Markit Recap – 6/20/2016

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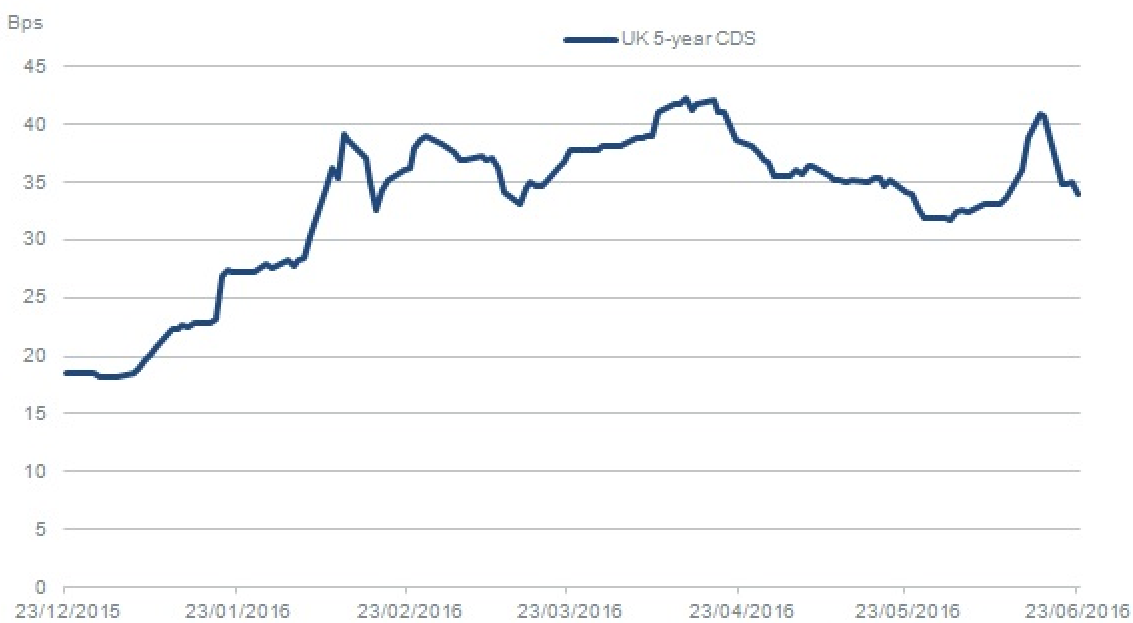
The campaign for the UK to leave the European Union has lost momentum with in the lead-up to Thursday's vote, and the credit market has been re-pricing to reflect these developments.

The UK's five year CDS spreads, which had touched yearly wides off the back of the surging "leave" sentiment last week, have been the most directly impacted by the change in sentiment. On Thursday, spreads were 7bps tighter, still twice the levels seen 12 months ago, which indicates that some investors remain on the fence. But today's spread tightening takes the level of credit risk priced into UK sovereign debt to levels not seen since the "remain" camp had a clear lead in the polls.



The shifting sands are also being felt in the corporate space where the Markit iTraxx Europe is enjoying its largest one day spread tightening since the European Central Bank decided to expand its quantitative easing in programme back in March. The index had risen by 10% last week, but in the last few days the index has given up much of these advances.

Unsurprisingly, UK firms have benefited disproportionately, with three of the country's financials featuring among the four best performing CDS names.

Insurance firm Aviva is chief among the firms seeing falling credit risk as its five year CDS spread tightened by 25bps to 75bps. The other UK firms among the best performing credit names are banks Barclays and RBS. All three of these names have seen their spreads tighten by roughly twice the level seen in the wider market.

While the recent volatility has been most acutely felt by UK firms, the spread widening seen last week was evenly distributed across both UK and non-UK domiciled issuers. This trend was in reverse this morning with every single of the index's 125 constituents now trading with a tighter spread.

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