H1 2015 European & US Credit Outlook

IN QE WE TRUST...OR HOPE!

Calamatta Cuschieri
YOUR PARTNER IN FINANCIAL SERVICES

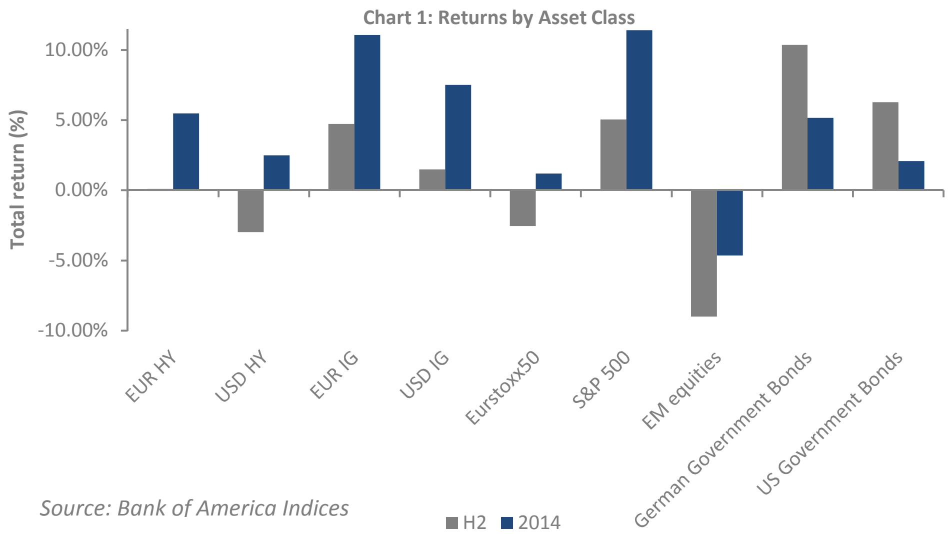
14th January 2015

Contents

INTRODUCTION

A glimpse of Credit markets in H2 2014

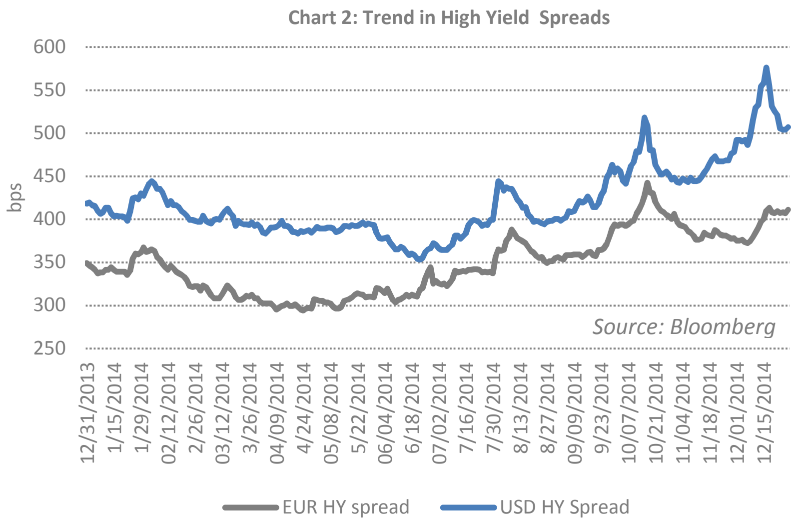
Investor complacency probably best defines the market's behaviour during the first semester but attitudes changed rapidly in H2, most notably in the Eurozone when geopolitical concerns, idiosyncratic risk events (such as the demise of Banco Espirito Santo), declining commodity prices and a re-emergence of emerging market woes, undercut the appetite for risk taking as they occurred against a backdrop of persistently deteriorating European economic data. As such, the surprise measures announced by the ECB after the September meeting - cutting three interest rates and announcing plans to buy asset-backed securities and covered bonds - had a short lived effect on high yield spreads, with momentum weakening further after the poor TLTRO pickup. It appears that another delay in economic recovery after years of low growth has increased investors' immunity to ECB guidance and its measures and the high yield market shifted its attention back to fundamentals. This led to the underperformance of high yield relative to equities (see Chart 1) as the latter found support in the greater presence of large diversified corporates and, in the case of European stocks, in the attractive valuations on offer.



Source: Bank of America Indices

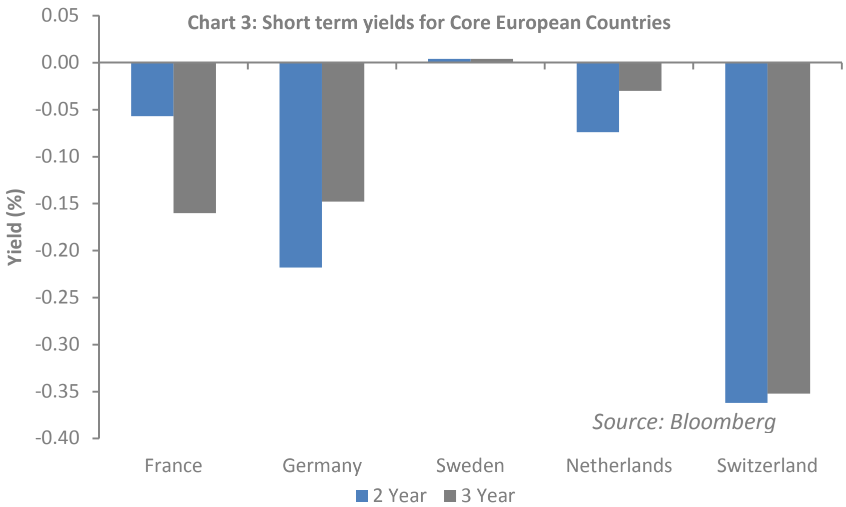
Accordingly, we witnessed a sharp widening in the yield differential between B-rated and BB-rated names, a development we interpret as being indicative of scepticism on the economic outlook but appreciative of the potential positive brought about by some form of quantitative easing. The market was also affected by an unsupportive technical backdrop, with supply remaining elevated overall and many investment banks' proprietary desks unwilling to absorb bonds in periods of stress mainly due to regulatory constraints.

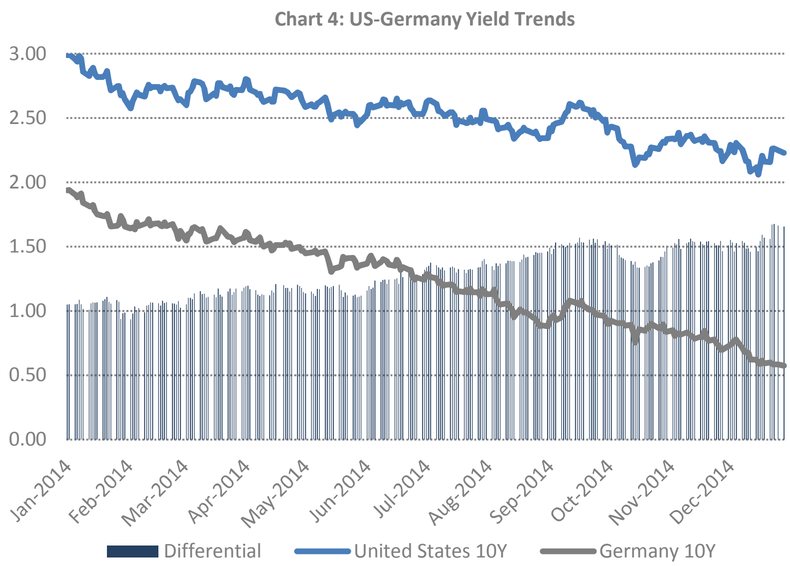
In the USD high yield market, performance was more resilient over most of the second semester but the abrupt fall in oil prices led to a sudden reversal as the large exposure this market has to energy names left investors uneasy and triggered mass redemptions. As a result, the weakness spread to non-energy names with the low liquidity prevalent over end-November-December, also taking a toll on valuations; the correction was sharp enough to push total returns into negative territory for a brief period of time. However, the year ended on a less dramatic tone as the stabilization of oil prices, the strong gains of the S&P500, supportive economic data and a balanced tone of the Federal Reserve's Chairwoman at the year's last meeting served to lift sentiment somewhat. Even though US economic data remained mixed, the strength in retail sales data highlighted that the positive implications of lower oil prices should not be taken lightly as it heralds a positive momentum for the cyclical sectors and hence for corporate leverage.



To recap, US and EUR high yield markets closed the year 90 bps and 61 bps wider respectively (see Chart 2), as the 136 bps and 85 bps widening seen over H2 offset the gains achieved over H1. In terms of total returns, the two markets achieved -3% and 0.1% respectively. Of note, returns were supported by the sharp downfall in benchmark yields. In Europe, deflationary fears and, later on, speculation on upcoming quantitative easing (i.e. assets purchases by ECB) pushed the 10 year German yields first below 1% and, just a few weeks later, close to 0.5%. The movements have been equally strong for other core countries and at the front end of the curve, with the 2 year and 3 year rates for several countries now trading in negative (see Chart 3).

US government yields also traded lower even as the Federal Reserve completed its bond buying programme. At the end of 2014, the 10 year US rate stood at 2.17% as fears of monetary policy tightening abated somewhat and US-yields started to look increasingly attractive when compared with the Euro Area ones. That is, even as the US 10 year yield defied expectations and closed the year much lower, the yield pickup relative to the German note increased sharply (from 1.05% to 1.6%, see Chart 4) and the Spanish and Italian bonds now yield less than the US ones. The general fall in commodity prices was also supportive for rates as it reduced the inflation premium by reducing global inflation woes. Shorter term US notes on the other hand had a weaker semester as the general strengthening in labour data and consumption continued to fuel expectations for a rate hike sometime in 2015. Indeed, the 2 year rate reacted aggressively to the upward revision in US GDP data in December (see Chart 5).

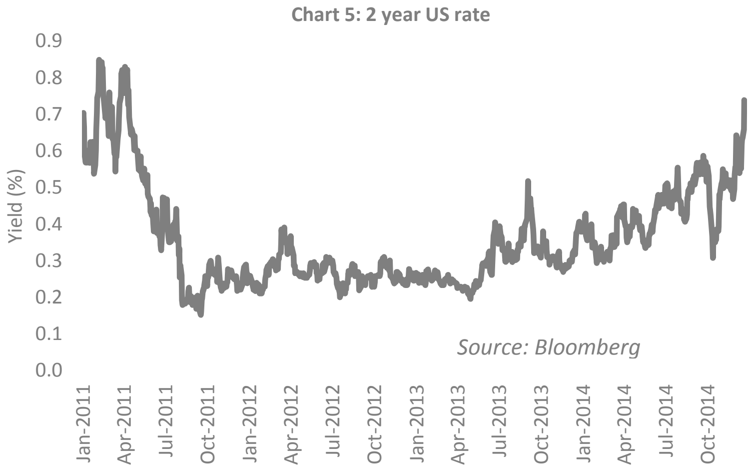




Source: Bloomberg

Against this backdrop, investment grade bonds outperformed their high yield counterparts and closed the year with strong returns (11.1% and 7.5% in EUR and USD respectively, see Chart 1 on page 2) with EUR names also supported by hopes that ECB will start purchasing corporate bonds.

In the emerging markets space, during Q3 the returns were shaped in the main by political developments such as the elections in India and Brazil and Russia's standoff against the West, whereas in the last few weeks of the year, commodity prices were the main driver of returns. More specifically, the weakness in iron ore prices and the plunge in oil took their toll on commodity-related issuers such as Vale, Vedanta, FMG, Chesapeake, Range Resources, Petrobras, Gazprom, Pemex, Venezuela etc. European emerging countries on the other hand came under pressure after the Russian crisis took a new turn with the fall in oil adding to the geopolitical-related risks and further increasing the chances of a recession this year; as CIS economies and some of the Eastern European countries remain fairly exposed to Russia, investors' fears increased (see Table below) after the ruble weakened sharply, suggesting a commensurate shrinkage in Russian imports.



	1M%	3M%	6M%	YTD%
Uzbekistani Soum	-0.53	-2.16	-4.63	-8.93
Ukrainian Hryvnia	-4.24	-17.93	-25.54	-47.78
Tajikistani Somoni	-3.49	-5.03	-6.18	-9.19
Russian Ruble	-7.92	-29.67	-39.42	-41.40
Moldovan Leu	-3.69	-6.26	-10.02	-16.13
Kazakhstan Tenge	-0.44	-0.25	0.63	-15.41
Kyrgyzstan Som	-2.24	-7.17	-11.95	-16.39
Georgian Lari	-1.55	-6.53	-5.92	-7.36
Belarusian Ruble	-23.65	-25.65	-28.18	-33.05
Armenian Dram	-7.35	-13.64	-13.07	-14.72
Romanian Leu	-2.84	-5.08	-12.53	-11.11
Polish Zloty	-4.98	-6.50	-13.82	-14.23
Hungarian Forint	-4.95	-4.89	-12.43	-16.28
Czech Koruna	-2.48	-4.34	-11.65	-12.34
Bulgarian Lev	-2.10	-3.77	-10.84	-11.17

Source: Bloomberg

Looking back at our H2 2014 Key Calls

In our H2 2014 Credit Outlook, we were cautiously optimistic on credit as we sought further spread tightening into year end. This appears to have been our only notable misjudgement as H2 marked a reversal in spreads, as we explained above. In contrast, our call for decreasing exposure to US credit shielded portfolios from a significant underperformance, as did our warning on carefully and limited positioning into emerging market names. We also recommended avoiding the CCC bucket, which turned out to be a well-placed call as spreads for this segment widened by circa 330 bps in the EUR space and some 206 bps in USD. With regards to our view on financials, we were right in calling for an over-performance of the sector on the back of ECB easing; indeed the Bank of America Euro Financial Index returned 3.5% over H2, while the Bank of America Non-Financial Index posted a lower 2.9% return. A selective allocation to Contingent Convertibles (CoCos) proved to be opportune as the sector was not immune to the widening in spreads. Finally, another key call in our H2 outlook was in relation to Euro hybrids where we were seeing opportunities; looking back we find that this segment posted a total return of 3.29% (Bank of America EUR Subordinated Index) and proved fairly resilient in periods of declining risk taking.

Where does this leave us?

In our opinion, the key themes going forward are expected to be fivefold:

- In the Eurozone, the highly talked about Quantitative Easing programme has become pretty much a formality. However, the magnitude, timing relevance and effectiveness of this programme are going to be crucial and will determine the fate of European credit markets for 2015, both within the investment grade and high yield space, as well as that of equity markets in this region.

- Following the effective withdrawal of monetary easing measures in the US, better known as the tapering of asset purchases, it has become an almost certainty that rates (key interest rates) are set to rise in the US, in our opinion over the summer months of 2015.

- The unfolding of the Russian/Ukrainian crisis has without a doubt had devastating effects on markets ever since it broke out in February of 2014, sending both countries' economies into a recession. Furthermore, the sanctions imposed by the EU on Russia have not only had a direct effect on Russia itself but also on countries (and companies) highly exposed to Russia. This resulted in a deterioration of economic trends within the Eurozone itself, keeping both inflation and growth anchored at low levels.

- The price of oil has more than halved in a span of just 6 months, and has had adverse economic implications (in the short term so far) on the oil exporting countries and has also negatively impacted those companies and countries highly dependent on the price of oil. From a personal consumption point of view, disposable income and thereby consumer purchasing power, is expected to rise as a result of this decline, but the question really remains if this additional purchasing power will translate into increased demand for global growth and result in higher overall growth. This question is yet to be answered in 2015, however, what is certain for now is, that OPEC has shown no signs of backtracking on its comments made earlier on in December to not curtail oil production, further fuelling the decline throughout most of December.

- Following a decline in economic activity (year-on-year) in China, which has had a contagion effect on neighbouring countries but also on the US and Eurozone, a pickup in economic activity in China in 2015 will benefit all aspects of credit markets, so investors should be closely watching (and scrutinising) incoming Chinese economic data.

Key Calls for H1 2015

- Expect credit to remain vulnerable and highly exposed to external shocks. We remain wary of any possible equity market corrections and heightened political risks, such as possible Grexit and Brexit (Britain and Greece exit from EU) as well as additional sanctions risk brought about by Ukraine-Russia instability.

- We expect the European economy to slowly normalize this year although risks are skewed to the downside as uncertainties and deflationary risks will remain.

- IG is less sensitive to the growth outlook than HY and is expected to benefit from QE which will push benchmark rates lower and corporate spreads tighter. Thus, we are biased towards EUR Investment Grade bonds and overweight the longer end of the curve to benefit from a Japanification of the EUR credit market. In terms of rating, we prefer BBBs.

- Hybrids remain an attractive option for spread pickup in the EUR IG market.

- Shy away from issuers/sectors highly exposed to Russia, such as the autos and luxury goods industries.

- There is scope for an outperformance of financials over non-financials in both USD and EUR IG space.

- US HY should gradually tighten following recent underperformance but this will be offset by a rise in the 1-5 year US government rates. Thus, we expect the total return to be in line with coupon rates with the 7 year bucket and the single-B rated bonds standing out as better positioned.

- US IG offers attractive spreads; taking duration risk is also advisable as the shorter government yields are likely to widen more than the long end of the curve.

- EUR HY should see a reversal in spread decompression i.e. an over-performance of Bs compared to the BBs; thus, when looking to lower the risk profile of the portfolio we prefer combining Bs with BBBs rather than going into BBs.

- Bias towards issuers from developed countries; selective on Emerging Market names.

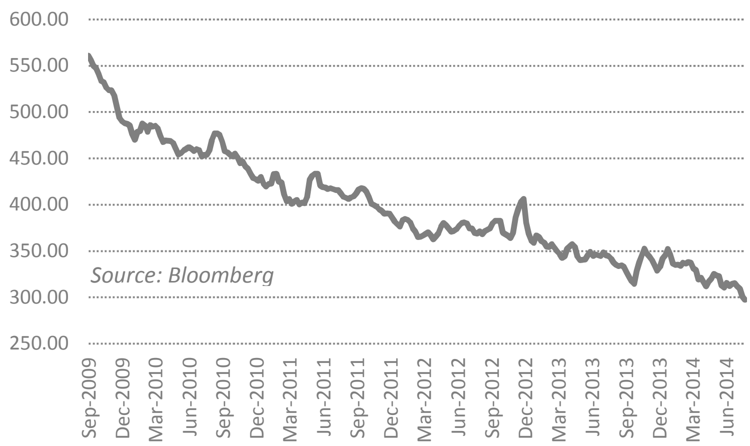
- Commodity related names prone to underperformance in the short term.

