

European ABS market Update

European ABS secondary still trading well, plus first time issuers coming to the market despite low primary supply..

Worldwide COVID-19 infections have passed the 25 million mark, as we continue to see 250k cases a day despite the fact that we are 6 months into the pandemic. The number of cases in Europe has been rising modestly from low levels while new cases in the US seem to be falling from stubbornly high levels. While death and hospitalization rates have improved significantly and vaccine progress appears positive, the drag on the global economy remains significant. Economic activity remains depressed and travel restrictions change on a seemingly daily basis with little notice. As the summer passes, the next hurdle is school openings, which are essential to parents returning to work. Away from the pandemic, the market is increasingly looking towards the upcoming US elections which will have a significant impact on both the US-China relationship as well as global trade pacts.

On the monetary policy front, the Federal Reserve announced that it is adopting a flexible inflation target which could rise above its current level of 2%. This could potentially lead the ECB (and other central banks) to follow suit as it is currently conducting its first strategic review since 2003. Conversely, there have been few developments on the fiscal policy front since the agreement on the EU Recovery Fund was reached. Fiscal stimulus talks in the US have stalled with a significant gap between the \$3 trillion HEROS act by Democrats and the \$1 trillion HEALS act proposed by Republicans. While it remains likely a deal will be reached ahead of the upcoming elections, it appears that the slowly recovering labor market has removed some of the political pressure for the moment, at least until Congress returns after Labor Day.

European ABS issuance continued to push higher to EUR 29.0 billion YTD, -70% of the 2019 volume. There were five securitisations in August which remain largely retained and pre-placed. Among the deals were two new originators, including an auto loan ABS from Olympic Commercial, a Greek originator, and a consumer loan ABS announced by My Money Bank, formerly known as GE Money Bank. Low new issue supply continues to support secondary ABS spreads which were flat to slightly tighter during the last summer month.

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 August 31st, 2020:

	20-2	20-3	27-3	24-4	1-5	15-5	29-5	12-6	26-6	10-7	7-8	31-9	2 Week Change	Ytd	Peak 2007-2009
Iboxx Eur Corporate	100	247	256	205	193	205	176	151	155	151	147	124	-23 bps	20 bps	470 bps
Iboxx EUR HY	338	895	802	649	645	665	569	534	542	520	498	458	-40 bps	108 bps	1930 bps
Prime/Auto Senior ABS	16	50	60	48	46	44	42	40	38	34	32	30	-2 bps	14 bps	400 bps
Spanish Senior RMBS	38	200	215	165	155	150	150	140	138	135	135	130	-5 bps	17 bps	750 bps
Auto ABS Mezzanine	60	250	275	240	230	210	200	182	180	177	173	165	-8 bps	89 bps	1150 bps
CLO AAA	105-125	300-400	200-300	175-200	175-200	175-200	175-200	175-200	175-200	175-200	150-175	125-150	-25 bps	5-30 bps	550 bps
CLO BBB	265-375	600-800	750-850	700-850	650-800	600-750	500-650	500-600	500-600	500-600	450-550	425-525	-25 bps	40-140 bps	2300 bps

Source: Bloomberg



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