

# European HY outperforms global bond market

European high yield bonds have outperformed global bond sectors in 2015 so far with UK high yield leading the way, but investors are beginning to return to the US market.

- GBP high yield bonds have returned 3.7% in 2015, led by Odeon, Aston Martin bonds
- Euro single B has been the best performing rating group; returning double that of BB
- US high yield investor sentiment has reversed; biggest ETF weekly inflow since February

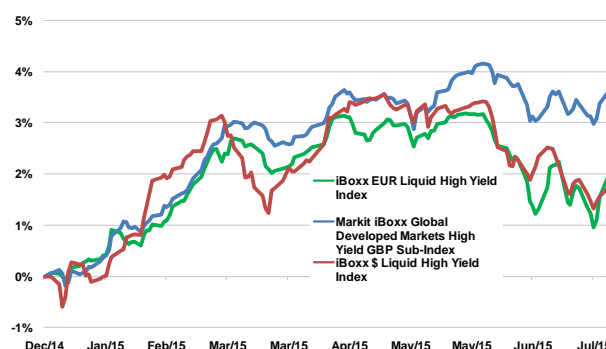
European high yield markets have been one of the bright spots in global bond markets this year. The European high yield market is much smaller and less developed than its US counterpart, in part due to borrowers' greater reliance on bank funding. But this gap is beginning to close as more corporations take advantage of accommodative European monetary policy.

With QE set to continue till at least September 2016, investors have been flocking towards the asset class, with the iShares Euro High Yield Corporate Bond ETF (IHYG) seeing net inflows this year and \$4.1bn of AUM at the latest count. However it's worth noting that this figure only represents 8% of the high yield ETF market, which remains dominated by US listed products.

## Performance

Very few bond sectors have outperformed European high yield on a total return basis so far this year. In Europe, while sovereigns and investment grade corporates have slipped into negative territory, high yield bonds have managed to hang onto gains made at the start of the year.

High yield bonds total returns in 2015



Source: Markit

The iBovx EUR Liquid High Yield Index has returned 2.08% so far this year, 16bps more than US high yield, as represented by the iBovx \$ Liquid High Yield Index.

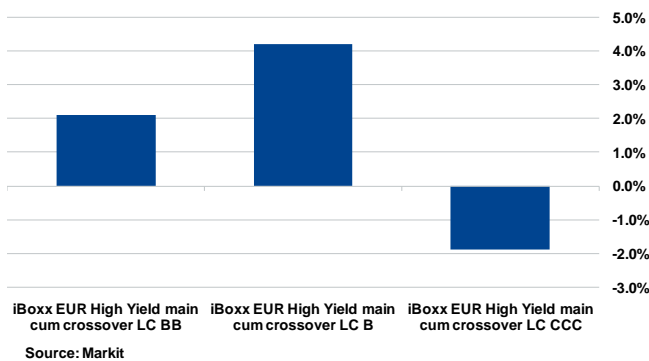
But the best performing high yield market in Europe has been in the UK, with the Markit iBovx Global Developed Markets High Yield GBP Sub-Index returning 3.7% in so far this year. There currently isn't an ETF that tracks UK high yield.

Bond	Date	Spread v Benchmark (bps)		Difference
		01/01/2015	15/07/2015	
ODEUCI 9.0 08/01/18		1047	678	-369
BOPAFIN 5.25 07/15/19		807	531	-276
ASTOMAR 9.25 07/15/18		1003	730	-273
ICELBON 6.25 07/15/21		954	690	-264
KEYSFIN 9.5 10/15/19		899	644	-256
THCP 7.75 06/22/17		595	353	-242
PREMFOO 6.5 03/15/21		826	586	-239
BOPAFIN 5.5 07/15/21		737	565	-172
BRAKCAP 7.125 12/15/18		659	496	-163
MOYPAR 6.25 05/29/21		553	390	-163
RRICEAA 5.5 05/15/20		494	343	-150
COOPWH-Bank 5.125 09/20/17		623	499	-123
GAEPLC 11.5 06/01/19		945	825	-120
EQUINEW 7.125 12/15/18		663	545	-118
VOUGBID 7.875 07/15/20		592	482	-110
WIHI 7.125 11/11/16		303	193	-109
HASTINS 8.0 10/21/20		612	504	-109

18 bonds in the 46 constituent Markit iBoxx Global Developed Markets High Yield GBP Sub-Index have seen a 100bps decline in benchmark spreads so far this year. Led by names such as Odeon, whose 9% 2018 bond saw a 369bps decline, Boparian finance (-275bps), and car maker Aston Martin's 9.25% 2018 bond (-272bps.)

### B winning strategy

Euro HY total returns by rating

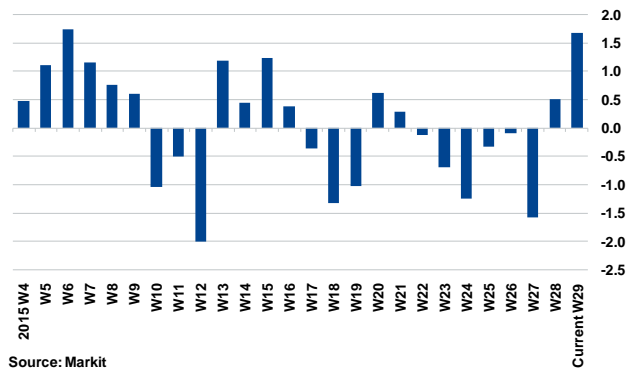


Within the larger euro denominated high yield universe, one rating group stands out above the rest: bonds rated single B. Interestingly, This rating grade has returned double than that of bonds rated one notch higher, while CCC rated bonds have seen negative total returns.

### US comeback

While European high yield has outshone the US so far this year, if investor sentiment is anything to go by, the second half of this year may provide a new trend.

High yield ETF net inflows (\$bn)



After experiencing six consecutive weeks of net outflows, US high yield ETFs are back in favour with inflows totalling \$1.7bn; the biggest inflow in a single week since February. For income investors, US high yield still provides an annual yield of 6.36%, according the Markit iBoxx \$ Liquid High Yield Index, which is greater than sterling (5.46%) and euro (4.25%) high yield.

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