SECTION I. Overview of Markets in H2 2014

July 2014 – Emerging market risk aversion and shaky US reporting season catch investors unaware

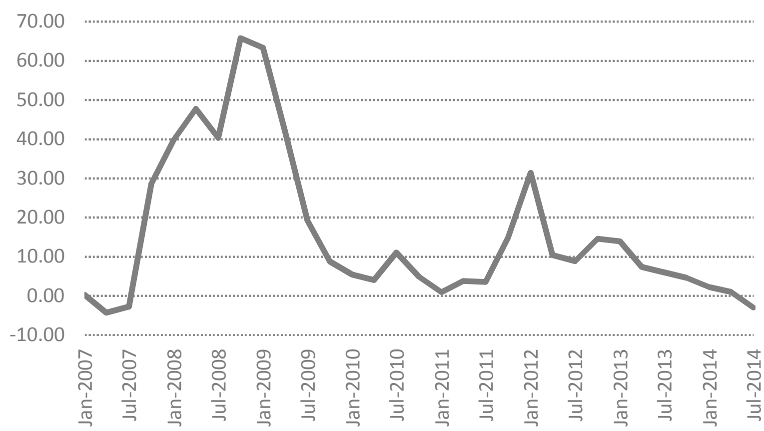
After several months of sequential tightening in high yield spreads, geopolitical events and some isolated pockets of intensifying issuer-specific risks disrupted what appeared to have become a relatively mundane affair. Uneasiness built up during July as the airplane catastrophe in Ukraine increased the chances of economic and political escalation of the crisis, while the failure of Banco Espirito Santo reminded investors that the prevalence of search for yield is not equivalent to en-masse tightening. In the last week of July the uptrend in volatility was further fuelled by Argentina's default and, specifically in credit markets, by what appeared to be signals that US Treasuries (UST) might be poised for a correction. Indeed, in July the divergence between the US and European economy became increasingly evident and led to a widening gap between the USD and EUR yields, with the German 10 year bonds dipping to an all-time low and the US rate temporarily touching 2.6%. The gap between US and EUR yields widened by 12 bps during the month to 141 bps.

Chart 6: Initial Unemplyment Claims (4 weeks moving average)



This trend reflected above expectations growth in the US (4% versus expectations in the 3% area) and strong labour data which offset mixed housing data and contrasted to the still weak inflation in Europe. Surprising for analysts were in particular the unemployment claims (See Chart 6) for which the four-week average stood at 297,250, the lowest number since April 2006 according to Bloomberg; even so, the Fed yet again reiterated, after July's FOMC meeting, that "the unemployment rate remains above Federal Open Market Committee (FOMC) participants' estimates of its longer-run normal level". In Europe, one of the greatest statistical surprises came from the ECB Bank Lending Survey which showed the first easing in lending standards since 2007 (see Chart 7); although not much coverage was given to this release, we feel this was a critical development for ensuring that the ECB monetary efforts feed into the real economy. In the emerging markets space, sentiment was supported by better than expected and marginally improving Chinese growth and the easing of property loan restrictions by several cities.

Chart 7: Change in Lending Standards over the last 3 months*



** a positive value is equivalent to tightening lending standards whereas a negative value indicates easing lending standards*

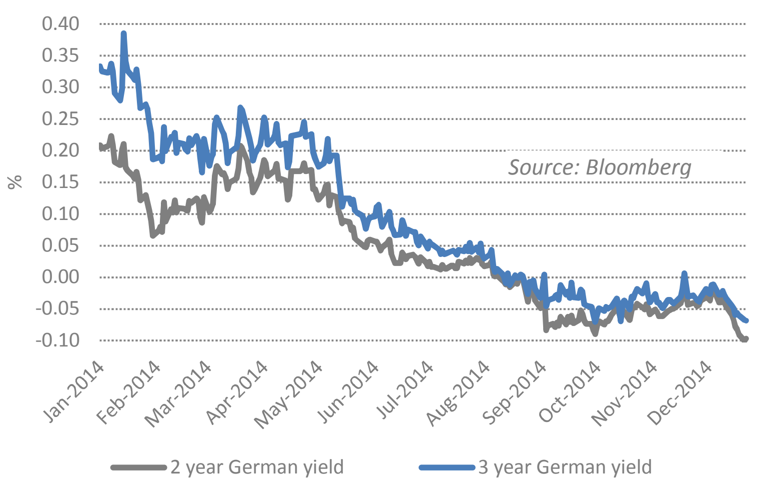
Source: Bloomberg

Against a backdrop of higher volatility in US Treasuries, US high yield funds witnessed four consecutive weeks of negative flows; what is more, in the last two weeks of the month, the weekly outflows were in the USD3.7 billion region. In contrast, the EUR high yield funds were spared such depletions although the week ending July 30 brought the largest outflow since mid-2013 (USD297 million). Even so, the retreat in bunds and the widening high yield spreads led to an over performance of the EUR Investment Grade over High Yield.

August 2014 – High yield fund outflows combine with geopolitical risks to hinder performance

The first part of the month continued very much where it left off as high yield bonds continued to underperform hampered by geopolitical constraints and noise around large outflows reported by specialised retail funds. The latter were again particularly worrisome in the case of US funds where risk aversion was increased not only by political risks but also by interest rate risks. However, high yield fund outflows came to a halt in the second part of the month when investors apparently took comfort in the fact that strong economic data was not solely indicative of higher Fed interest rates but also boded well for corporates' fundamentals. Fed's Yellen speech at the Jackson Hole symposium was also helpful in keeping yields at bay as she once again spoke about labour market slack even as it came shortly after the July FOMC meeting minutes carried a more hawkish message. Indeed, it transpired from the minutes that some policy makers became uncomfortable with the labour slack reference. Overall, markets showed confidence in Fed Governor's commitment towards accommodative monetary policy and US 10 year yields dropped as the pricing became increasingly driven by the search for safe assets instilled by the geopolitical climate at the time.

Chart 8: Short term German yields turned negative in August



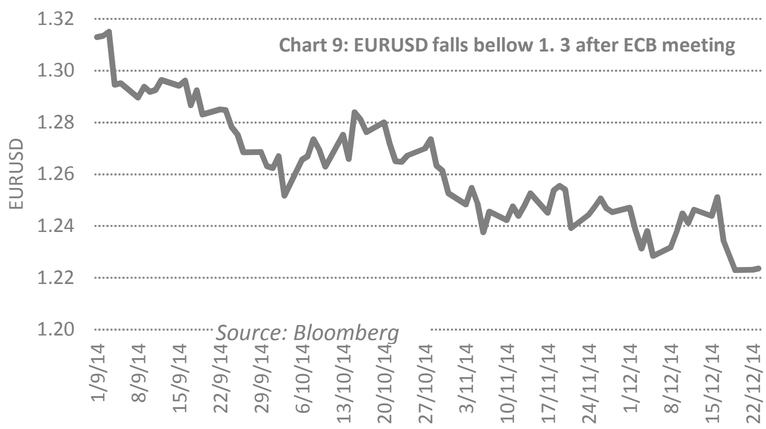
In Europe, the drop in sovereign yields was even more sizable, with core countries experiencing record low yields and peripherals also joining the rally as the scope for a new round of ECB easing measures became more apparent; expectations were also boosted by reports that the ECB had mandated BlackRock to assist it in the development of the ABS market. Notably, the 10 year German bund fell below 0.9% and the 2 and 3 year notes dipped into negative territory (see Chart 8). Accordingly, European yields priced-in increasing deflationary risks and, more importantly, a risk of a Japanisation of the economy. Such worries were augmented by a new round of suboptimal inflation data, shrinkage in private lending and subdued confidence indicators. In addition, there were multiple indications that Germany's economy, which had been the most resilient country in the Euro Area, was losing momentum and, perhaps more important, that such levelling could be due to the Ukrainian-Russian standoff.

On the supply side, the market was supportive for spreads with the US segment seeing very light activity and the European High Yield market reporting the lowest issuance for the year after no EUR HY new issues were priced for two consecutive weeks. However, the draining supply did not do much in supporting spreads as liquidity was traditionally low for the summer months.

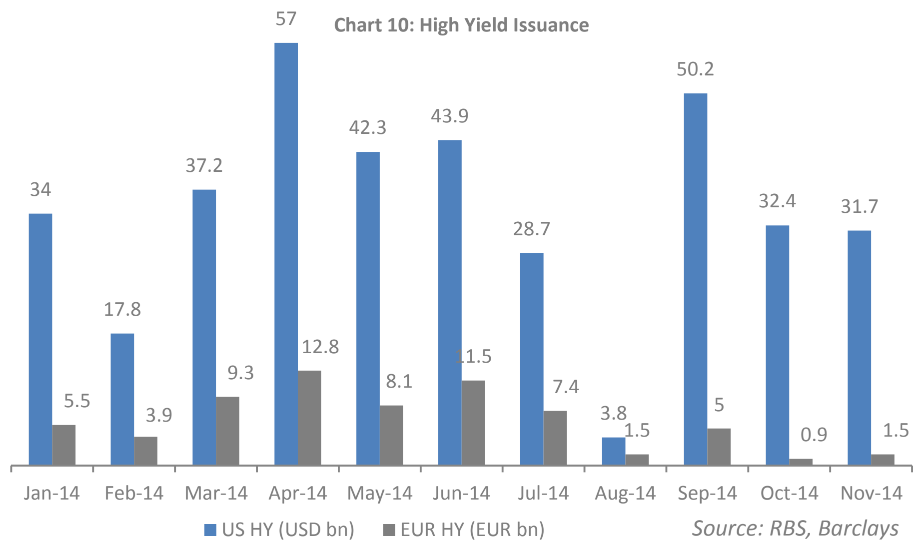
Overall, high yield spreads closed the month largely unchanged and Investment Grade outperformed high yield for another month benefiting significantly from the decline in benchmark yields.

September 2014 – Strong high yield issuance offsets ECB newly announced measures

September started on a positive note as the ECB rather surprisingly opted to cut interest rates and engage in ABS purchases while the truce signed by Ukrainian rebels provided some relief. In the aftermath of the ECB meeting the market performed well and the EUR weakened rapidly (see Chart 9), improving the profitability outlook of many European blue-chips and IG issuers. However, the rally proved to be short-lived reflecting a mix of political events, a rapid rebound in issuance and weak economic data from Europe. Investors had to contend with the uncertainty surrounding the Scottish independence referendum, which was feared to impact banks like Lloyds, speculations around an upcoming Catalan referendum, the conflicts in Iraq and Syria, reports about continuing armed clashes in Ukraine and, later in the month, pro-democracy protests in Hong Kong.



To add to the volatility, new issuance was also strong over the month (see Chart 10), making September one of the strongest months of the year and pushing the year-to-date total significantly over the last year's aggregate issuance. More importantly, September marked a record for Additional Tier 1 (AT1) placements after banks like HSBC, Credit Agricole and Nordea tapped the market. This augmented the weakness in the AT1 pricing during the risk-off periods which prevailed over the last weeks and underscored their high-beta nature. The impact of new supply was magnified by the prevalence of outflows for retail high yield funds with the US funds again incurring the bulk of the cash drainage.

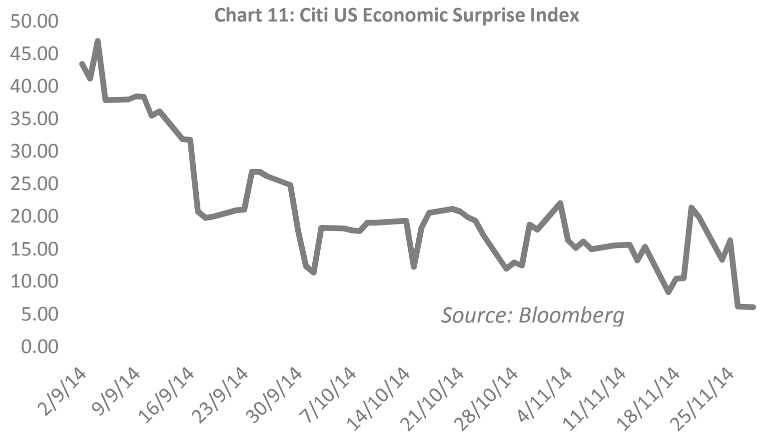


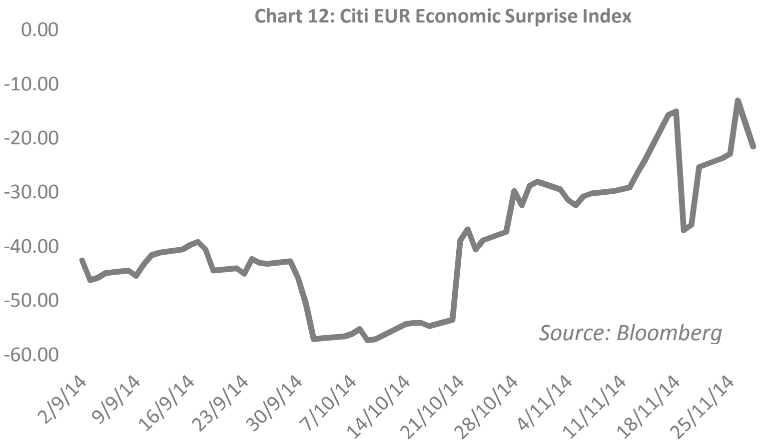
On the economic front, even as investors were at first encouraged by the ECB's bold response to the prevailing economic standstill, the dismal outcome of the first TLTRO auction and several below expectations data points appeared to test markets' patience. The first tranche of TLTRO take-up was EUR83 billion, falling short of analysts' expectations who were looking for at least EUR100 billion. Meanwhile, inflation remained at stubbornly low levels as most of the leading indicators pointed towards further economic softness and weakness appears to have spread to Germany as German confidence indicators and factory growth retreated. Against, this backdrop and notwithstanding the monetary easing, the peripherals failed to post significant returns. Greek bonds were further impacted by the country's rhetoric around possibly moving away from the IMF's program which could amount to an easing of austerity.

As we had become accustomed, US data was much stronger than elsewhere in the developed markets and the Q2 GDP growth was revised upwards to 4.6%; noteworthy, signs emerged that consumption recovered with retail spending picking up, wages increasing at a faster pace and consumer confidence strengthening. However, housing data continued to be mixed and the inflation data showed that tightening could be postponed. As a result, the US 10 year Treasury yield had a volatile month, rising to 2.65% and then retreating rapidly towards 2.4%.

October 2014 – Sharp market correction followed by uneven recovery

October was a month of two halves for most risky assets, with risk aversion building steadily over the first part of the month and shooting to bring down high yield, peripherals and equities, whereas the latter part of October saw an increase in risk taking. The uneasiness in markets started to become obvious in the aftermath of the ECB meeting which, disappointing enough, concluded without setting a target for the asset buying programs that were heralded in September. This lack of commitment towards a date and figure inherently increased uncertainty while concurrently made markets wonder if this was not provided because the ECB itself was not yet sure how many eligible ABS it will be able to source. The negative reaction was likely magnified by negative economic surprises (see Chart 11 and Chart 12) and the disappointing take-up in the first TLTRO auction, another ECB tool crafted just months before to spur growth. Later on, investors were put off by negative comments on global growth, recurrent disappointing German data, calls for structural reforms/fiscal stimulus to complement the ECB measures and the persistency of weak Chinese data. Against this backdrop, a few below-expectations US figures gained in significance, apparently fuelling growth concerns and/or expectations for lower inflation which, in turn, triggered a sudden turn in markets. The selloff was widespread and, in contrast to the latest corrections, suggested a stronger departure from technically-supported segments such as peripheral bonds and EUR credit.

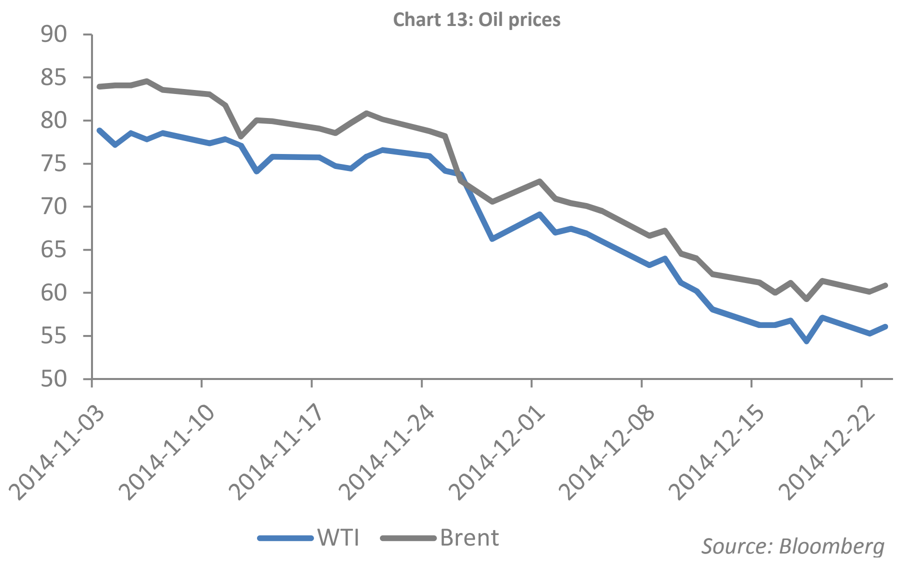




The recovery was supported by speculation surrounding the ECB possibly initiating a corporate-bond buying programme, hopes for a delay in the Fed's QE end and, later on, by strong US statistics, among which Q3 growth data; indeed, the latter was enough to offset the Fed's decision to terminate its asset buying programme. However, the reversal was rather uneven, with US assets outperforming their European counterparts and lower quality bonds faring worse than the higher-rated ones. At that moment we did not have enough clarity about the underlying factors but we presumed that these divergences in performances reflected a tampering in the search for yield behaviour, a growing preference for markets that exhibit better fundamentals and a delay in a normalization of inflation expectations for the Euro Area. Accordingly, we perceived the ECB meeting as a key driver of the markets in the short term as President Draghi had the task of anchoring growth and inflation expectations either by convincing that the measures announced so far will be effective or by adopting or hinting to new measures.

