, due to their ease of access and liquidity.

This is particularly evident in credit markets, where underlying bonds are traded less often. As macroeconomic sentiment has improved, strong HY ETF inflows have followed.

HY bond ETFs inflows/outflows (\$bn)



According to [Markit's ETP service](#), the week starting February 29th saw inflows of \$2.82bn, the largest since the second week of October last year. In total, \$6.1bn of new money has entered over the past five weeks – over 10% of total AUM in the HY ETF space.

Blackrock's [iShares iBoxx \\$ High Yield Corporate Bond ETF \(\\$HYG\)](#) saw inflows of \$1.22bn the week starting February 22nd; the highest weekly inflow on record. Already the largest HY ETF by AUM, it also saw its number of shares outstanding top 200m for the first time ever, illustrating heavy investor demand.

Oil and Commodities lead

Corporate bonds in Europe were buoyed by the European Central Bank's aggressive stimulus measure last week, with spreads tightening significantly. The Markit iTraxx Europe Crossover index, for example, tightened 50bps to 316bps on the day of the announcement. Coupled with Japan's aggressive central bank measures and the rebound in oil and commodity prices, the [Markit iBoxx \\$ Liquid High Yield Index](#) has seen its annual spread over US treasuries tighten 24% since February's recent wide point (589bps, from 776bps).

Annual benchmark spread (bps)				
	11-Feb-16	14-Mar-16	Change	% Change
iBoxx \$ Liquid High Yield Index	776	589	-186	-24%
Basic Materials	1194	807	-388	-32%
Consumer Goods	560	434	-127	-23%
Consumer Services	620	478	-142	-23%
Financials	648	434	-214	-33%
Health Care	579	467	-112	-19%
Industrials	662	473	-189	-28%
Oil & Gas	1675	1128	-547	-33%
Technology	699	554	-145	-21%
Telecommunications	843	682	-161	-19%
Utilities	869	579	-291	-33%

According to Markit's iBoxx indices, the sector leading the recent rally in US HY bonds has been Oil & Gas, which has seen spreads fall 547bps since February 11th. This comes as no surprise given crude oil's rebound, but spreads remain above 1,000bps, indicating distressed levels. Basic Materials has seen a 388bps tightening and average spreads are back below 1,000bps. While these two sectors have led the tightening in absolute terms, both represent around a fall in spreads by around a third, similar to the Utilities and Financials sectors, implying a broad based tightening.

Contact: Neil Mehta

Email: neil.mehta@markit.com