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# European ABS market Update

## Amid Recessionary Economic Indicators, Bond and Fixed Income Markets Tell a Different Story...

COVID-19 case numbers continue to flatten in much of the developed world, in line with expectations. A sense of urgency from unprecedented unemployment rates has kept attention on governments to provide a path towards easing quarantine measures and reopening their respective economies . Since the start of quarantine measures in mid-March, 33.3 million Americans have filed for unemployment benefits, with some predictions that the unemployment rate could rise to Great Depression levels of 25%. In contrast, Europe is generally expected to see relatively mild, mid-single digit increases in unemployment due to government wage replacement programs. However, Q2 GDP estimates across the board are expected to highlight a severe recession. Despite this negative picture, equity markets continued their upward trend last week on continued monetary and fiscal stimulus combined with optimism that the economy will reopen and begin to recover in the second half of this and the first half of next year.

Bond markets are telling a somewhat different story with plunging rates and expectations that US rates could go negative in 2021. However, the tone in fixed income markets more broadly was also constructive with spreads in both investment grade and high yield corporates tighter month-over-month (although the recovery has stalled somewhat since mid-April as the market remains at a crossroads). In ABS markets, the recovery was more muted given the embedded structural leverage in mezzanine positions. The technical imbalance between supply and demand from low trading volumes has still resulted spreads grinding tighter in April, but the market is bifurcated as senior and short duration bonds trade very well, while credit sensitive and longer duration bonds remain scarce. On the primary side, we continue to see limited activity with two securitizations being priced recently. Both a German SME collateralized and an Irish mortgage backed deal were retained. The new issuance pipeline consists of one German auto loan securitization, coming from BMW Bank, with only the senior tranche on offer. In the CLO new issue market, only one deal priced last week, bringing the post-virus issuance count to four, three of which were arranged by Citi.

Below is an overview of the one week spread change in various ABS segments, compared to investment grade and high yield corporate credit as of May 8, 2020:

| | 20-2 | 13-3 | 20-3 | 27-3 | 10-4 | 17-4 | 24-4 | 1-5 | 8-5 | 1 Week Change | Ytd | Peak 2007-2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Iboxx Eur Corporate | 100 | 186 | 247 | 256 | 235 | 210 | 205 | 193 | 195 | 2 bps | 92 bps | 470 bps |
| Iboxx EUR HY | 338 | 661 | 895 | 802 | 712 | 645 | 649 | 645 | 657 | 12 bps | 306 bps | 1930 bps |
| | | | | | | | | | | | | |
| Prime/Auto Senior ABS | 16 | 25 | 50 | 60 | 55 | 49 | 48 | 46 | 44 | -2 bps | 28 bps | 400 bps |
| Spanish Senior RMBS | 38 | 85 | 200 | 215 | 190 | 175 | 165 | 155 | 150 | -5 bps | 37 bps | 750 bps |
| Auto ABS Mezzanine | 60 | 140 | 250 | 275 | 260 | 260 | 240 | 230 | 215 | -15 bps | 139 bps | 1150 bps |
| CLO AAA | 105-125 | 210-225 | 300-400 | 200-300 | 150-200 | 150-200 | 175-200 | 175-200 | 175-200 | 0 bps | 55-80 bps | 550 bps |
| CLO BBB | 265-375 | 575-600 | 600-800 | 750-850 | 700-900 | 650-850 | 700-850 | 650-800 | 600-750 | -50 bps | 215-365 bps | 2300 bps |

Source: Bloomberg

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