November 2014 – Markets rally but investors remain selective

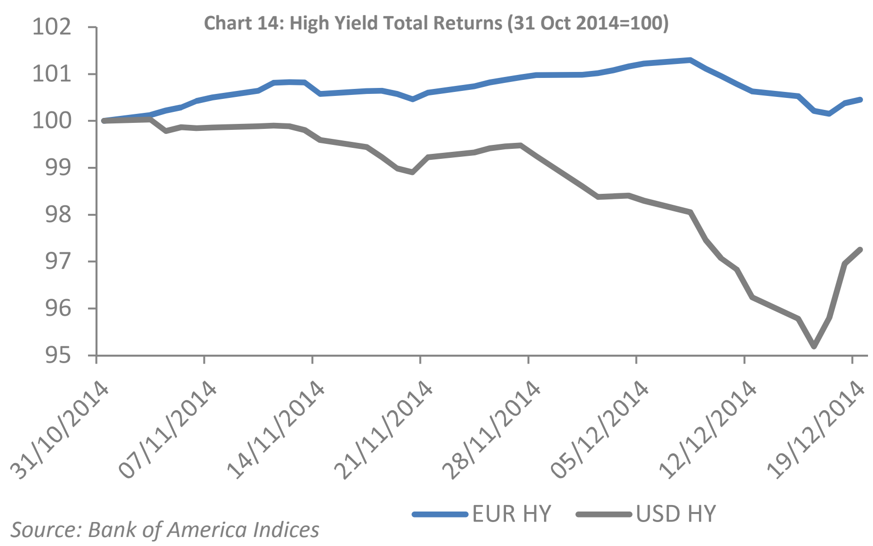
Over the course of November it became increasingly evident that the markets were yet again trading on technicals but, in contrast to earlier periods during which the same factors were at work, volatility was more notable and the tightening not as widespread. Indeed, we saw investors avoiding lower rated names and reacting aggressively to whatever was perceived as idiosyncratic risk (e.g. retail names, commodity-related issuers or specific names such as Abengoa). We thus saw investors trying to participate in a market which was still supported by the accommodative stance of the major Central Banks without taking on excessive risks or, more specifically, without exposing their portfolios to the scenario of a weak(er) growth. It hence goes without saying that ECB President Draghi's speech in the conclusion of the ECB monthly meeting was positive for credit as it re-iterated the possibility of taking additional measures if the economy warrants it. Against this backdrop, returns were also enhanced by the fall in benchmark rates with the German 10 year Bund seeing a new low, the French yield falling to less than 1% and peripheral spreads tightening (although Greece underperformed significantly). What is more, we saw the search in yield pushing UK government yields lower as well and keeping the US 10-year rates at relatively low levels. The markets were likely supported as well by seasonal factors given that the last part of the year is traditionally positive for the markets as many fear lagging behind the markets and, as such, increase their market exposure.



On the data front, there were not many major surprises but overall there were some signs that the momentum in the US was strolling (albeit remaining positive overall) whereas in Europe, Germany delighted the markets with some above-expectations data points. The December TLTRO take-up thus appeared to be the next big test for ECB's policymakers and, by extension for the European markets; an eventual disappointment in this auction was due to lead to renewed weakness in the high yield market whereas a strong take-up might have supported a return in demand for B-rated bonds and for the asset class as a whole; we however took note that in the latter scenario, bearing a new set of worse than expected European statistics, the drop in oil prices (see Chart 13) could herald a tightening in the European discretionary consumption sector after several months of underperformance. In the US high yield market, on the other hand, the risk of underperformance emerged due to the large representation of energy names (some 16%) and a possible perpetuation of weakness in telecoms (about 23% of Iboxx USD High Yield Index).

December 2014 – US credit underperforms because of energy exposure

December was a weak month for credit markets even though other risky assets, such as equities, posted steadier returns. The divergence between the high yield market and the equity market was particularly striking in the USD space, where bonds fell victim to the downfall in oil prices. Indeed, the large exposure of the USD high yield market to energy names acted as drag for USD credit (see Chart 14), with weakness spreading across other sectors as a result of the large outflows experienced by the US high yield retail funds. The impact of the latter was likely exacerbated by the low liquidity prevalent during this month, resulting in a rapid widening in USD high yield spreads and an increase in yield to over 7%. However, the market stabilised after the oil price halted its decline and the Federal Reserve chose to maintain the "considerable time" reference in its monetary policy statement. As the valuations of the energy-exposed names had considerably adjusted, the likelihood of further fund outflows diminished and a stabilization of the oil price was enough to halt the downtrend and allow spreads to recover and, like the equity markets did, price-in a scenario of stable growth and supportive monetary policy.



Source: Bank of America Indices

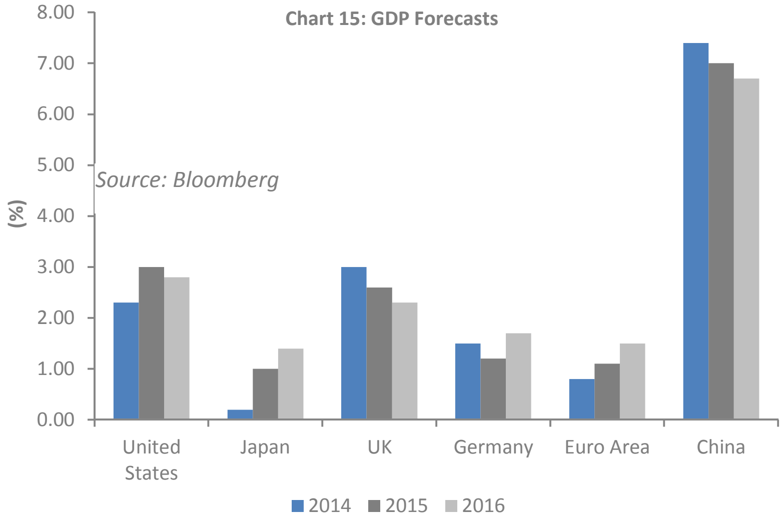
The Euro high yield market proved to be more resilient over December (see Chart 14) although spreads widened here as well. We note that the market was very responsive to volatility shocks elsewhere (like the Russian selloff halfway through the month) but failed to join the other markets when those rallied. Although the draining liquidity might have distorted the picture, we think this dynamic is also reflective of persistent growth worries which have limited the impact of QE speculations on the lower rated names. In the same vein we note that the below expectation TLTRO take-up was rather market neutral for European equities which appear to put more emphasis on how this increases the likelihood of further monetary easing; however, this has failed to feed into the high yield market which has seen only lukewarm spread tightening. As such, the recovery in the single-B space, which stands out with a significant predominance of cyclical companies, has been deferred. On a more positive note, the latest US retail data has boosted hopes that lower oil quotes will serve to boost consumption of other goods and also boost confidence. Meanwhile, the combination of prevailing geopolitical risk, weak growth and persistent deflation risks pushed the Euro core sovereign yields lower and somewhat cushioned fixed income returns.

December is usually the month whereby investors take stock of what happened throughout the year, what went wrong (in their investments) and what fared better, what lessons are to be learnt from the year gone by, and how, most importantly (in our opinion), to position themselves for the next year to have a cutting edge over the market. Well, this December was no exception to be honest; however, this time round, markets have had their fair share of added volatility to contend with, which ultimately kept asset managers as well as investors pretty much on their toes, literally to the final trading sessions of the year. From declining inflation and growth in the Eurozone, to backtracking in the US Federal Reserve's end of year guidance for rates as at end 2015, to the persistent decline in the price of oil. It is therefore safe to say that the volatility and large price movements and fluctuations we witnessed over the last few weeks, and the market's eagerness to closely scrutinise routing incoming economic data deep into the month of December, is highly uncharacteristic for this time of the year. It is very difficult to devise what this really means, but it could very well mean that it is merely a taste of what is expected in the early months of 2015.

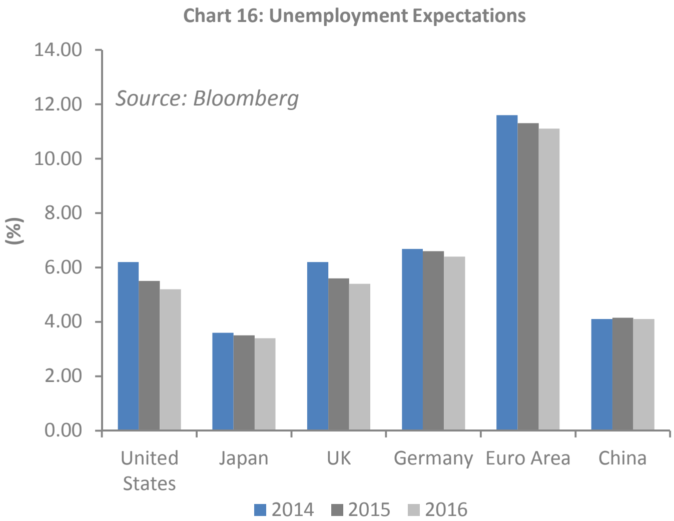
SECTION II. Will 'Slowflation' persist?

The title we have given to our outlook sets the general theme that we expect in 2015, largely carried forward from 2014 – concern about deflation in global economies. The worry of "low inflation" and possibly deflation given the continuing slide in the price of oil remains most concerning in the Euro area and Japan particularly, with economic data from the US suggesting that its economy is re-gaining momentum.

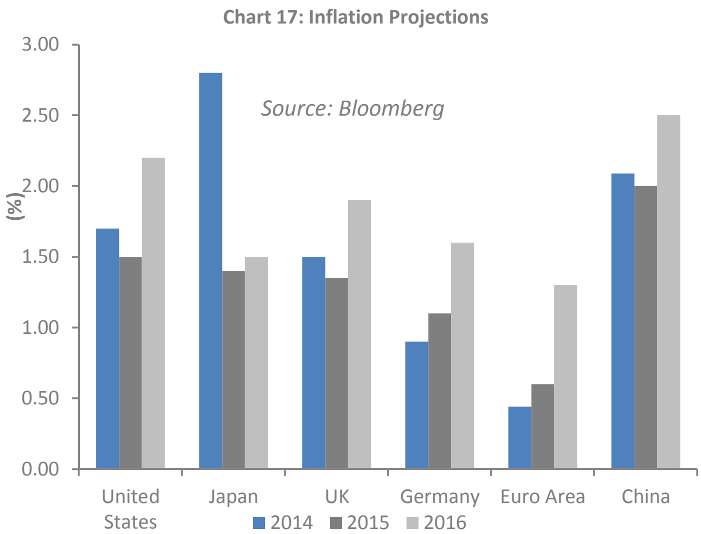
The key theme for 2015 is expected to be the decoupling of the US from the rest of the world, as it enters a different cycle compared to its counterparts. This sets the scene for a low correlation between the US equity markets and the rest of the world, as was started to be observed in the latter part of 2014.

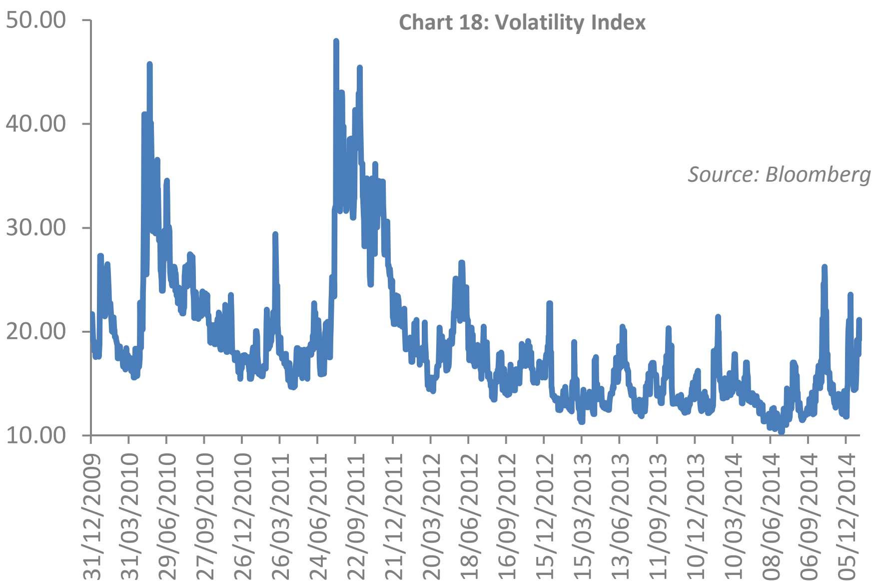


In the Euro Area and Japan, the low interest rate environment and the use of monetary easing to propel economic activity (see Chart 15), lower unemployment data (which remains elevated in the Eurozone as Chart 16 shows) and subsequently prices going forward (see Chart 17) is expected to be at the forefront of investors' minds, as policy makers scramble to kick-start economies. The accommodative stance is expected to continue to provide support for financial assets. On the other hand, in the US, investors have already started to discount the fact that the Fed is going to raise rates, consensus being in H2 2015. As a result this is expected to have a negative effect on short term bond prices.



Another key theme we expect to feature in 2015 is volatility. For most of its part, 2014 was a somewhat complacent one in financial markets where volatility was historically low on average (see Chart 18 overleaf). There are a number of catalysts in 2015 which we believe will get the markets rolling. First and foremost, when a US interest rate hike finally arrives we feel investors might get uneasy as the Fed has been pampering investors for a while now; however, if the move takes place against a backdrop of strengthening economic growth, the markets could well find comfort in this particularly if data remains weak elsewhere.





Exogenous risks are expected to impact the market with bouts of volatility amid an uncertain outcome. Amongst them we would include the political risk associated with elections in Greece in Q1, UK in May and Spain in December. Russia's highly uncertain economic situation and persistent tensions between Moscow and the West over the resolution of the conflict in Ukraine is expected to re-surface throughout the year. Furthermore, the continuing free-fall in the price of oil will, apart from creating uncertainty and concerns over additional deflationary pressures, also add to tensions between Russia, China, OPEC members and the West.

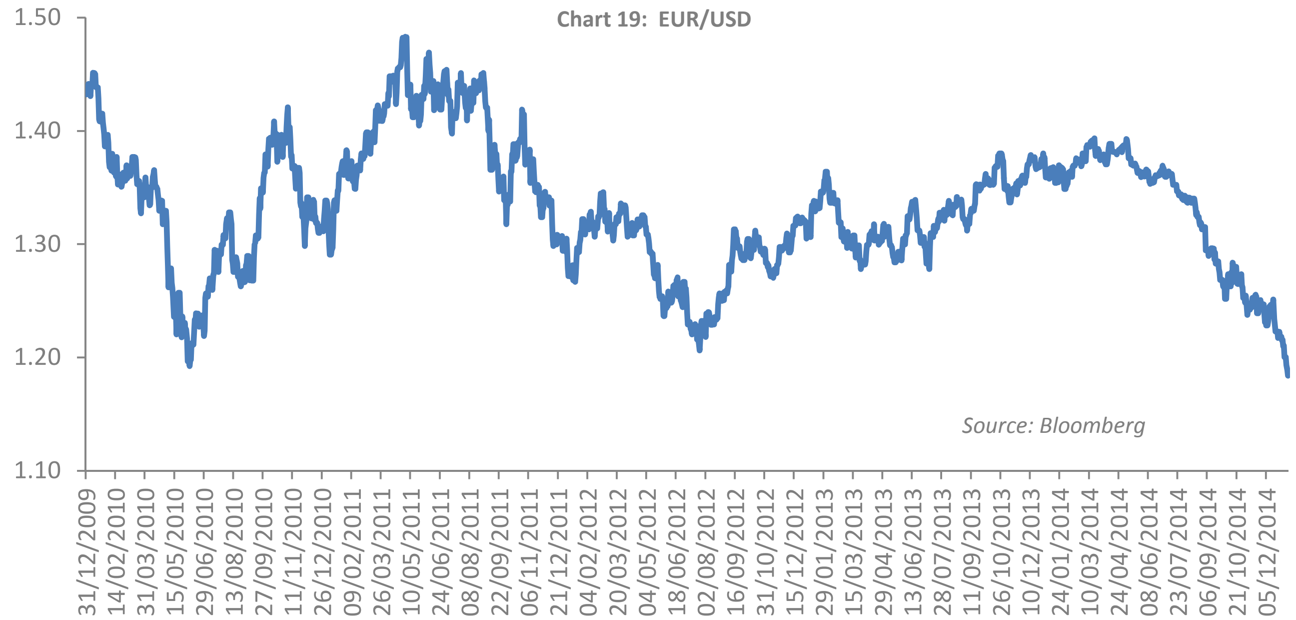
Instability in the Middle East is expected to continue as the Islamic State insurgency and Syrian civil war amongst others remain far from being resolved. The severe extent of the oil sell-off also threatens to heighten political instability in the region.

Japan's economic picture has continued to deteriorate. GDP, consumer spending and real wages have been reported weak and core inflation has slowed further. Continued reforms and monetary stimulus should be the key themes in 2015, with a resultant fragile recovery and low inflation.

China's property sector remains a concern in 2015 after a sharp decline in 2014 due to falling prices and rising inventories. Government efforts to ease mortgage rates and availability have continued, though with only modest traction so far. We would expect lower mortgage rates and inventory reduction throughout the year, with the sector possibly aiding the slowdown of China's GDP growth. Recently, the Chinese government announced that it will be accelerating 300 infrastructure projects with an estimated worth of $1.1trillion, in its attempt to shore up domestic growth and shift the Chinese economy to a more domestic-consumption driven one.

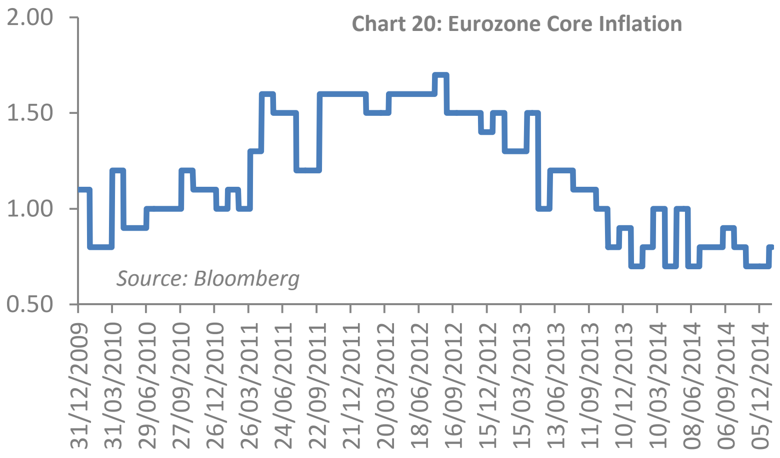
Commodities are expected to remain under pressure in 2015 as growth in global demand for goods remains subdued. This is further exacerbated by the expected slowdown in growth from China which will no doubt have an effect on global demand. However, we expect commodities such as steel, iron ore, coal and LNG to benefit from recent measures announced by China to shore up its infrastructural projects.

