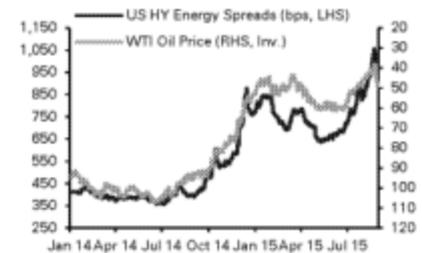




From a credit market perspective we tend to be more interested in oil based commodities and the industrial metals. Over the past year the oil price has had a particularly negative impact on the US HY Energy sector. As we can see in our often used chart in Figure 13 the recent move lower in oil prices, breaking through the \$40 barrier for the first time since Q1 2009 in August, had seen credit spreads in the US Energy sector widen to more than 1,000bps, comfortably wider than the late 2014 wides. The rebound in recent days has seen us tighten back from these wides.

Figure 13: US HY Energy Spreads vs. the Oil Price



Source: Deutsche Bank, Bloomberg Finance LLP

The question that this continues to pose for the EUR HY market is whether or not we should expect to see spillover from the weakness in the USD market. A look at Figure 14, which shows the YTD performance of EUR vs. USD HY credit by sector, suggests that we may not see contagion. Specifically looking at the Basic Materials and Oil & Gas sectors we can see that while in the USD market YTD total returns are comfortably in negative territory, the same sectors in the EUR market are still showing positive YTD returns. In fact EUR Oil & Gas remains the best performing sector YTD. Looking across other sectors we can see that the relative outperformance from EUR credit has not been isolated to the commodity related sectors, although this is clearly the most notable outperformance. Of the non-financial sectors only the Health Care sector has seen greater returns in USD than EUR. EUR outperformance ranges from 0.04%-0.95%, although it has looked better in recent weeks.

Figure 14: EUR vs. USD HY YTD Total Returns by Sector



Source: Deutsche Bank, Mark-it Group

Commodity exposure – EUR HY not like USD HY

So YTD there has been little or no spillover for EUR HY credit from the obvious commodity related weakness we've seen in the USD HY market. Looking at the relative compositions of the two markets suggests the EUR market is significantly less exposed to commodity related issuers and therefore the sell-off we've seen in the USD market may not impact EUR credit to such an extent unless the weakness is driven by a broader slide in global demand that applies negative pressure to European growth.