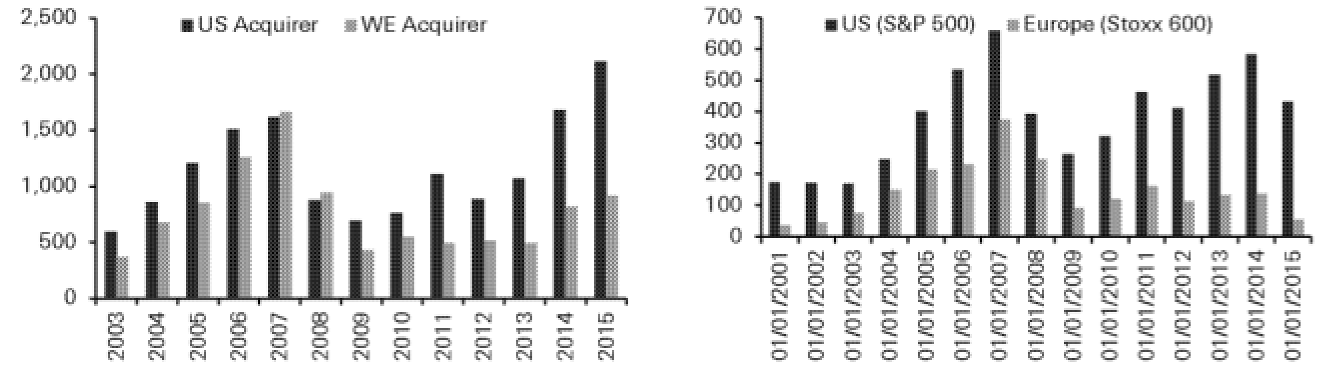
Figure 4: US and European M&A activity (left) and share buybacks (right)



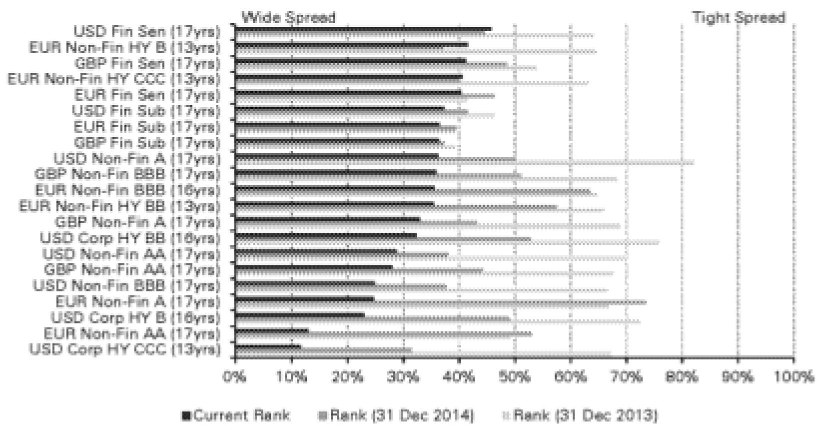
Data for 2015 up to the end of November
Source: Deutsche Bank Research.

Overall these charts show that Europe is some way behind the US in terms of a deteriorating credit cycle. As such even if US credit widens further, it's possible that European credit can continue to outperform. We would be mildly bullish European credit and would be more aggressive if we saw some stabilization in the US credit market.

Valuations

Credit spreads globally are all wider than their 50th percentile observation through history with most rating bands having been tighter 60-80% of the time.

Figure 5: Spread percentile rank – Current vs. YE 2013 and 2014



Source: Deutsche Bank Research, Mark-it Group

The only caveat to this analysis is that the widest 10-15% of observations usually sees credit spreads gap wider as a recession hits. We are very close to the edge of pricing in a mild recession in global credit spreads. If we avoid it in 2016, spreads look very attractive but given that we're probably late cycle in the US there are risks at this stage to trying to eke out carry for another 12 months. On balance we're mildly bullish European credit due to being less late cycle than the US and due to valuations.

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