The USD (see Chart 19) is expected to remain a leading performer amongst global currencies, its demand originating from a relatively strong economic performance, interest rate attractiveness and 'flight to safety'. The divergence in monetary policies is also key, as the ECB committed to expanding its balance sheet (i.e. the money supply) whereas Fed's expansionary regime came to an end.



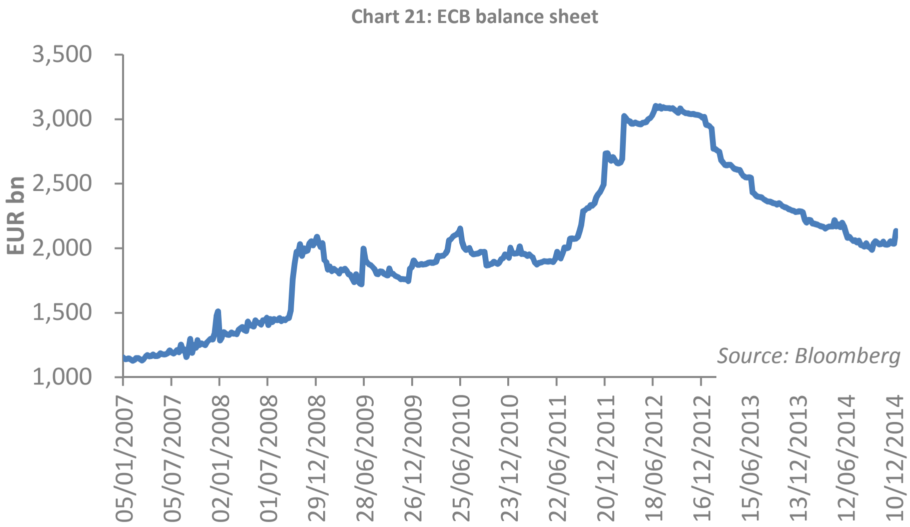
QE speculation building up in Europe

Without a doubt, as 2014 progressed, sovereign (benchmark) bond yields declined more than forecast, with end of year forecasts being constantly revised lower as the year passed by. It is cumbersome to pin point the move to one particular episode; it is merely a sequence of events, and disappointing economic data to go with it.



Rather, the major reasons behind this are a concoction of persistently lower inflation in Europe (see Chart 20) coupled with the lacklustre growth in Japan, notwithstanding the continuous easing of financial conditions in both regions. In Japan, such easing actually materialised whilst in the EU, the intention was made clear and is a foregone conclusion at this stage. In fact, oil prices exacerbated these moves, with long term inflation expectations falling sharply and breaking well below the 2% level that is consistent with a "healthy" economy and ECB's target level. As a measure of such expectation we look at the 5year-5year inflation swap rate, which, simply put, is a proxy for the 5 year inflation forecasts, 5 years from now. This rate now stands at 1.54%! Of note, ECB's Mario Draghi mentioned in August that this is a reliable indicator of markets' long term inflation views "The 5year/5year swap rate declined by 15 basis points to just below 2% - this is the metric that we usually use for defining medium term inflation."

During the last six weeks of 2014, the ECB continued to provide liquidity to the markets by means of its targeted longer-term refinancing operation (TLTRO) as well as the third round of covered bond and asset-backed securities purchase programmes. **Such measures are expected to be offset by the two 3-year expiring LTROs issued in 2012 due to mature in January and February 2015.** The take up at December's TLTRO came in below expectations at €129.8b whilst the covered and asset-backed securities transaction average €4bn a week. Accordingly, the ECB balance sheet changed only marginally since June 2014 and declined year-on-year (see Chart 21).



Despite this, around €250bn still needs to be repaid by February 2015, as a result of the maturing LTROs, with liquidity in European markets likely to decline in Q115. This decline in liquidity could be further exacerbated should the ECB opt to postpone QE even further, putting the rates at the front end of the curve under pressure in the short term. We do not envisage this to be long-lived as the series of quarterly TLTROs coupled with the ECB's asset purchase programme are expected to provide additional cash impetus for the European banking system as the ECB has previously announced its intentions of increasing its balance sheet to March 2012 levels, to around €3trn, an increase of €0.7trn from current levels.

In the months ahead, the markets will be hoping for more market-friendly stimulus measures to be announced; despite there still being some significant divisions within the council on which measures to adopt and within which context, shape and size (not to mention the ongoing debate between council members that the more debt-laden European countries need to take imminent fiscal measures and foot the bill), it has become increasingly apparent over recent ECB meetings that there has a been a gradual convergence in views that the ECB's balance sheet should expand towards the level of March 2012. What is certain at this stage is that the effects of the declining price of oil have created a great deal of uncertainty. From one end, it could be argued that the decline is already being captured in current inflationary indicators and hence the risk of a deflationary scenario increases, or, on the other hand, activity levels have bottomed and are expected to pick up as a result of a decline in raw materials and increase in consumer purchasing power. While we agree that in the regions where confidence is at healthier levels the latter effect might prevail, we fear that in the Eurozone, the ongoing slide in long term inflation expectation signals that in any case inflation risks are seen as subdued and, as such, consumption will not benefit significantly from lower oil prices; to put it differently, as long as deflation risks persist, lower oil might be more of a negative than a positive.

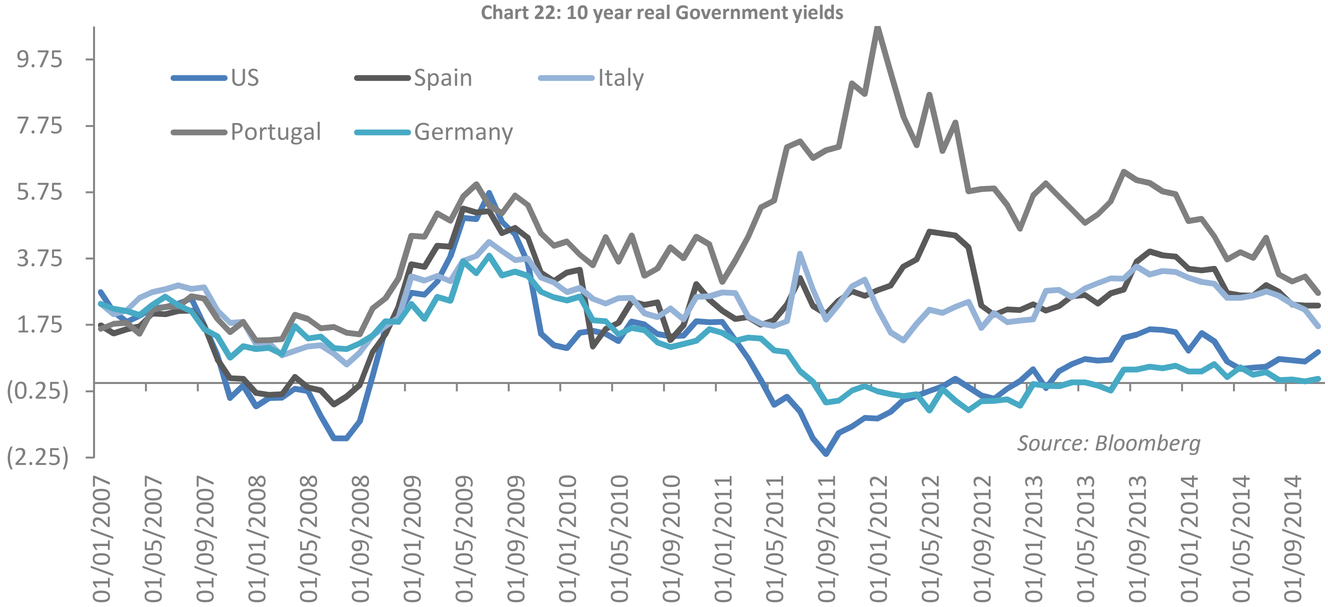
Whichever the scenario, the ECB's tactics in communicating its strategies and outlooks/projections to the markets are going to be put to the test in 2015.

Leading to an abrupt fall in yields

It is now an almost certainty that the ECB is to include government bonds in its expansionary programme in H12015. With the ECB becoming increasing slow, or rather unforthcoming, to adopt a full-scale quantitative easing programme, any sovereign QE from this point forth, despite the historically low levels of the Bund, should keep bond prices supported as the market comes to terms with the fact that the asset purchase programme will be a lengthy process. The example of Japan serves to show that German yields can decline further, with the 10 year Japan rate now standing at 0.28%. Bunds are also expected to benefit from an expected decline in overall net supply by the Bundesbank coupled with a persistent increase in demand from Asian investors. In fact, recent data shows that during the month of September 2014, Japanese investors became net buyers of the Bund for the first time in twelve months.

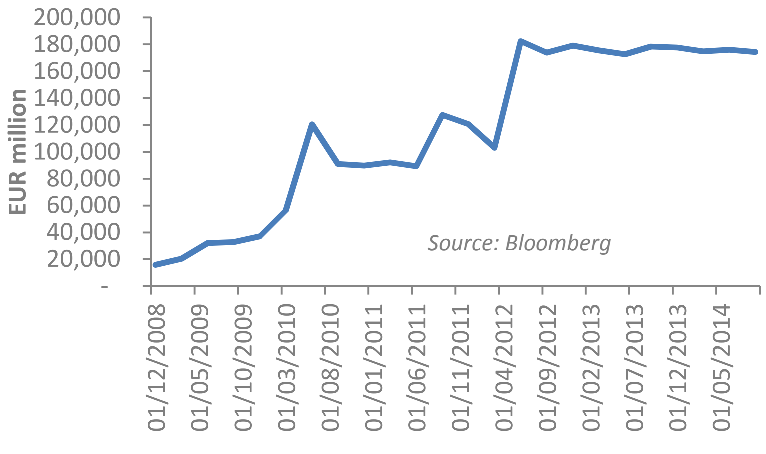
Furthermore, it is widely believed that QE measures are effective when they push the real yields (i.e. adjusted for inflation) in negative territory; indeed, in the US, the 10-year real government yield fell to as low as -2% in 2011 (see Chart 22), which is equivalent to saying that savings became unattractive, providing an incentive for investments. This is not yet the case in Europe.

Chart 22: 10 year real Government yields



Finally, we note that the ECB's commitment towards expanding its balance sheet has put renewed pressure on the EURCHF rate. Since the Swiss National Bank (SNB) has enforced a 1.2 cap, the measure is likely to lead to increased market intervention in the form of buying EUR vs CHF, which in turn means higher EUR reserves to be invested. Indeed, it was recently disclosed that the SNB's FX reserves surged to a record high in December. We consider such a trend indicative of further demand for EUR sovereign bonds as looking back in 2011 when the EURCHF cap was imposed, we witnessed a marked increase in Switzerland's EUR Investments (see Chart 23).

Chart 23: Switzerland Foreign Currency Reserve Assets EUR Investments



But we are sceptical on its effects on growth

Recent studies have highlighted key differences in spread movements following the announcement of QE by the Bank of England, US Federal Reserve and Bank of Japan. It appears so far, that QE has had the desired effects on the UK and US economies as the announcement and subsequent implementation of QE by the respective central banks was timely, with both central banks' currently on the verge of unwinding their accommodative stance. On the other hand, the Bank of Japan took almost two years to formally announce QE after cutting its policy rate to zero. The ECB is pretty much in the same position as the Bank of Japan; laggards in taking swift action, and the direction of Bunds is expected to be similar to that of JGBs following the announcement of QE by the ECB in 2015.

However successful QE has been elsewhere, the situation may be considered to be different in Europe. That is, while embarking on quantitative easing could prove beneficial for financial assets valuations, such measures might under-deliver in terms of growth. In this vein we highlight that:

- In Europe, the challenge at the moment is not the absence of liquidity but a lack of confidence in the economic outlook, particularly in the non-core countries where structural reforms are required to address issues such as public trust in politicians, burden of government regulation, pay and productivity, hiring and laying-off practices, effect of taxation on incentives to invest; to provide an insight on how deep such challenges are we looked at the global scoring for labour and market efficiency cross the Euroarea countries (see Charts 24 and 25).

Chart 24: Labour market efficiency

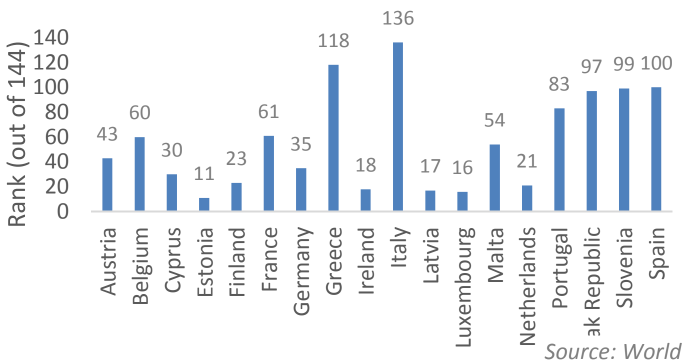
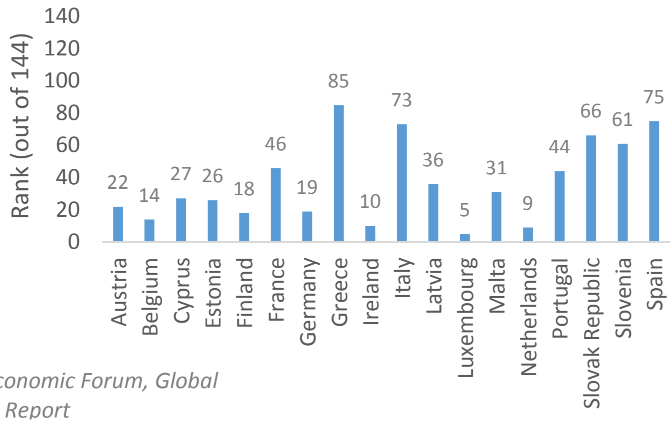


Chart25: Goods market efficiency



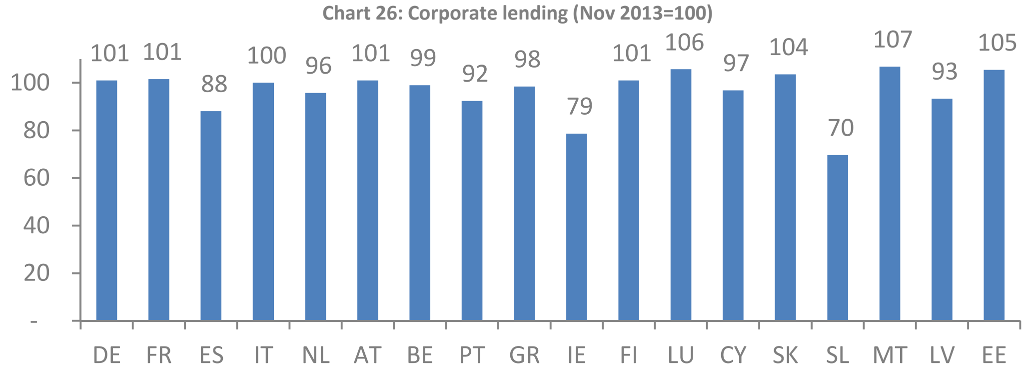
Source: World Economic Forum, Global Competitiveness Report

- The weakening EUR, which comes with monetary expansion (i.e. money printing), might not be enough to significantly boost competitiveness across the Eurozone as some countries suffer due to other factors such as low productivity (when compared to the prevailing wages); Greece, Italy and Portugal for instance rank poorly in this respect. Accordingly, we fear that the fall in EURUSD could well drive a further widening in the gap between the core and non-core countries.

- Whereas in the US and the UK, QE proved to be a good way to expedite growth, at the time the authorities complemented central bankers' measures with fiscal stimulus; in contrast, the Euroarea deficit for 2015 is expected to decline to 2.4% from 2.6%.

- The Eurozone economy is highly reliant on SMEs which derive little, if any, benefits from the falling yields observed in the capital markets; instead, they are reliant on credit growth which has failed to pick up in the weaker economies (see Chart 26).

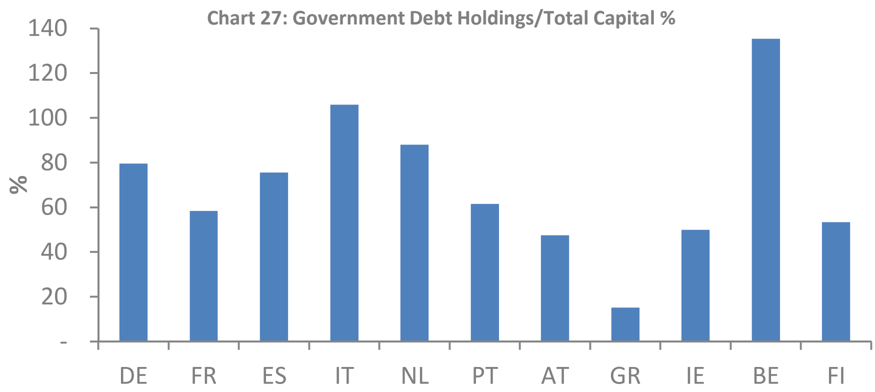
Chart 26: Corporate lending (Nov 2013=100)



Source: ECB

- Having said this, some argue that the fall in yields –i.e. the increase in bond prices- helps to strengthen the banks' balance sheet as these are holders of such assets; accordingly, QE can indirectly incentivise lending.

We agree with this argument but we note that whereas the Italian and Spanish banks have a sizable exposure to sovereign bonds (see Chart 27) and, accordingly, derive significant gains from falls in government yields, this has, so far not fed into lending. The process might be slower than expected or hindered by expectations for a further fall in yields which makes trading returns attractive enough to delay lending growth.



