



we think that Central Banks are likely to continue to provide support to the global economy we don't think we are on the cusp of a default cycle.

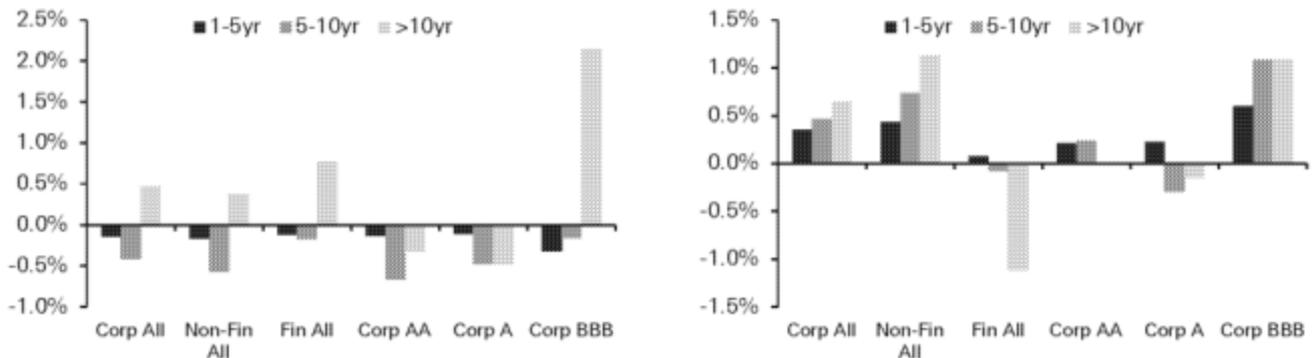
A potential risk to long-end performance could come from higher government bond yields. However given our view of the world our base case would be that yields remain fairly low and range bound for an extended period, which should benefit longer-dated bonds in the current environment.

EUR vs. USD & GBP revisited

Back in May we published a note highlighting that despite EUR credit looking optically rich to the USD and GBP markets once we stripped away the non-credit factors it was actually notably cheaper, on a relative value basis, than it first appeared. Here we assess the broad performance since then and look at where we stand now.

We start by looking at the comparison with the USD market. In Figure 42 we show the relative excess return performance of EUR IG over USD IG both before and after the note we published in May. We can see that with the exception of some longer-dated indices EUR credit was actually fairly lackluster relative to USD credit up until late May. In contrast if we look at the performance since that date we can see that in general we've seen outperformance from EUR credit at an index level. So while it might have been a difficult period in absolute terms for all credit markets since May it does seem to have been a relatively better period for the EUR market.

Figure 42: EUR vs. USD Excess Return Performance YTD up to 27 May (left) and since 27 May (right)



Source: Deutsche Bank

We can confirm the outperformance of EUR bonds in Figure 43 where we show the relative performance of our bond pairs. We show the distribution of the relative spread moves of the bonds adjusted into the same currency. Everything to the right of the dashed line is where the EUR bond's spread tightens more than the equivalent USD bond's spread with the opposite being true to the left of the dashed line. Based on our sample of bonds more than 85% of the bond pairs saw the EUR bond outperform.