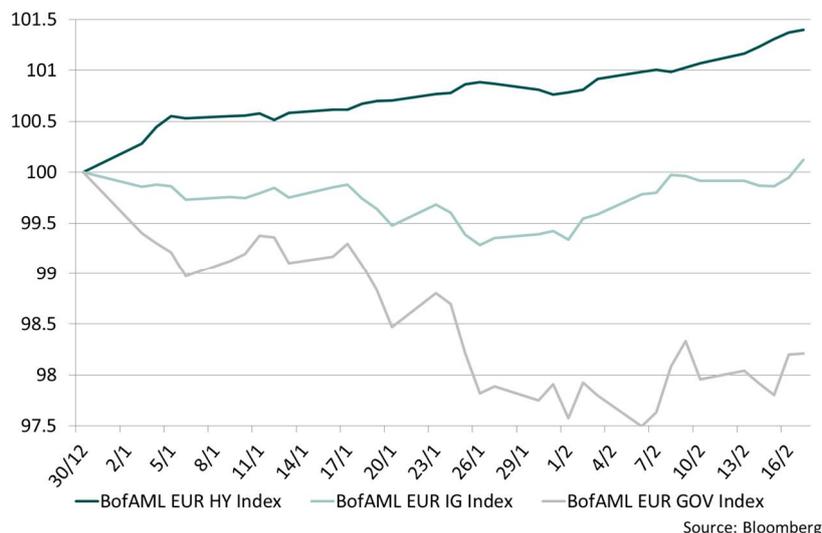


Decoupling going on. Since the beginning of the year in Europe we have assisted to a decoupling between Govies vs Credit, with the latter showing little response to the overall increase in political risk perception. Within credit markets, HY outperformed IG, also due to a shift by high grade investors from ECB CSPP eligible assets to higher yielding ineligible assets as the reach for returns still goes on.



Credit market in 2017. In general, the market seems complacent about what could happen in 2017. Credit outperformance, especially in the HY space, could continue in the short term, supported by high cash levels and limited net supply.

Meanwhile the ECB Despite positive development in growth and headline inflation (HICP) in the Eurozone, according to the latest ECB minutes, the governing council affirmed that signs of a convincing upward trend were still lacking when talking about underlying inflation (HICP excluding food and energy). Some analysts believe that the purchase program could continue well past 2017 albeit at a slower pace, while others affirm that the eligible assets universe is rapidly contracting, leaving less space for a lengthening in the purchase program, unless some of the purchase criteria are relaxed.

Returns. If 2016 has been a risk-on year (except for the first two months of the year when fears around China, oil price and banks overwhelmed the markets) we expect more volatility in 2017 due to political events and ECB taper statements. Concerning European HY, even though the market could rally in the short term, tight spreads suggest that that the return this year could be driven less by capital appreciation and more by carry and high coupons. The latter also reduces the overall asset class duration, providing greater stability in case of rates turmoil. Lastly, a robust primary activity could create a further opportunity to generate value.

Fundamentals. From a fundamental point of view, the current macroeconomic environment is positive for European HY issuers, with stable leverage profile and cash coverage ratios, and default are set to remain low according to the main rating agencies.

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