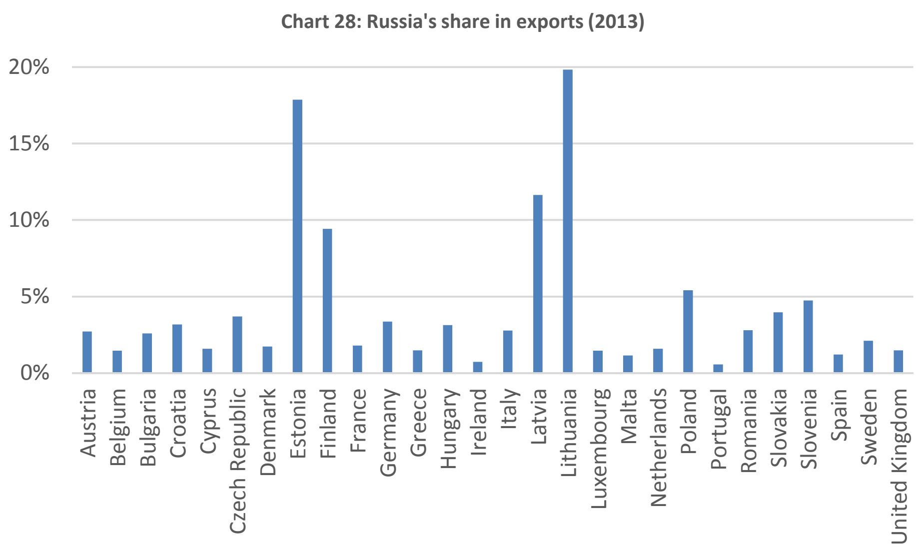
Source: ECB

- Finally, just as we came across many comments that are sceptical on QE effectiveness in Europe, markets and business might anticipate that inflation will not pick up soon and, as such, they will also defer consumption and investment decisions.

On the upside, there is some evidence that the fall in yields is gradually driving down interest rates for corporate lending, a prerequisite for lending growth.

And Russia might be a drag for European growth

The abrupt depreciation of the Russian ruble is due to have a significant impact on Russian imports which have already taken a hit over 2014. Hence, Europe will also have to contend with lower demand from Russia; in terms of sectors, the European Commission data shows that EU exports to Russia are dominated by machinery, transport and equipment, which have a 47% share in total, and chemicals, which contribute another 17% (of which pharmaceuticals are 8%). The largest Russian imports come from: China, Germany, Ukraine, Belarus, Japan, the US, Italy, France, South Korea and Poland. However, of greater importance is how critical these flows are for the exporting country and from this perspective, the Baltic countries, Finland and Poland stand out as the most prone to a decline in exports (see Chart 28). Whereas many of these countries are not in the Euroarea, second round effects should be monitored; for instance a Polish slowdown could impact Germany given the close economic ties between these two countries.



Source: IFC

But European authorities are looking for alternative measures

The subdued economic sentiment brought about by the geopolitical risks and financial turbulence as a direct result of the Ukrainian-Russian crisis could persist for the earlier stages of 2015. Despite this, we do not exclude negative economic drivers bottoming in H12015 as multiple growth drivers could begin to show signs of a recovery, however, we assign a low probability to this scenario unfolding. So we will be closely looking into improving external conditions most notably in the US, the evolvement of central bank policy, the euro-dollar currency pair as well as the ramifications of the recently approved more growth-oriented fiscal policy, namely the €315bn plan announced by newly-elect European Commission President Juncker. This figure is equivalent to 2.4% of Eurozone's GDP and is expected to be deployed over 3 years; however, the selection of the projects will only end in June 2015.

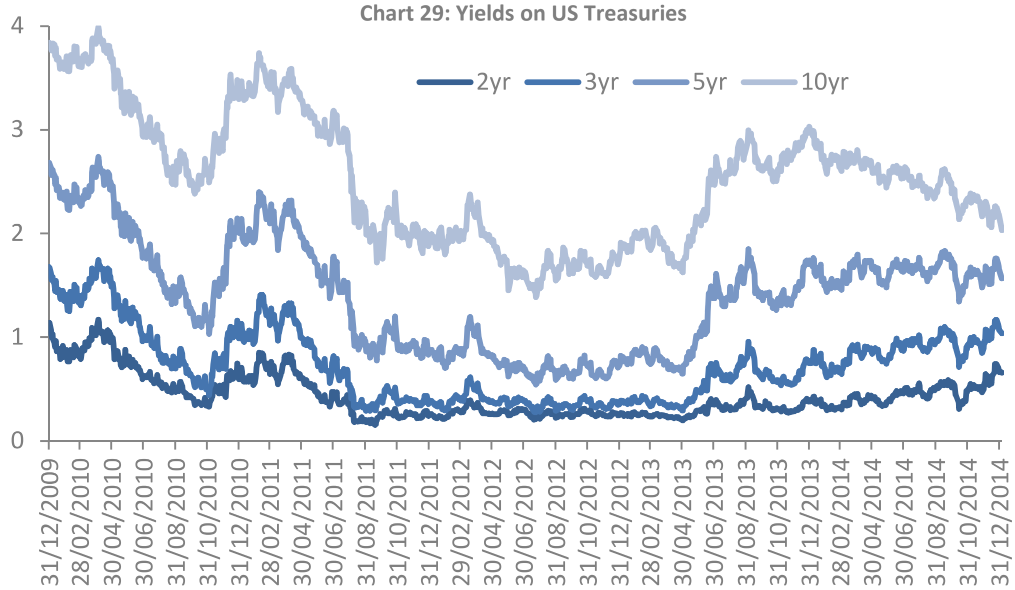
One possible catalyst to spur further discussion in 2015 will be the EU Capital Markets Union that has been recently proposed by Juncker. It is still unclear what the exact reason behind this union really is, with a scheduled consultation process on the formation and operational aspect of the said union in the summer months. What is certain at this stage is that the union will strive to change corporate funding in Europe from the current (primarily) bank based system to the creation of new sources of funding for European companies, most notably SMEs.

Moreover, we believe that the union will strive to achieve a higher degree of efficiency and competiveness targeting a pro-growth stance, as European capital markets are not yet fully integrated, 20 years after the launch of the single market.

Inflation slowing down in the US

The outlook for the US economy is over-hung by the expectation that the Fed will hike interest rates. In Yellen's latest speech she appeared to take a somewhat dovish stance, stating that the US economy had to show significant improvements over multiple quarters before any action will be taken.

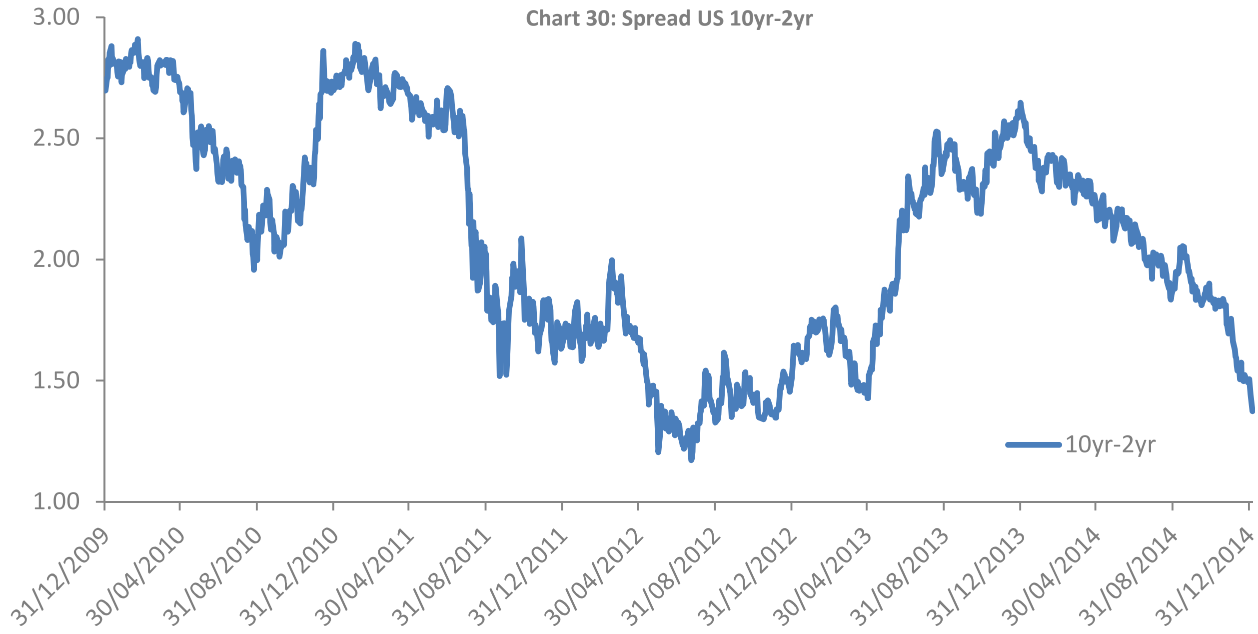
Chart 29: Yields on US Treasuries



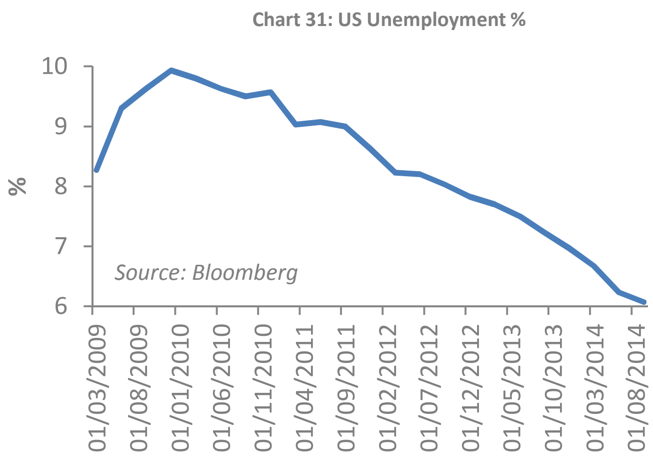
Source: Bloomberg

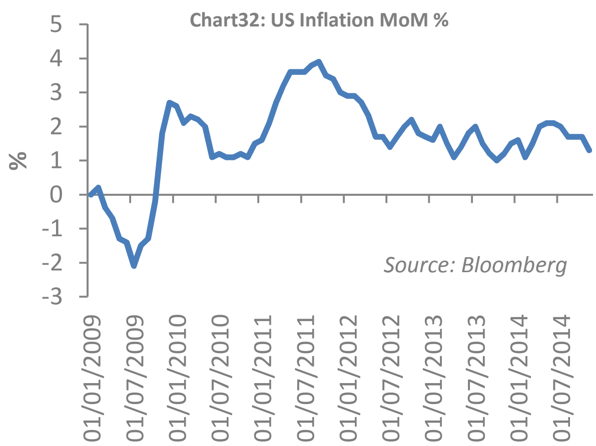
The expectation of a hike in interest rates has flattened the US Treasury Yield curve somewhat over the past year (see Chart 29 and Chart 30), after yields rose at the short end of the curve. This trend is expected to continue moving into 2015 as speculation over when the Fed will proceed with the tightening of its monetary policy continues.

Consensus estimates for the Fed rate is to increase from the present 0.25% to 0.95% by 2015. To date, the Federal Reserve has stated that it will remain cautious on the timing of the first rate hike. Externals factors have raised some eyebrows of dampening growth in the US, coupled with slack in the labour market, seeing the Fed backtrack on its forward rate expectations during the latter part of 2014. Market consensus is for June 2015, we concur with this view generally and feel that a rate hike towards the end of summer is more plausible, as the US economy would have gathered steam by then and the labour market would be on a better footing.



US Unemployment has fallen quite significantly, from 7.23% in Sep 2013 to 6.07% in Sep 2014 (Chart 31), and is forecasted to drop further in 2015 (consensus 5.5%, chart 16 on page 13). The decline in unemployment figures, in an environment where growth was sub-par (in the first two quarters of 2014) was brought about by the decline in labour force participation, lending itself to the fact that there are more baby-boomers retiring and no longer seeking employment any more.

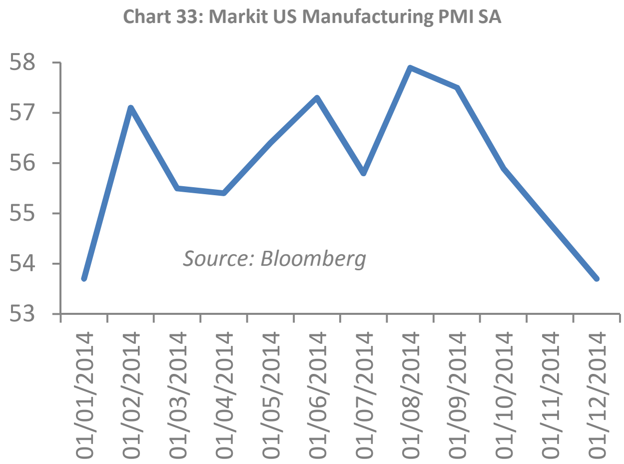




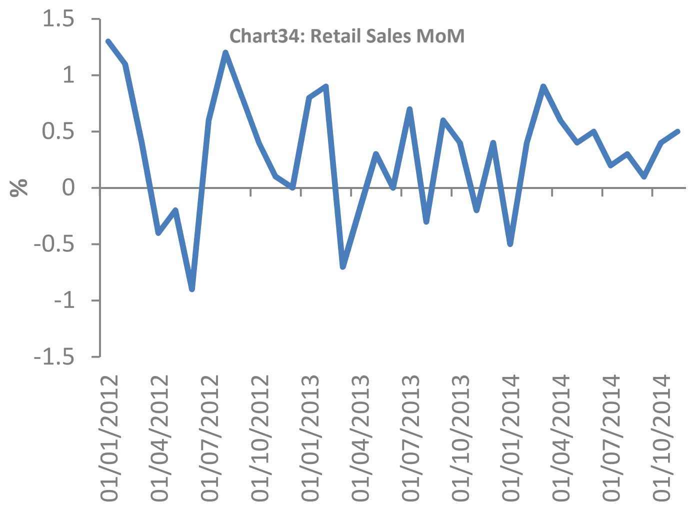
Inflation figures (Chart 32) are expected to decline to around 1.5% according to consensus (Chart 17 on page 13), and to accelerate to 2.2% in 2016. The significant decline in the price of oil is expected to create deflationary pressures, thus reducing forecasts in 2015. This can be further accentuated following the sharp valuations in the dollar, which could keep inflationary pressures from creeping upwards. Whilst improved labour conditions could, in the short term, put upward pressure on wage inflation, we would not bet on this and expect the decline in unemployment rate and improved labour conditions to be more favourable to warrant such a move.

The US budget deficit is expected to narrow from a current 2.9% of GDP to 2.6% of GDP in 2015. The USD is expected to continue appreciating against its counterparts as the US economy outperforms its peers on a comparative basis. Should the USD continue to strengthen much further, we expect officials to take action, as the strong dollar hurts exports and could impact GDP growth negatively.

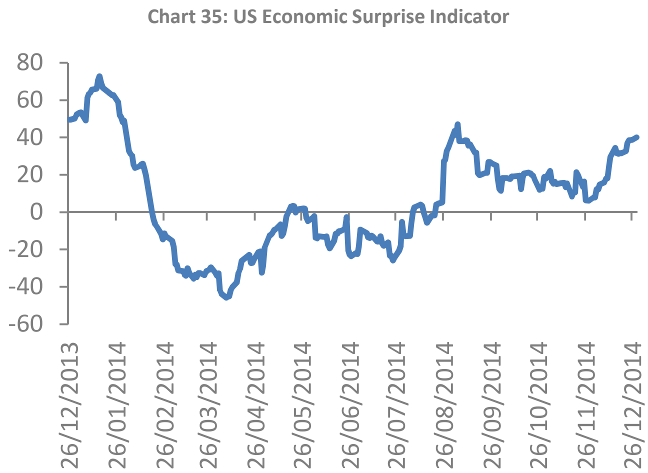
Recent PMI (Purchasing Manufacturers Index) figures have shown a declining trend (see Chart 33), attributed to the strengthening USD. Having said this, we have seen a noteworthy slowdown in real consumer spending growth, despite the fact that real income growth increased in a scenario whereby equity prices appreciated and consumer confidence was encouraging. The persistent decline in the price of oil could well keep inflation at bay in the interim, adding a further boost to consumer spending in the early stages of 2015.



Strong retail sales throughout 2014 (see Chart 34) lend support to the argument of a strengthening US economy. Meanwhile, Economic surprise indicators (see Chart 35) remain positive with an increasing trend, indicating positive expectations and business sentiment in the US.



Source: Bloomberg



Source: Bloomberg

Section III The outlook for the high yield market

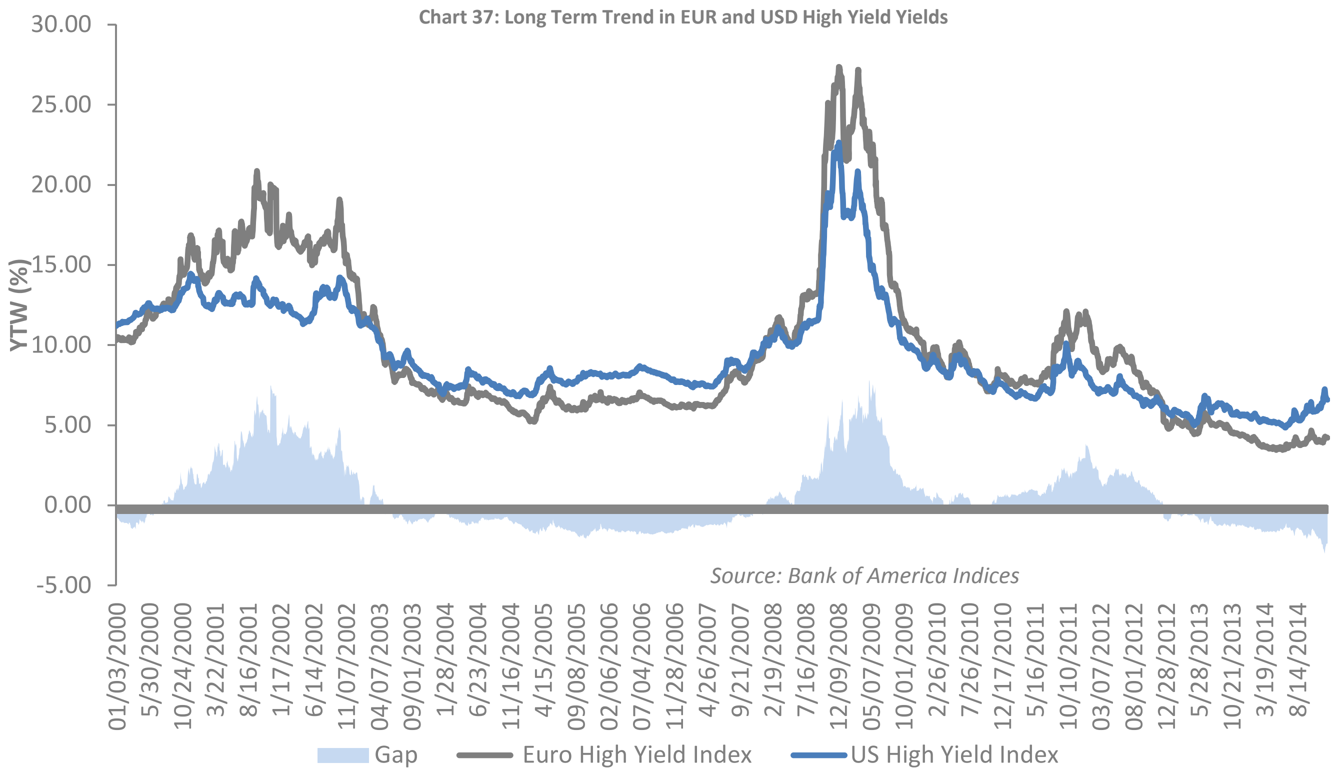
The underperformance of US High Yield looks like an opportunity

As we mentioned earlier in this report, the US high yield market significantly underperformed its European counterpart over the second semester of 2014 as the larger exposure to the energy sector triggered fund outflows and uneasiness among investors. Accordingly, although the sell-off was particularly sharp in the energy sector, non-energy names saw abrupt corrections as well, as in mid-December the YTW reached more than 7%. With the downfall in oil prices losing some momentum, the market subsequently recovered some of its losses although investors seem to remain hesitant and appear to lack the necessary conviction that would allow a more sustained recovery. Having said that, we find the yields on offer attractive given the relative strength of the US economy and we expect investors with longer term horizons to step in to take advantage of the emerging opportunities. Indeed, whereas US High Yield Spreads have been higher than the ones in the EUR market due to the higher duration of the US Index, the differential reached a record high in mid-December and remains close to high levels seen in 2008 (see Chart 36).

