

# European ABS market Update

## European ABS market likely to remain in ‘price discovery’

Every segment of financial markets is currently facing enormous challenges. Fixed income markets are seeing record outflows, which put a tremendous amount of stress on prices as sellers look to raise cash as quickly as possible. This is resulting in an unprecedented materialization of price declines across almost all assets. The combination of volatility, massive flows and trading desks undergoing business continuity practices have also led to a significant widening of bid/ask spreads as sellers significantly outnumber buyers.

European ABS BWIC volume spiked to nearly EUR 3 billion since March 9th, which is double the average monthly volume over the period from 2016 to 2019. Execution has notably deteriorated with an estimated traded ratio of 58%, compared to 80% over the last few years. Considering the circumstances, such a level is relatively high. This can, at least partly, be explained by the fact that banks are in a much stronger capital position this time and were generally pretty light from a balance sheet perspective. Therefore markets are seeing more orderly trading, allowing for better price discovery, as opposed to little to no trading flows for extended periods in 2008/2009. Central banks worldwide have acted swiftly to roll out liquidity programs and it appears many fiscal measures are following. However, spread widening has been most dramatic in CLOs with AAA and BBB bonds seeing somewhat similar absolute levels of spread widening of -200-400 bps (with low transparency for CLO equity and non-investment grade tranches).

Though spreads across European ABS sectors are also at their widest levels in many years, announced increased asset purchases by the ECB via the Pandemic Emergency Purchase Program (PEPP) and Asset Purchase Program (APP) have already provided support for spreads on eligible ABS which has seen widening as little as 15-20 bps. However, the market is likely to remain in ‘price discovery’ mode for some time as COVID-19 headlines and resulting risks to the consumer driven economy continue to drive volatility over the near-term. Some select investors are stepping in cautiously in smaller sizes at the current levels, but spreads may widen even further from here.



**Tim Jansen**  
Portfolio Manager



**Vlad Oteanu**  
Portfolio Manager



**Mike Li**  
Portfolio Manager

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