

European ABS market Update

Historic rally in equities improves tone in credit markets for now...

Equity and credit markets remained extremely volatile with the US stock market experiencing a record three-day rally before slowing down into the weekend. The rally followed numerous announcements by governments and central banks around the world enacting the most aggressive fiscal and accommodative monetary policies in decades to combat the public health and economic effects of COVID-19.

While the support was well-received, the question remains if the policy measures will prove sufficient to quell potential second and third order aftershocks (with the expectation that more fiscal stimulus is likely to follow as the crisis continues). In our view, to call a bottom we need to see more signs that: i) the COVID-19 pandemic is close to peaking; and ii) that the post-pandemic global economy will remain largely intact. While there is some mixed evidence that quarantines might be working in Italy, much of the rest of the world is still seeing accelerating numbers of cases. We are likely still weeks away from seeing the potential benefits of social distancing and quarantine procedures.

While we remain over 20% below recent highs, the historic rally in equities markets last week improved the tone in the credit markets. We observed a number of investors begin building new positions. Investment grade credit stabilized and high yield rallied somewhat. Although ABS and CLO markets continued to drift wider, bid-ask spreads were noticeably tighter as more trades hit the screens.

AAA CLOs (which in our opinion were the most oversold) saw the most dramatic rebound of about 100 basis points as many fast and real money accounts bought in significant size. BWIC execution remained stable with an estimated traded ratio around 50% in the face of higher trade volume, which is remarkable considering our experience during the financial crisis. ECB eligible assets continue to hold relatively steady due to technical support from the PEPP and APP and are becoming more attractive for certain investors as asset managers continue to raise liquidity. 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 March 27, 2020:

	Friday 20-2	Friday 27-2	Friday 13-3	Friday 20-3	Friday 27-3	1 Week Change
Iboxx Eur Corporate	100	115	186	247	256	9 bps
Iboxx EUR HY	338	412	661	895	802	-93 bps
Prime/Auto Senior ABS	16	18	25	50	60	10 bps
Spanish Senior RMBS	38	45	85	200	215	15 bps
Auto ABS Mezzanine	60	62	140	250	275	25 bps
CLO AAA	105-125	125-140	210-225	300-400	200-300	-100 bps
CLO BBB	265-375	350-425	575-600	600-800	750-850	50-150 bps

Source: Bloomberg



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