Chart 36: Long Term Trend in EUR and USD High Yield Spreads

Source: Bank of America Indices

In addition we note that the yield differential between the two high yield markets is equally appealing as it remains at record low levels (see Chart 37), which is hard to overlook in a yield-starved environment where deflationary worries persist and the US economy has confirmed that it is on a stronger footing.



USD yields look attractive not only relative to Europe but also relative to US equities. That is, whereas in Europe we find the dividend yields just 50 bps lower than the EUR HY yield, and almost 100 bps higher than the BB-rated yield, in the US market the gap is strikingly wider as the S&P 500 dividend yield is in the 2% region. However, we acknowledge that the S&P 500 earning yield is currently hovering around the 5.5% region, which remains below its 10-year mean of 6.2%. Accordingly, a stabilization of the US high yield market might bring about a gradual shift from equities to high yield towards the latter part of this semester. Indeed, this looks like a longer term development as the prospect of an appreciating USD and the growth outlook so far served to lend support to the US equity market which has actually seen a record fund inflow in the week ending December 25, 2014.

Finally, some technical support might come in the form of lower issuance as the energy sector, which has accounted for some 15% of the issuance in 2014 will tap markets to a lower degree given that investors' risk aversion will fade only gradually. In addition we note that a lower number of issues now trade to next call date with the years to worst for the Bank of America US High Yield Index increasing by 0.5 years over Q4 2014; that is, the spike in risk aversion has made refinancing exercises less economical and the window of opportunity might have closed if one considers that the Federal Reserve is on track to tighten its monetary policy from this point on.

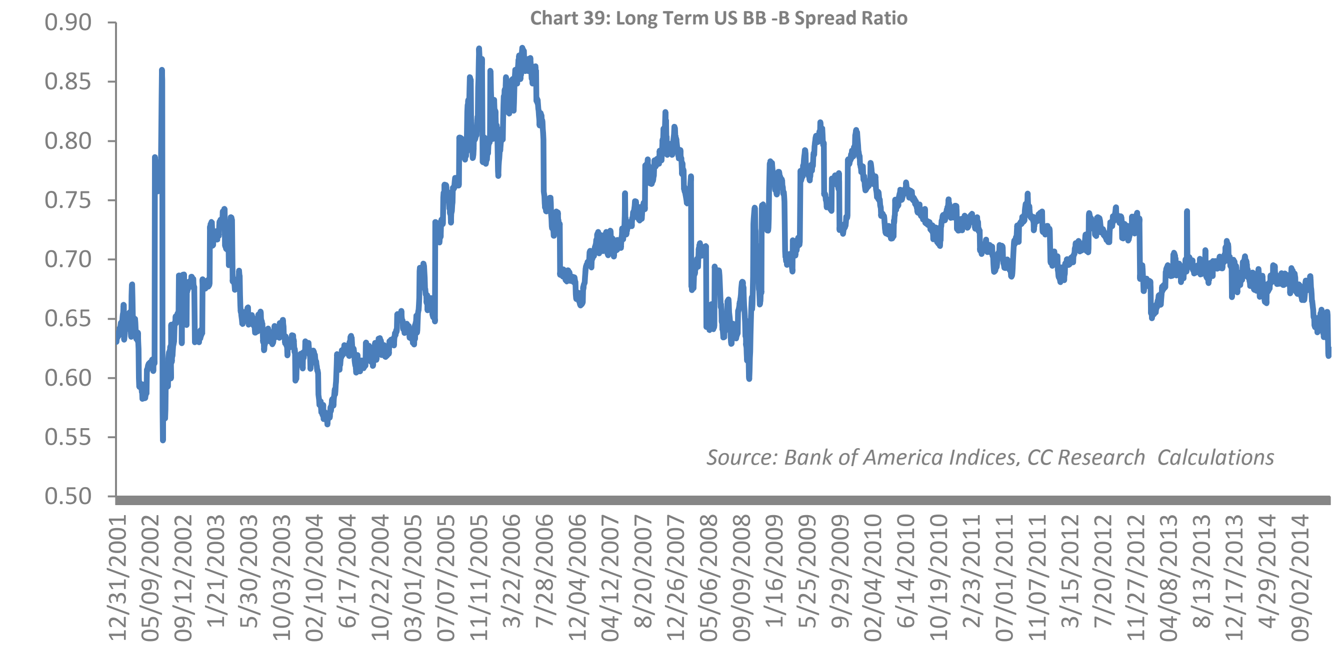
To conclude, we see scope for spread tightening by end H1 2015, particularly if the oil price would have reached a bottom by then.

Although we do not favour all USD rating buckets equally

The move towards a risk-off market in the last part of 2014 was not felt equally across the board, with the B+ and lower rated names impacted by a larger degree (see Chart 38).

Source: Bank of America Indices

As we will detail later, a similar and even more significant divergence occurred in the European High yield space but what surprises us is that whereas in Europe the movement is to some degree explained by renewed deflationary fears, the change in economic outlook for the US has not been as drastic. Against this backdrop we find the considerable re-pricing of the B-rated names relative to the BB-rated universe as hard to explain from a fundamental perspective and see scope for outperformance of the former segment. Our view stems from expectations for steady economic growth which are hard to reconcile with the multiyear lows reached by the ratio between BB and B spreads (see Chart 39) and by the spread gap between these two maturity buckets.



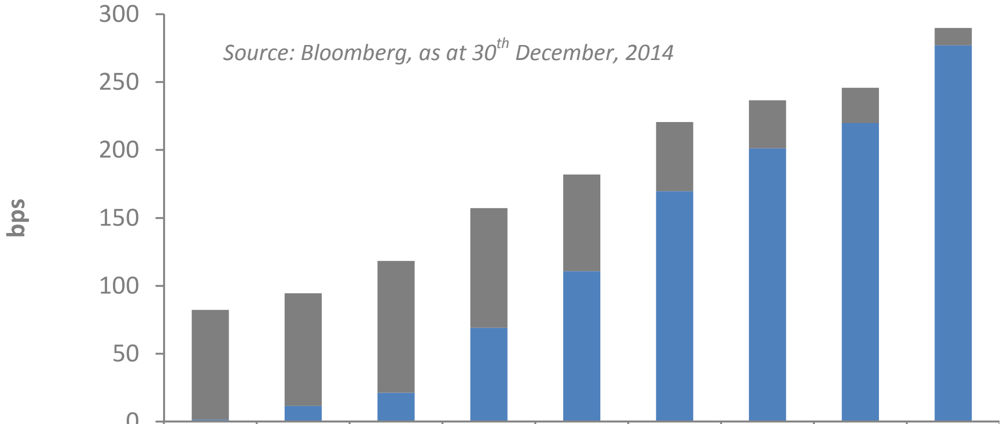
However, going further down the credit spectrum remains a sub-optimal option in our view as notwithstanding the recent widening in the CCC and lower rated names, the spread pickup and the spread ratio relative to the B-rated segment remains close to the long term median (i.e. 430 bps vs 415 bps, the median since 2000).

And USD total return might be limited to the coupons earned

Although we expect USD high yield spreads to reverse some of the ground lost in 2014, we reckon that the probable Fed interest rate hike/s is/are likely to impact the short term US yields which would affect valuations in the high yield market given its short duration (4.4 years for the Bank of America US High Yield Index). Indeed, whilst we expect long term rates to remain well anchored given the outlook for lower yields in the Eurozone and a lower inflation premium, the short end of the Treasury curve is more sensitive to monetary policy and as such most likely to adjust upwards over the next year (see Chart 40). Indeed, notwithstanding the meaningful decline in the 10 year rate over 2014, the 2 year and the 3 year yields rose sharply with the former doubling and the latter gaining circa 50%. Looking ahead, over the next 6 months we can indeed expect this trend to continue and extend to the 5 year maturity bucket (see Chart 40) which has proved to be resilient.

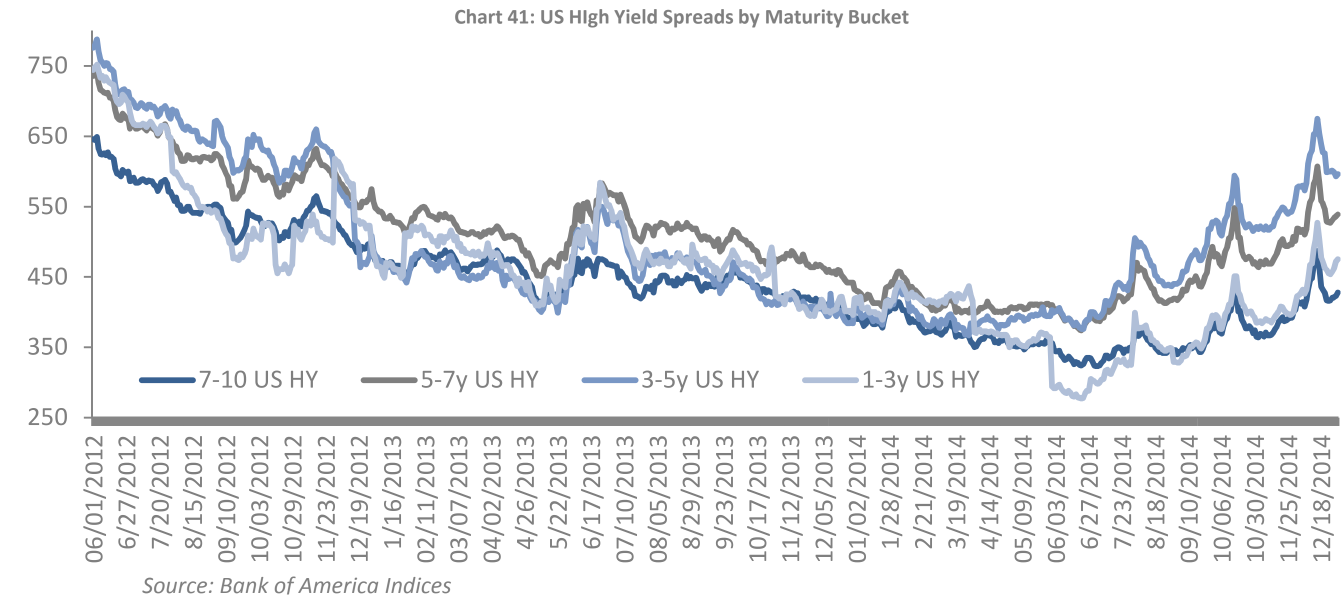
As such, we would not be surprised if the spread tightening posted over H1 would be offset by a rise in benchmark yields, leaving the total return hinging on coupons; this would still result in a healthy return if one considers that the average coupon for the BAML US High Yield Index is 6.9%.

Chart 40: Futures implied change in US rates

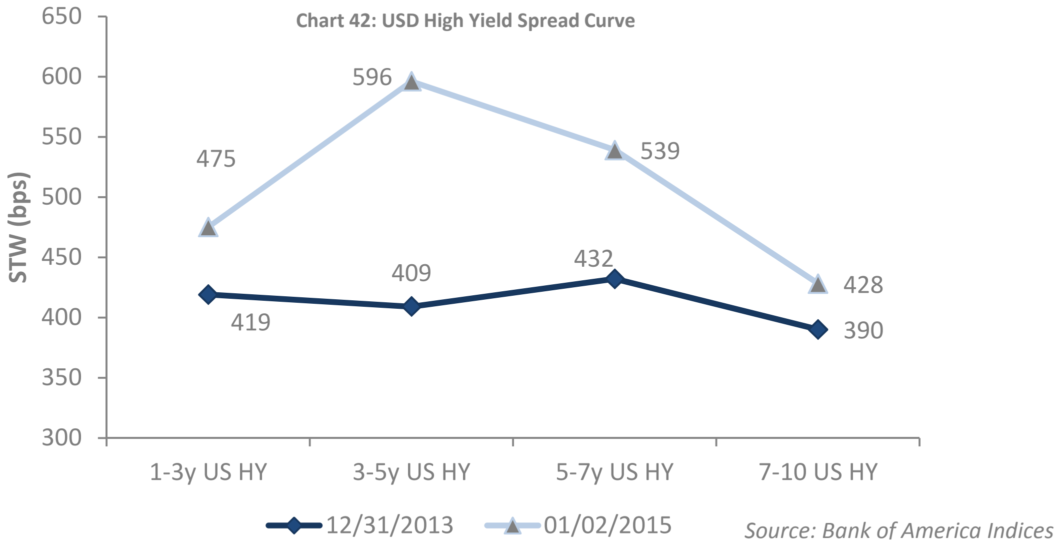


	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	30 Yr
Shift (bp)	80.8	82.8	97	88.2	71.1	50.9	35.4	25.8	12.9
Current	1.5	11.7	21.3	69	110.8	169.7	201.2	219.9	277

However, another corollary of our expectations for a flattening US yield curve (i.e. the longer end remaining steady whereas the short end will shift upwards), is that taking duration risk and going into longer dated paper should enhance returns. We favour in particular the 7 year maturities as the spreads for the longer maturities outperformed by a significant margin (see Chart 41).

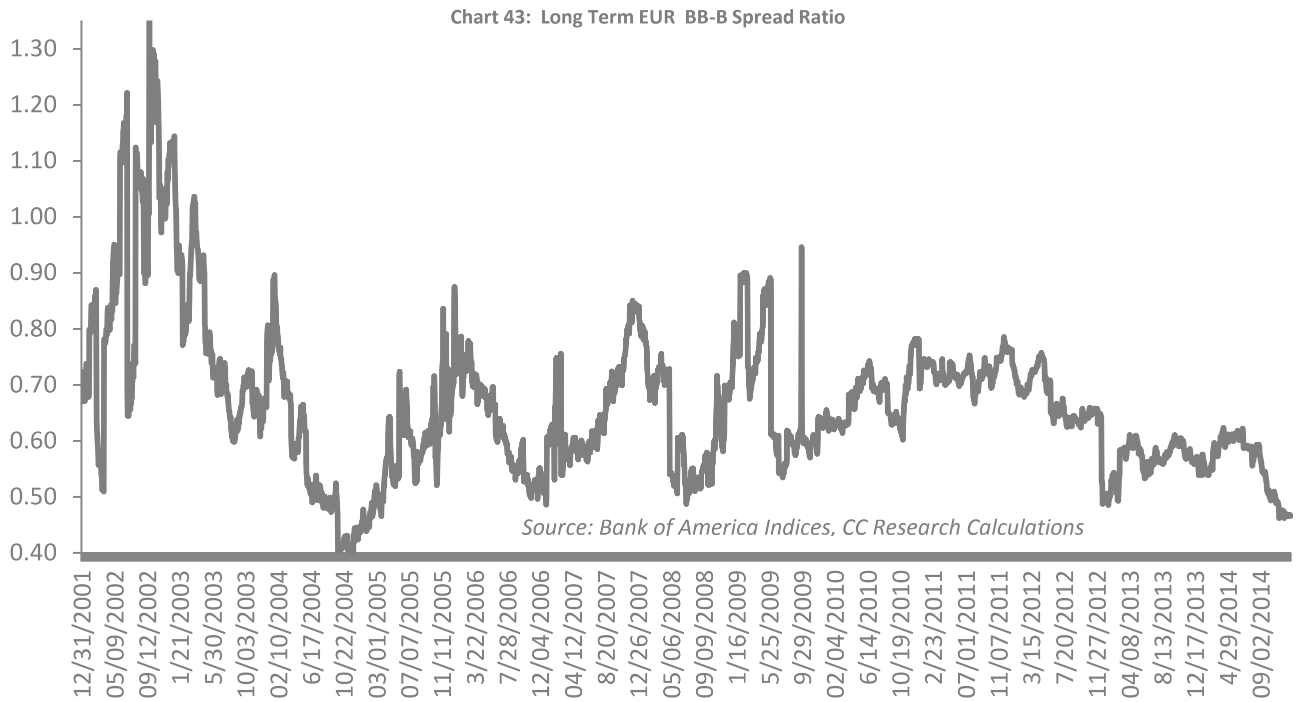


Indeed, whereas at the beginning of the year there was little differentiation between spreads across maturities, now the medium term spreads (3-7 years space)are meaningfully higher (see Chart 42).



The lower end of the European High Yield market over-penalised

When it comes to the European market, we have mixed feelings, as the segment has experienced a sharp decompression between the lower rated names and the higher rated ones. Accordingly, we witnessed the spread pickup between Bs and BBs widening and the ratio between the spreads offered by the two reaching levels not seen for the last 10 years (see Chart 43).



