Strong and stable GBP HY despite Brexit uncertainty

Wednesday, January 17th 2018

Brexit's laborious negotiations have not materially impacted the performance of the GBP HY.

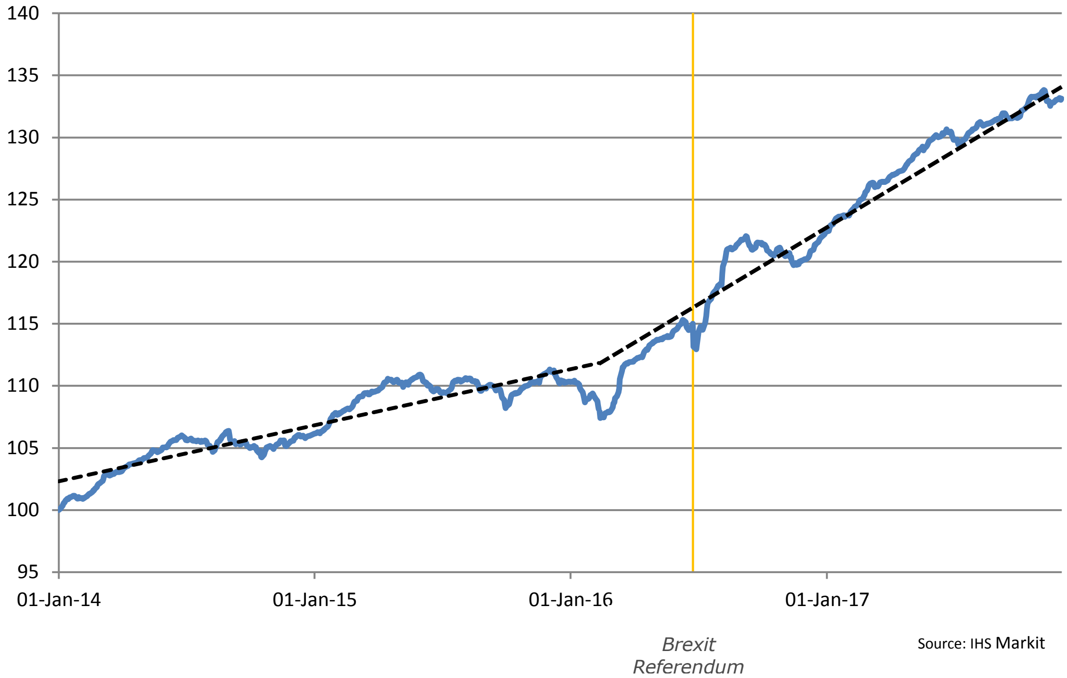
- The iBoxx GBP HY has kept up the momentum for the two past years, despite political instability and currency moves
- The index is heading to a record-high Sharpe Ratio of 6.34 for the post-Brexit vote period
- GBP-denominated bonds outperformed USD-denominated bonds on the HY segment of global markets over the previous year

Brexit or not, GBP HY bonds continue on their path

GBP high yield bond prices have followed a longstanding positive trend during the last few years. Particularly, an intensification of the momentum has been observed since January 2016, as the iBoxx GBP HY index offered almost 11% total return in 2016. The prospect of Britain leaving the European Union did not dampen the enthusiasm for GBP-denominated HY bonds. The Brexit vote, which was followed by political uncertainty and currency volatility, has left untouched the dynamics of this segment of the bond market.

iBoxx GBP High Yield Overall Total Return

Total Return Index Level Rebased

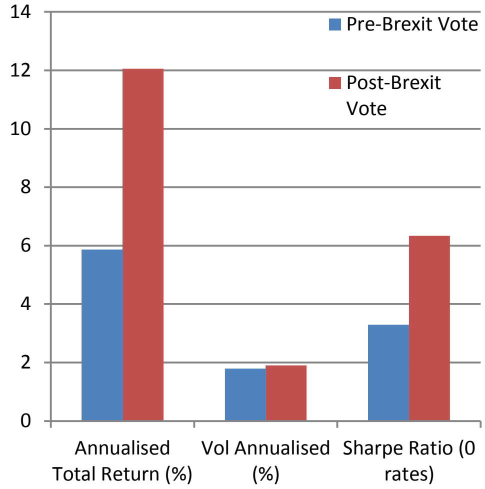


Source: IHS Markit

Expectations have been boosted, as investors are looking for yield given the current accommodative monetary policy framework.

Indeed, the performance of the index improved following the Brexit referendum. The surprisingly robust macroeconomic fundamentals observed in the UK increased the demand for GBP-denominated HY bonds. Since the Brexit vote, the index annualised total return has doubled while volatility remained relatively low.

iBoxx GBP High Yield Overall Before/After Brexit



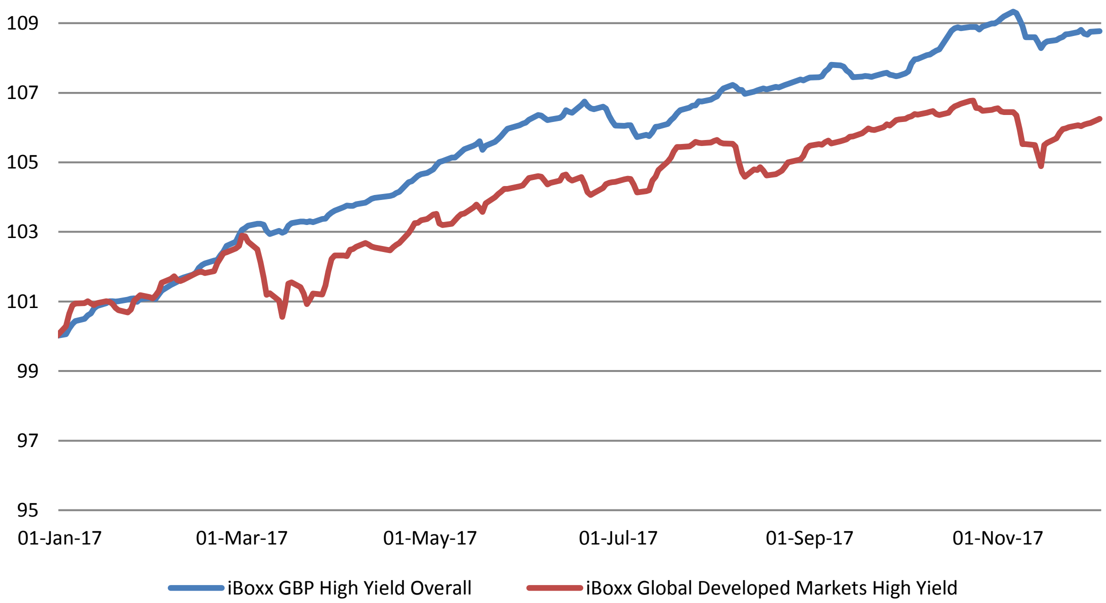
Source: IHS Markit

Investors pile into GBP-denominated high yield bonds

Over the previous year, the index outperformed the USD-segment of global HY markets. In 2017, there were nearly 2.5 percentage points between the GBP HY and the Global Developed Markets HY index (USD unhedged).

High Yield Overall Total Return

Total Return Index Level Rebased



Source: IHS Markit

The GBP HY market has attracted investors, considering the low-yield environment and the resilience of the UK economy in absorbing the Brexit referendum shock over the short-term. Given the slow-path toward monetary policy normalisation, one could expect that this segment of the fixed income market will remain attractive in 2018.

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