

## Corporate bond returns hold firm after Brexit

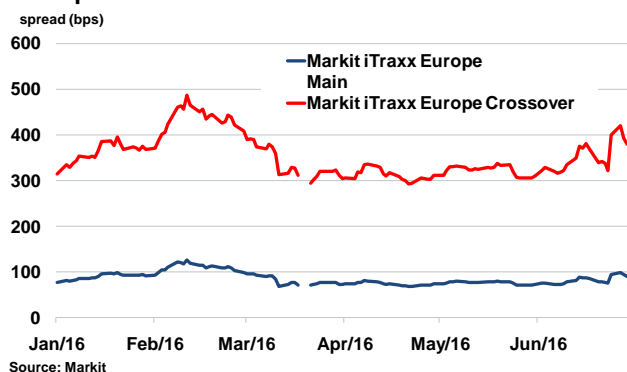
Euro and sterling corporate bond returns have held up despite rising credit risk following the UK's decision to leave the European Union.

- Markit iTraxx Europe Main index widened to 99bps, but still 21% off year to date highs
- Sterling corporate bond returns are higher than this time last week
- Early 2016 volatility had larger negative impact on corporate bond returns than Brexit

Euro and sterling corporate bond returns have remained steady following the UK's decision to leave the EU last week. The potential downside risk of the referendum result has seen investors seeking refuge in safe haven government bonds rather than riskier corporate bonds, keeping bond yields stable.

### Unlike earlier this year

#### European credit indices



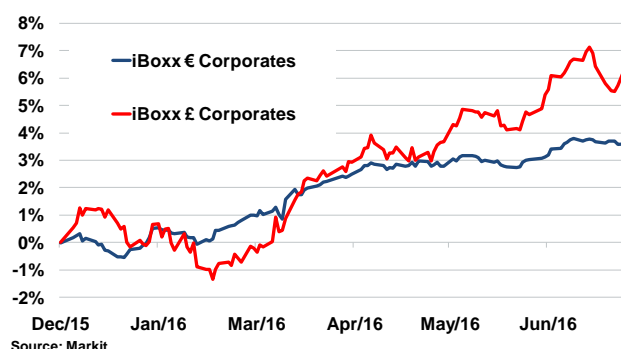
Uncertainty around the consequences of Brexit on European companies has meant that corporate credit risk in the region has intensified. The Markit iTraxx Europe Main index, which comprises of 125 investment grade single name CDS spreads, saw its spread widen to 99bps following the Brexit vote, from 75bps before. Likewise its sub investment grade equivalent, the Markit iTraxx Europe Crossover index, saw its 5-yr spread widen sharply. Interestingly, levels remained tighter than those seen following the heightened market

volatility at the start of the year. On February 11<sup>th</sup>, the Markit iTraxx Europe Main index widened to 120bps, 21% higher than June 27<sup>th</sup>'s level. The credit market's reaction to Brexit has been knee jerk, but more subdued in comparison to the start of the year.

The monetary backdrop in Europe remains accommodative, with QE extended to corporate bonds and banks having access to cheap funding. The downside risks of crude oil and commodity prices have dissipated since the start of the year, and across the Atlantic the Fed has distanced itself from imminent interest rate hikes.

### Bond returns stable

#### Corporate bond returns year to date



The limited reaction in corporate credit markets, coupled with falling government bond yields, has meant European corporate bond yields have remained stable, with limited impact on returns. In sterling markets, the Markit iBoxx £ Corporates has returned

6.66% so far this year and is 1.15% higher since the day of the referendum. Soaring gilt prices have cancelled out any spread widening among sterling corporate bonds. Among euro denominated corporates, the Markit iBoxx € Corporates index has seen very little negative impact on total returns. According to Markit's iBoxx indices, Volatility at the start of the year had much greater negative impact on corporate bond returns than Brexit.

**Neil Mehta****Fixed Income Analyst**

Markit

Tel: +44 207 260 2298

Email: [neil.mehta@markit.com](mailto:neil.mehta@markit.com)For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.