

European ABS market Update

Slow Trading Week for Euro ABS, First Impact of COVID Crisis on Fundamental Credit Performance Observed

Global equity markets lost momentum last week, as outlook warnings resurfaced US-China tensions, and continued deterioration in economic data outweighed optimism over lifting social distancing measures in many countries. Q1 GDP numbers showed a contraction of 3.5% in Europe and 4.8% in the US, with Q2 expected to be far worse. While consensus is that there will be an initial bounce in Q3, in the absence of a vaccine or herd immunity, we don't expect to see pre-pandemic levels of economic activity for years. There was no new major news on the fiscal or monetary policy fronts, but we expect both to remain in the wings pending the progress (and likely setbacks) in the reopening process.

In terms of fundamental credit performance, we have started to see the first real effect of the pandemic crisis on consumers. Looking at the first 21 UK RMBS deals that report monthly for which data is available (GBP 15.5 billion of mortgages), the proportion of loans that have been granted COVID-19 payment holidays is as high as 14.1%, with ten transactions seeing a 10%+ proportion of payment holidays. In several CMBS deals, senior borrowers have received numerous requests from tenants for rent deferrals or for renegotiation of tenancy agreements. In these deals, approximately 75% of rent due in April was collected. In leveraged loans, S&P adjusted their recovery rate expectations from 73% to below 60%, which will compound losses from expected rising loan defaults.

In a slow week with thin trading volumes, spreads in the European ABS secondary market remained generally consistent to slightly tighter week-over-week. The market appears to be in a holding pattern awaiting a direction based on fundamentals. Senior and low duration bonds continue to trade well, while buyers and sellers remain far apart on more credit sensitive bonds. The ABS primary market remains on hold, providing technical support to spreads. In the CLO primary market, three low leverage deals with short non-call and reinvestment periods were placed. In the secondary market, CLO BWIC supply was noticeably lower than average with an elevated DNT percentage

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 1, 2020:

	20-2	13-3	20-3	27-3	10-4	17-4	24-4	1-5	1 Week Change	Ytd	Peak 2007-2009
Iboxx Eur Corporate	100	186	247	256	235	210	205	193	-12 bps	89 bps	470 bps
Iboxx EUR HY	338	661	895	802	712	645	649	645	-4 bps	294 bps	1930 bps
Prime/Auto Senior ABS	16	25	50	60	55	49	48	46	-2 bps	30 bps	400 bps
Spanish Senior RMBS	38	85	200	215	190	175	165	155	-10 bps	42 bps	750 bps
Auto ABS Mezzanine	60	140	250	275	260	260	240	230	-10 bps	154 bps	1150 bps
CLO AAA	105-125	210-225	300-400	200-300	150-200	150-200	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	-50 bps	265-415 bps	2300 bps

Source: Bloomberg



Tim Jansen
Portfolio Manager



Vlad Olteanu
Portfolio Manager



Mike Li
Portfolio Manager

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