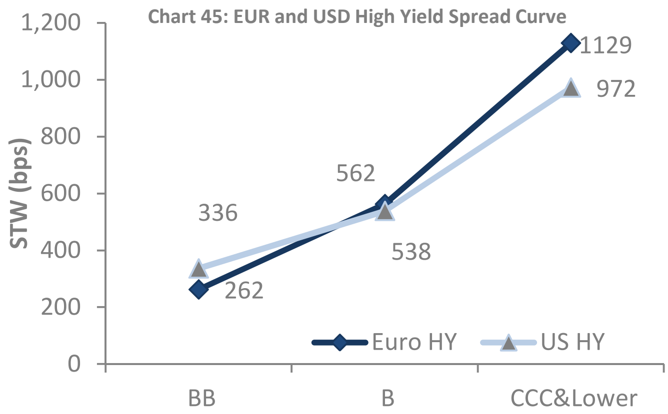
The sharp decompression is indicative of growth concerns which would impact the B segment by a larger degree given the larger incidence of cyclical names here and the inherently lower financial flexibility of these companies. Whereas we are sympathetic with the renewed growth doubts and remain sceptical about the economic outlook, we think that the markets may have overreacted, as one has to acknowledge that most high yield companies have gained some financial flexibility by lowering their funding costs and lengthening their maturities; over the last two years for instance the average coupon of the BAML European High Yield Index declined by 1 p.p.. Accordingly, we would expect the recent moves to be gradually and partly reversed with a full turnaround unlikely though given that deflationary woes are real at least for the weaker Eurozone countries and that investors' complacency might have decreased after so many years of excess-liquidity-induced trading.

With regards to the CCC and lower rated names, we recommend selective positions in such names, if any. To this end, we look at the spread advantage that this rating bucket yields relative to the Bs and find that there is room for further weakness. In addition, our prudent tone stems from the growth worries that we have already expressed earlier in this report and the greater vulnerability of these issuers.

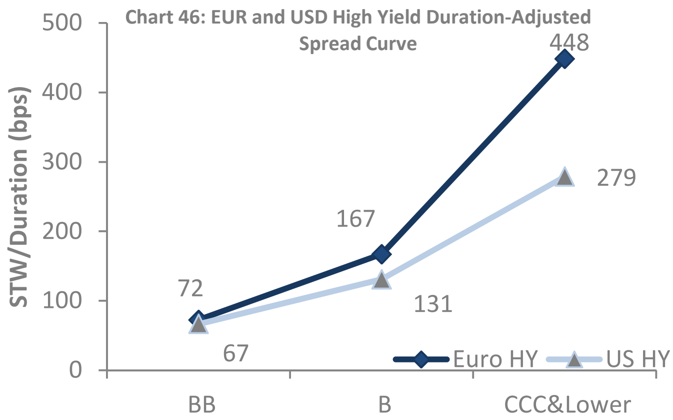
While the valuations for the EUR BB-rates look rich

European BB-rated names withstood the sell-off of the second semester very well with spreads widening by just 16 bps and closing the year marginally higher (see Chart 44).

Accordingly, as we mentioned just a few paragraphs earlier, the lower rated Bs now look relatively cheap or, conversely, the BBs seem comparatively expensive. However, there are other indicators that suggest that the BBs are at this stage a less appealing investment alternative. We looked for instance at the spreads on offer by maturity bucket in the USD and EUR high yield market and, as shown in charts 45 and 46, the higher rated names are positioned weaker, particularly if one takes into account the difference in duration.

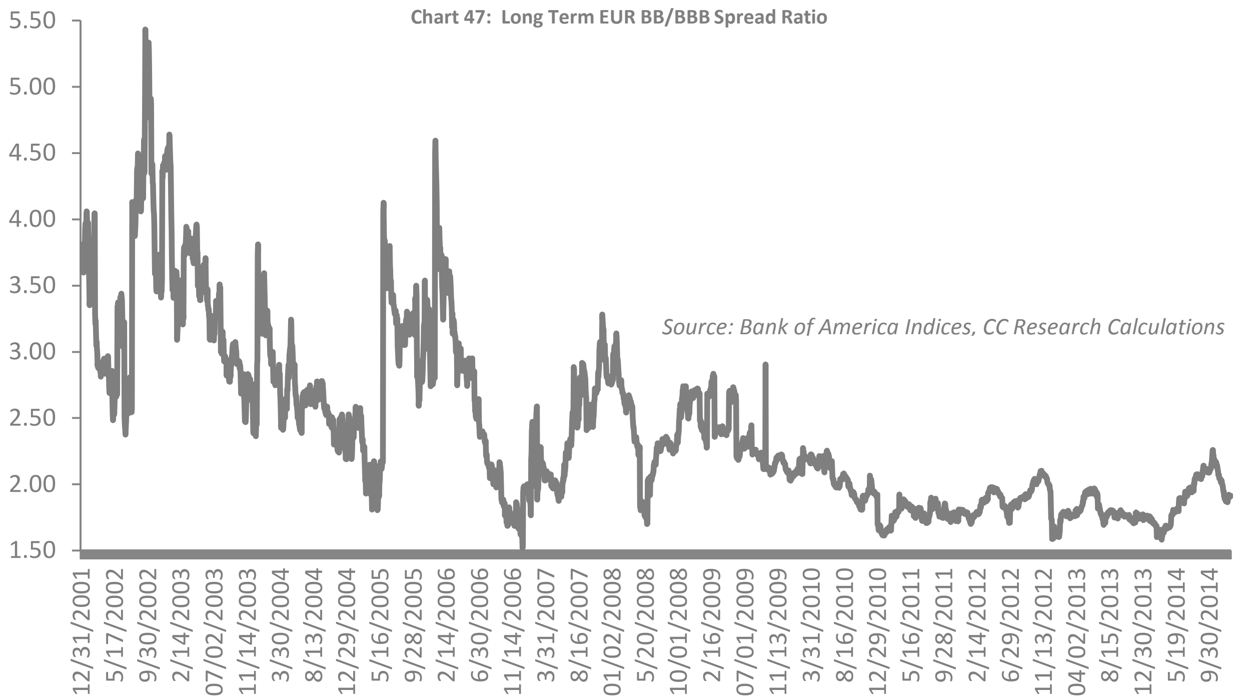


Source: Bank of America Indices



Source: Bank of America Indices

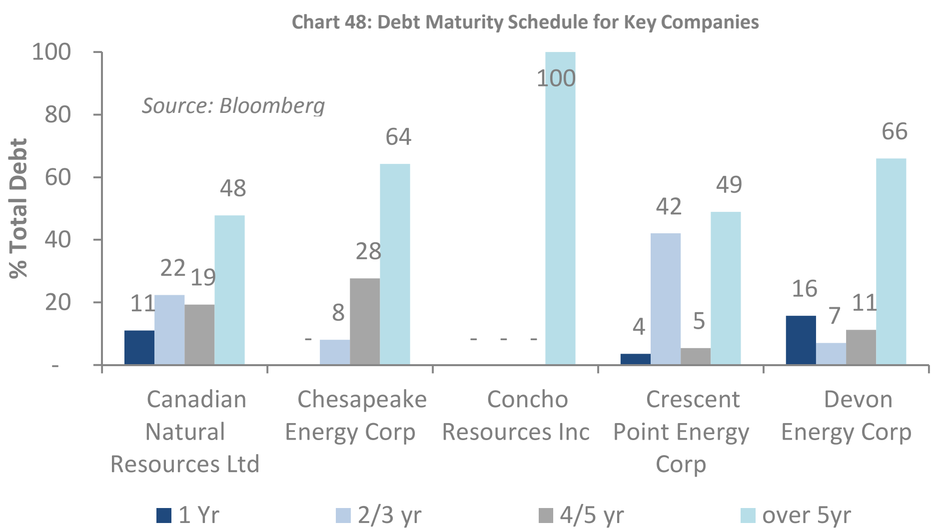
We also looked at how BB spreads compare with the BBB spreads and we find that notwithstanding the recent decompression, the BB to BBB spread ratio remains low by historical standards (see Chart 47), which suggests that the BB spreads are high when put against those for BBBs. This change in trend was brought about by a marginal widening in BB spreads and the concurrent tightening of the BBB names which benefited from speculations around upcoming QE and a falling yield environment which is constructive for Investment Grade. What is more, whereas in the earlier periods the search for yield was spurred by falling yields and the easing measures announced by the ECB supported the demand for BB names from investors traditionally focused on Investment Grade issuers, this trend appears to have run its course. To put it differently, any upcoming QE-like measures or the continuous fall in IG yields are likely to have a lower, if any, direct effect on BB valuations.



Having said this, we acknowledge that overweighting Bs is not suitable for all investors, for which reason, for more risk adverse portfolios, we would recommend combining such names with BBB-rated bonds to build a portfolio more aligned to the investor's risk taking ability. We highlight that as detailed in Section IV, BBBs are our top pick among investment grade rating buckets.

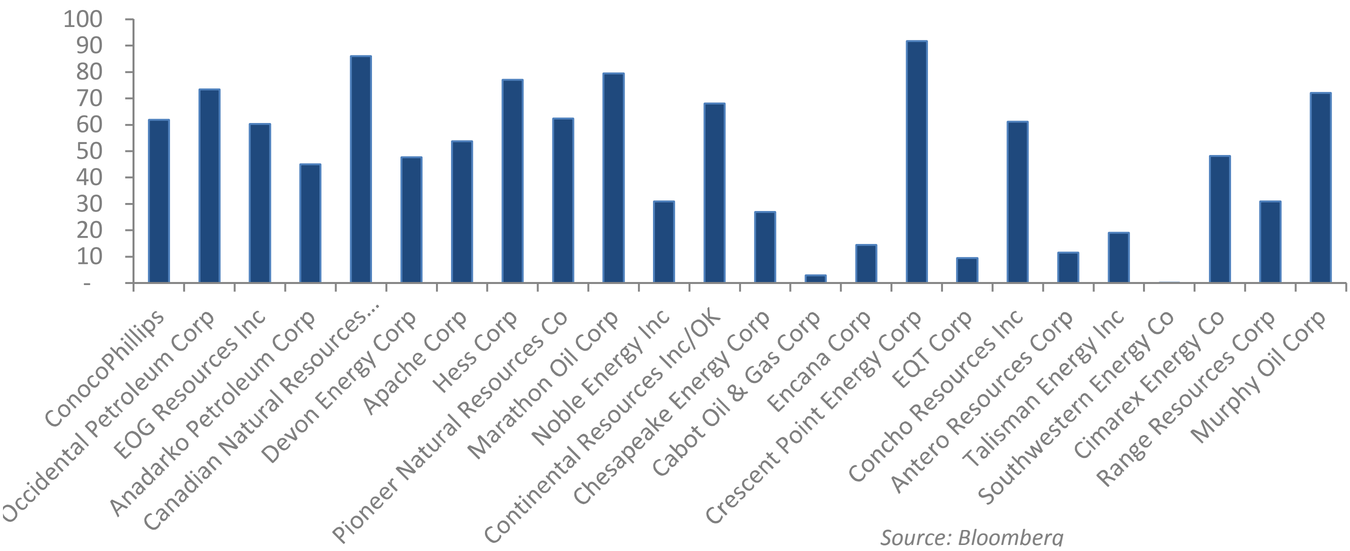
Commodity related names prone to underperformance in the short term

One of the key trades over the last few months in the high yield space (EUR and USD) has been the marked fall in bonds issued by commodity producers. From what we can infer, this reflects a combination of factors, most notable of which are (i) the plunge in oil prices; (ii) subdued data coming out of China and its commitment towards redefining its economy away from infrastructure-induced growth; (iii) renewed deflationary fears and (iv) iron ore's downtrend which defied analyst's expectations.



Much has been said about the sell-off in energy names and the exposure of the US high yield market to this sector in the aftermath of the shale gas boom. Indeed, the novelty of this energy segment is what complicates the assessment of the consequences of lower oil prices and concurrently increases investor uneasiness. Determining the break-even costs of each company and assessing their financial flexibility -debt payback schedule, liquidity metrics, and interest coverage ratio- is hence key at this stage; indeed, some names among which Chesapeake, Devon Energy and Concho Resources seem to benefit from more manageable debt maturity schedules (see Chart 48). It is also critical to look at the split between gas and oil production/reserves as the gas market remains a local one and thus, somewhat shielded from the global oil dynamics. In order to provide an insight into how different the US energy names are, we looked at the largest companies in terms of market capitalization and find that for some names the reliance on oil is less than 50% (see Chart 49); for names like Chesapeake and Range Resources, the oil component of the reserves stands at around 30%. To sum up, looking at the long term trend in energy spreads is likely less helpful as the structure of the market changes dramatically and name selection more instrumental in identifying investment opportunities.

Chart 49: % Oil Reserves



Moving away from energy names, we note that weakness has been significant in other commodity-related names, such as iron-ore miners, coal producers and steel-makers to name a few. With all these sectors having a significant exposure to China, it should come as no surprise that the prices for these commodities had a weak 2014 as a slowdown in credit growth took a toll on demand. Coal names were among the first to suffer as metallurgical coal (used in steel production) failed to rebound and added to the woes in the thermal coal market which has been undergoing a structural change post the US shale boom. With metallurgical coal (aka coke) poised for a mild turn according to the current consensus (see Table) versus recent history, any recovery of coal-related names is likely to be deterred and stock picking seems the most feasible option for entering in such names, if at all.

	Spot	2015	2016	2017	2018
Coal Ric Bay $/MT	64	76	82	85	n/a
Hard Coking Coal AU USD/MT	114	123	140	153	155
NYMEX WTI $/BBL	53	72	80	83	75
ICE Brent $/BBL	57	77	85	89	77
NYMEX Henry Hub $/mmbtu	3	4	4	5	5
Gold $/t oz	1,187	1,195	1,219	1,200	1,176
Silver $/t oz	16	18	19	20	18
Aluminum $/mt	1,859	2,056	2,193	2,241	2,327
Copper $/mt	6,290	6,712	7,000	7,038	7,214
Nickel $/mt	15,050	18,125	20,219	20,000	19,139
Zinc $/mt	2,142	2,342	2,450	2,600	2,493
Steel-Hot R. $/ST	600	617	618	n/a	n/a
Iron Ore Fines62% Fe spot USD/	69	82	87	91	90

Source: Bloomberg, as of December 30th, 2014

The iron ore market seems to share some similarities with the coal market as, similar to what happened earlier with coke, prices here failed to bottom and continued trading lower despite many commentaries which see prices below USD100/mt unsustainable given the current cost production curve. To put it simply, it is widely acknowledged that Chinese producers are unprofitable at such price levels which makes a decline in supply likely and hence should act as a balancing mechanism for the market. However, such projections were proven wrong and many commodity analysts were repeatedly forced to cut their estimates, with prices now expected to remain below USD100 into 2017 (see Table above). To put these figures into perspective, we highlight that at the beginning of 2014, the prices were in the USD130 range (see Chart 50). The trend reflects the strong increase in supply as a number of Australian projects are coming online while demand is failing to keep up with the momentum.

Chart 50: Iron Ore Spot Price 62% Fe

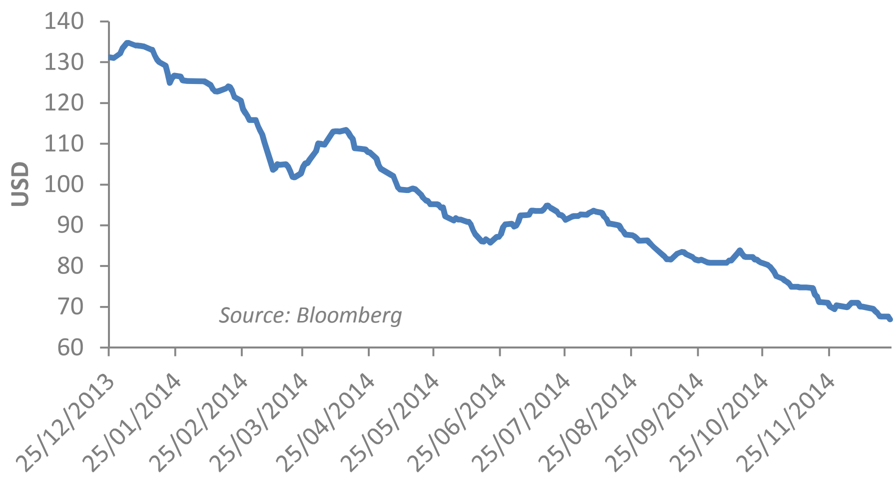
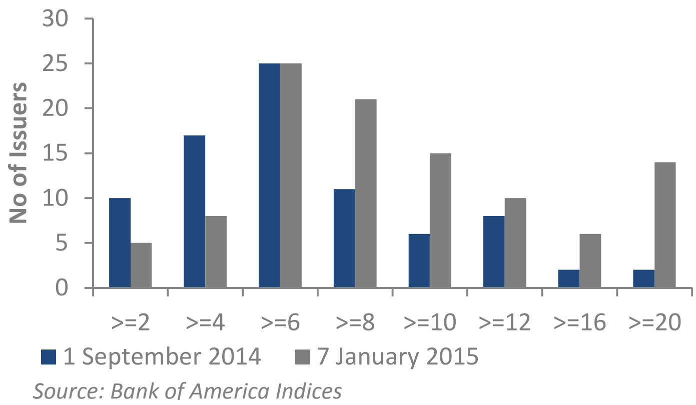


Chart 51: Distribution of YTW for US High Yield Metals & Mining



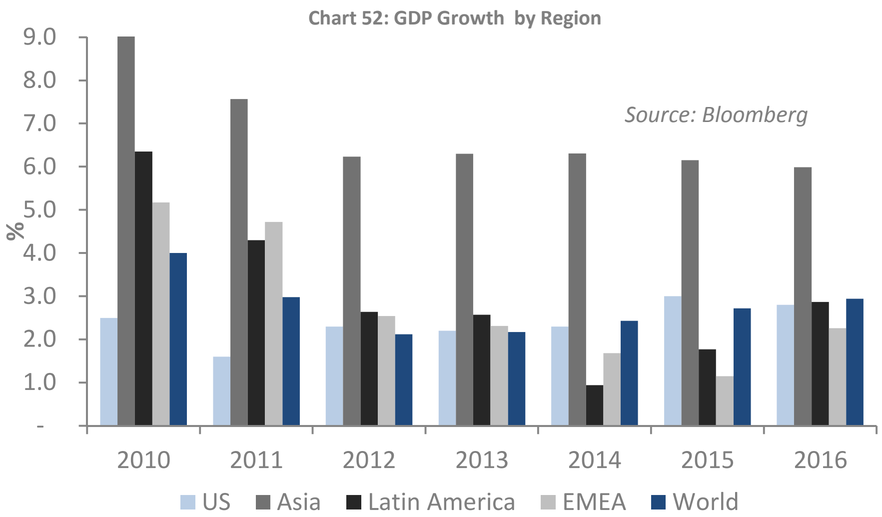
Having said this, we note that more recently it was reported that iron ore inventories in China declined to an 11-month low, while China disclosed a USD1.1 trillion infrastructure investment programme. Such headlines bode well for the iron ore sector although we expect investors to adopt a cautious stance until iron ore prices show signs of recovery. Indeed, this is where we find a similarity with the coke-related names – the drastic disappointment in previous quarters is likely to have left investors more cautious. However, we also note that some of the leading iron ore miners have production costs below current prices and hence look set to withstand a longer iron ore bearish market even if the margins will be at less comfortable levels. In addition, more risk adverse investors could opt to look into more into diversified miners, such as Vale, which has exposure to the nickel market as well.

