



The energy and materials sectors trade historically cheap to trailing fundamentals, although their prospects are tied heavily to the willingness of management teams to pare back bloated capital spending budgets that now run at double the rate of EBITDA. We recommend avoiding sectors exposed to the energy sector's coming capital expenditure declines, such as capital goods. Trends in non-financial issuer quality outside the energy sector are also worrisome, leading us to revise our view on the relative performance of senior US bank paper, which we think can now trade to spread parity with quality- and duration-matched non-financials.

*Oleg Melentyev, (1)212 250 6779*  
*Daniel Sorid, (1)212 250 1407*