

## Oil volatility drills credit markets

Oil prices have rebound from recent lows sending both investment grade and high yield oil and gas bonds to trade tighter than last week's all-time highs.

- Markit iBoxx USD Liquid High Yield Oil & Gas Index yield 50bps off Monday's all-time high
- Investment grade oil and gas spreads have tightened by 15bps in a week
- High yield CDS names also trading tighter; Chesapeake spreads closing below 1,000 bps

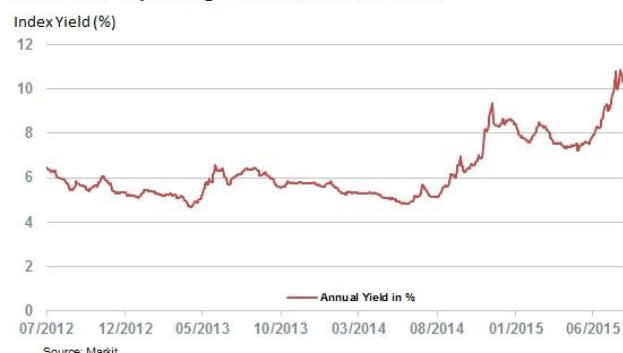
Ongoing concerns surrounding economic growth and a potential oil [glut](#) resulted in global oil prices hitting lows last week. This has subsequently reversed however with West Texas Intermediate now [over](#) 25% after OPEC signalled willingness to cut future output.

The volatility seen in oil prices has been felt by the credit market with bond yield reflecting both the recent slump and subsequent rebound.

### High yield volatile

No one investment grade asset class has felt the brunt of the recent volatility more than high yield oil and gas bonds which make up the [Markit iBoxx USD Liquid High Yield Oil & Gas Index](#). The index yield surged to an all-time high at 10.85% last Monday, more than twice that seen only 12 months ago. The index has since recouped some of its losses which has seen its yield tighten by 50bps from last Monday's close.

iBoxx USD Liquid High Yield Oil & Gas Index

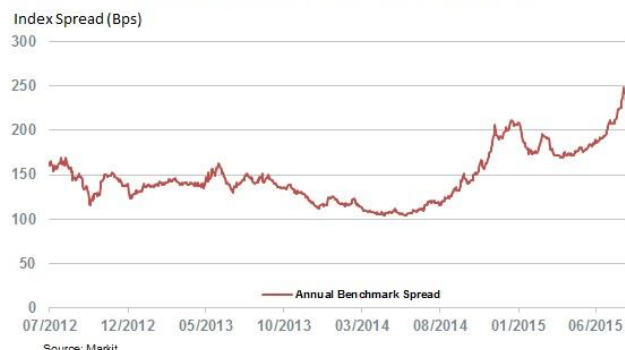


Despite the recent rally Monday marked the 15<sup>th</sup> consecutive day which investors required over 10% of yields in order to hold high yield US oil and gas bonds. This is uncharted territory for the index as the previous oil price lows seen earlier in the year saw the index yield top out at 9.4%.

In terms of total returns, the recent slump means that the high yield oil and gas index has seen its poorest performing month on record in August as it fell by 7.6%. Nevertheless, impact to investors could have been greater as the index had notched up losses of 10.2% at its weakest point last Monday.

### Investment grade impacted

Investment grade oil and gas names have also felt the recent slump in oil and gas with the Markit iBoxx USD Liquid Investment Grade Oil & Gas Index climbing to a new all-time high last week. This trend was driven by investors requiring more yield over benchmark rates to hold the asset class as the bond spreads over US treasuries has jumped to 234bps as of Monday's close, 26bps more than at the start of the month. This measure of the market's view of credit risk is over twice the levels seen a year ago.

**iBoxx USD Liquid Investment Grade Oil & Gas Index**

Much like the high yield index, the investment grade spread has tightened in the wake of the recent oil price rally as its spread is 15bps tighter than last week's all-time high.

**CDS spreads rally**

[CDS](#) spreads mirror the recent swings as Chesapeake Energy, the largest constituent of the high yield index has seen its CDS spread fall below 1,000bps for the first time since August 12<sup>th</sup> as of Monday's close.

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