Finally, we note that the outlook for other commodities, such as nickel or aluminium, looks relatively more supportive reflecting different supply dynamics; the nickel market for instance has been affected by the exports ban imposed by Indonesia. Accordingly, we would take advantage of widespread widening in mining names (see Chart 51) and add to conviction names.

Differentiating among emerging market names will be key

Over the summer months to pretty much the end of the year (with the exceptional short term blips experienced in the interim) credit investors seem to have fallen out of love with Emerging Market and High Yield bonds. With market consensus indicating higher US rates forecasted for 2015 coupled with the persistently declining price of oil, emerging markets are in for a bumpy ride ahead. Tensions in countries such as Venezuela (highly dependent on the price of oil), Argentina (virtually on the brink of another default) and the infamous Ukraine-Russia crisis coupled with significantly lower commodity prices overall and sharp currency depreciation in EM have weakened the outlook for many EM economies. The recent (surprise) rate cut by China's central bank strongly indicated that China's growth momentum is slowing down, with the overall Asian economy set to be the likely victim in the short-medium term. Brazil too has had its fair share of negative economic data trends; it has recently been confirmed that the country posted a trade balance deficit of $3.9bn in 2014, its worst 12-month streak since the summer of 1999.

When it comes to emerging market issuers we think increasing differentiation remains essential as some of the key economies in this space look set to underperform the US, some will be challenged by the lower commodity prices while others will accrue benefits following the recent decline in oil. Starting with the latter, we note names such as Turkey, India, Thailand, Philippines, South Africa or Poland. Indeed, we believe that most of the Asian Emerging countries should be positively impacted by the fall in oil, with one of the most notable exceptions being Malaysia. Equally encouraging, this region looks poised to be the only one for which growth will be above the world growth rate (see Chart 52, based on Bloomberg consensus). Conversely, the Latin America region is generally due to suffer from a bearish oil market, although we do find a noteworthy exception in Chile.



Among the most vulnerable countries, we highlight Venezuela, which has long deferred a liberalization/devaluation of its currency and a rationalization in government spending; accordingly, the country saw sizable budget deficits and suffered a fall in international reserves with the recent fall in oil prices now setting the stage for a default or, at best, a meaningful devaluation of the currency. Recently, Maduro announced that his government had secured more than $20bn worth of investments from China targeted at Venezuela's economic, social and oil-related projects but no details were provided. The country's sovereign bonds have plunged dramatically in 2014, its benchmark 2027 bonds are trading as low as 40 from around 75 a year earlier; reflecting the structural problems with the country's economy and the potential default. Maduro's government could be in severe jeopardy should significant shortages spark protests amongst the general public.

Moving away from commodities, the business environment and the reform track record will also be instrumental for attracting investors, and India and Indonesia provide two recent positive examples in this respect; at the other end we note South Africa which is also suffering from lower prices for its export commodities (eg. coal, gold, iron ore). On a similar note, we highlight Brazil's case, which has fallen victim of supply-side constraints after the government's interventions fuelled consumption and wage growth while doing little to support corporate investments. As such, the country's economy headed slowly towards recession while inflation remained elevated. Adding to the ongoing weakness in commodities, the outlook for this year points to subdued growth, with Bloomberg consensus seeing GDP advancing by a mere 0.9%. Furthermore, the local corporates recently suffered a setback from the Petrobras-related corruption allegations which has made investors increasingly cautious and put additional pressure on bond valuations. The movements were large enough to lead to the postponement of some bond placements with Marfrig and JBS being two such names which are familiar to our readers. Accordingly, given the uninspiring growth outlook, the risk of portfolio outflows and a deferral in reforms, we see the risk of further weakness in Brazilian names and see such positions suitable for investors with a longer term horizon.

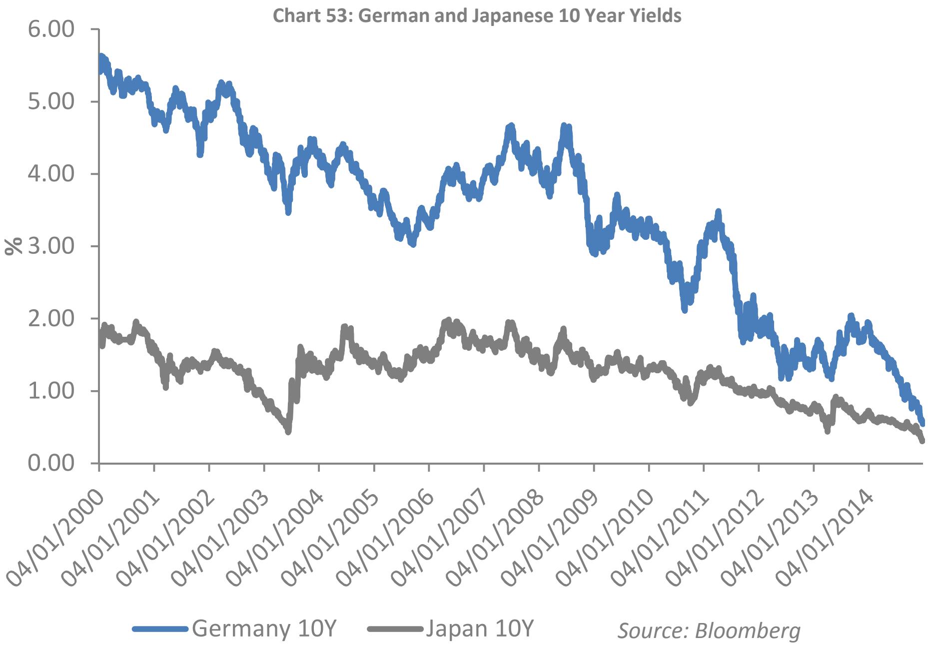
Russia is another emerging country which will likely be shunned by investors as, even if oil prices rebound, the recent geopolitical ambitions and an unfavourable business climate will deter capital spending and limit the growth potential going forward. Indeed, even before the Ukrainian crisis came about, the country was already exhibiting signs of limited growth as subdued investments acted as a drag.

It is evident, the mood and tone in EM economies is slowly fading away which is why we would tend to shy away from Emerging Markets in 2015.

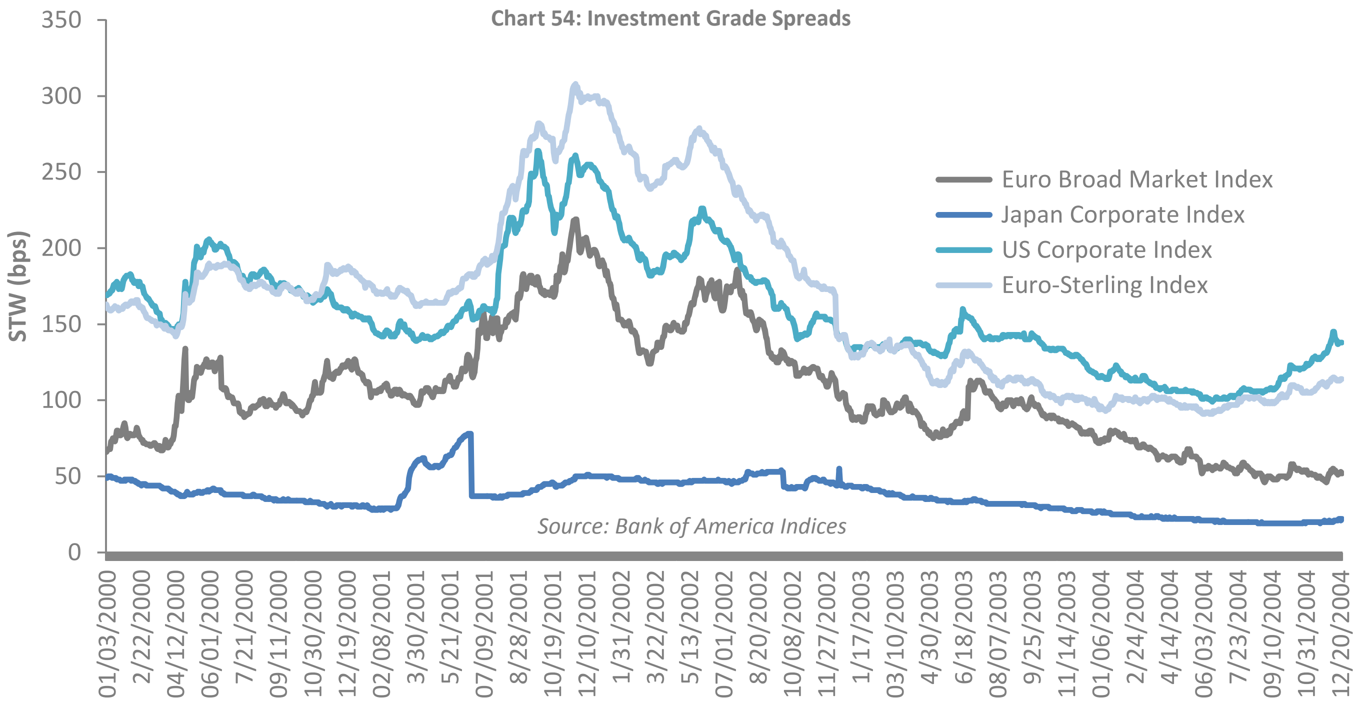
Section IV The outlook for the Investment Grade Market

European Investment Grade has the potential for another year of good returns

Growth in the Eurozone remains weak whilst current valuations point towards a subdued economic recovery. The only move in credit markets which could prove to be spread supportive within the IG space is an imminent fresh wave of QE by the ECB. With spreads already at ultra-tight levels potential for more tightening may appear to be limited although not absent if one compares European and Japanese spreads (see Chart 53). Furthermore, if the benchmark Bund still has room to rally from this point forth (look at the spread between German and Japanese corporate yields in Chart 54), corporate spreads could tighten further and returns see another boost. We are aware also that the front end of the European yield curve is expected to remain flattish and anchored at low levels following the commitment from the ECB for a new round of QE.



Besides this, and following the lacklustre performance of credit markets in the second half of 2014, we do not exclude market participants will position themselves more defensively and shift out of HY into IG. We are of the opinion that IG credit will continue to outperform HY in the first half of 2015 as liquidity conditions (in terms of



inventory, spreads and traders willingness to take on more risk) in IG remains more abundant than in HY. In the first half of 2014, the risk-on trade was inherited from the latter trading sessions in 2013 as global growth prospects spurred demand for risky assets (HY) while IG also enjoyed positive investor flows as investors sought to hop-on the risky band-wagon. However, as economic conditions and the Ukraine-Russia crisis progressed, risky assets turned out of favour and investors shifted their preference from HY to IG in the latter part of 2014. This resulted in IG posting remarkable full year 2014 returns, clearly standing tall of its HY counterparts.

The major theme playing along with investors' minds and expectations in the first half of 2015 is that of the contemplation of what markets will look like (or what state they would be in) in a life after QE and the end of 'lower rates for a prolonged period of time' in the US and the UK, and, on the contrary, even more liquidity in the Eurozone and Japan. These views have resulted in significant portfolio changes in the final months of 2014; investors shortening their duration bias to be more market neutral in the US and UK and longer dated bonds in the Eurozone against a backdrop of low global growth in general, with the added phenomenon of stagnation/deflation in Europe.

European fundamentals supportive

Notwithstanding a declining trend in credit fundamentals, default rates remain historically low (albeit, according to a recent report from Moody's, they are expected to embark on an upward trajectory in 2015) as more rating downgrades could be on the cards in the months ahead). In the past few years, corporations around the world took advantage of favourable credit conditions, most notably the declining yield environment, to lock in additional financing at attractive rates whilst prolonging the profiles of their outstanding debt obligations.

The weakening euro is currently on a downward spiral, as economic data continues to disappoint and, more recently, talks of Greece exiting the euro, further exacerbated this move in recent trading sessions. We believe this can be supportive for European IG, as a large number of European IG issuers are multinational corporations working their trade outside of the Eurozone and are thus major beneficiaries of such a move.

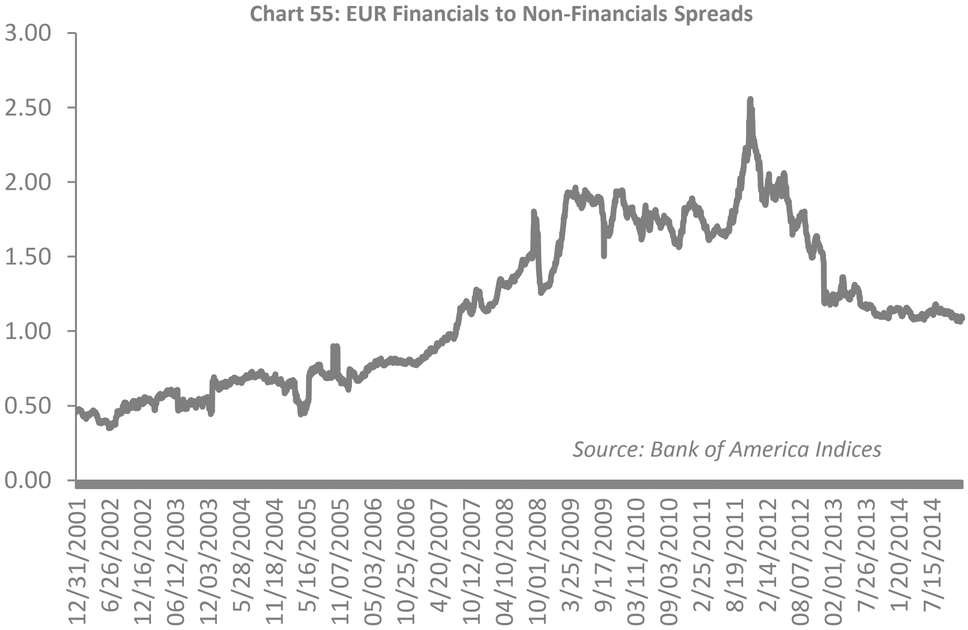
Following a lacklustre global economic performance in 2014, we expect 2015 to result in a marked improvement in economic conditions. We remain cautious on a strong recovery as risks to the downside are abundant, most notably in Europe, as reforms, elections, geo-political tensions, and debt-laden economies weigh on economic sentiment and investor's willingness on adding more risk.

Having said this, we do not exclude healthier credit fundamentals in the months ahead. Weak growth in the Eurozone could well translate into greater balance sheet discipline, as capital expenditure as well as shareholder friendly measures could be kept at bay, resulting in an overall decline in company indebtedness. Furthermore, a combination of low interest rates and increased demand from insurance companies for credit has enabled companies to extend the debt maturities profile thereby improving their overall credit profile. We expect this trend to persist, most notably within the IG space, in 2015. On a final note, operating margins could be on a positive trajectory for the early months of 2015 as a decline in the price of oil, a weaker currency and downward pressure on wages (Germany is a clear example), could translate into improved bottom line.

European Financials provide attractive opportunities

For Banks, the main drivers behind the increase in senior bond issuance in 2014 were the slowdown in deleveraging and to some extent LTRO repayments. However, the biggest key development within the financials space has been the increased supply in Banks Subordinated issuance as financial institutions sought to further increase their T1 capital in order to comply with the new capital ratios. Heading into 2015, even though due to forthcoming TLTROs there will be less need for Senior issuance, apart from the amount due to be issued encouraged by TLAC, banks are not expected to replace Senior issuance with TLTROs, with bank senior issuance expected to witness an increase in 2015. For several years in fact, net financials senior issuance was negative so this year we could well see a reversal in this trend. Nevertheless, looking at the spread ratio between financials and non-financials (see Chart 55) we could see further compression between the two segments.

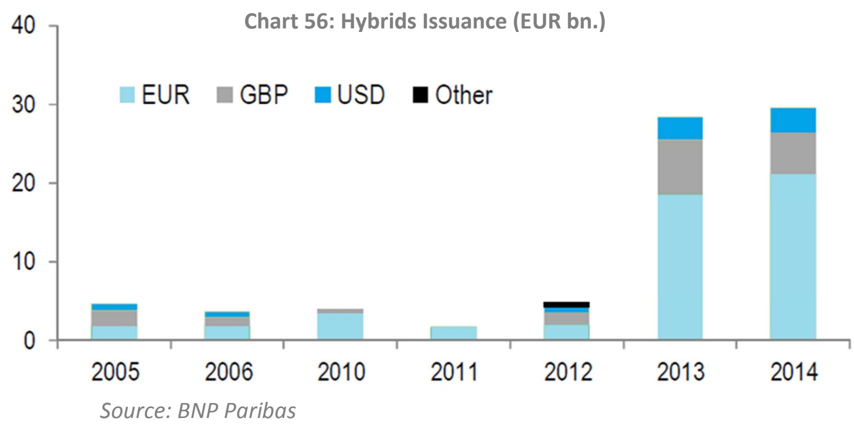
Within the European Insurance space, the key driver for bond supply over the years has been the natural refinancing of debt, either at first call date or bonds due for maturity. However, in the latter stages of 2013, this market dynamic changed, as insurers sought to not only refinance bonds due to mature over the subsequent 2 years ('14 and '15) but also to exchange debt with longer maturities and hence take advantage of market conditions. As far as the Insurance sector is concerned, we will be looking at 3 key themes, primarily; the gearing up under Solvency II; the refinancing of upcoming maturing bonds; and, the likelihood that insurers will refinance bonds with longer maturities, for example, in the form of a Liability Management Exercise.



Supply-Demand dynamics remain supportive for EUR IG

Technical factors were also a steady support for the market in 2014 as the European IG market saw strong fund inflows. On the supply side, bond issuance in 2014 was strong in IG, with a total print of ca. €630bn in euro terms, an increase of ca. 14% from the previous year. However, in net terms the amount was much lower as the ongoing bank deleveraging resulted in negative issuance of senior bank paper.

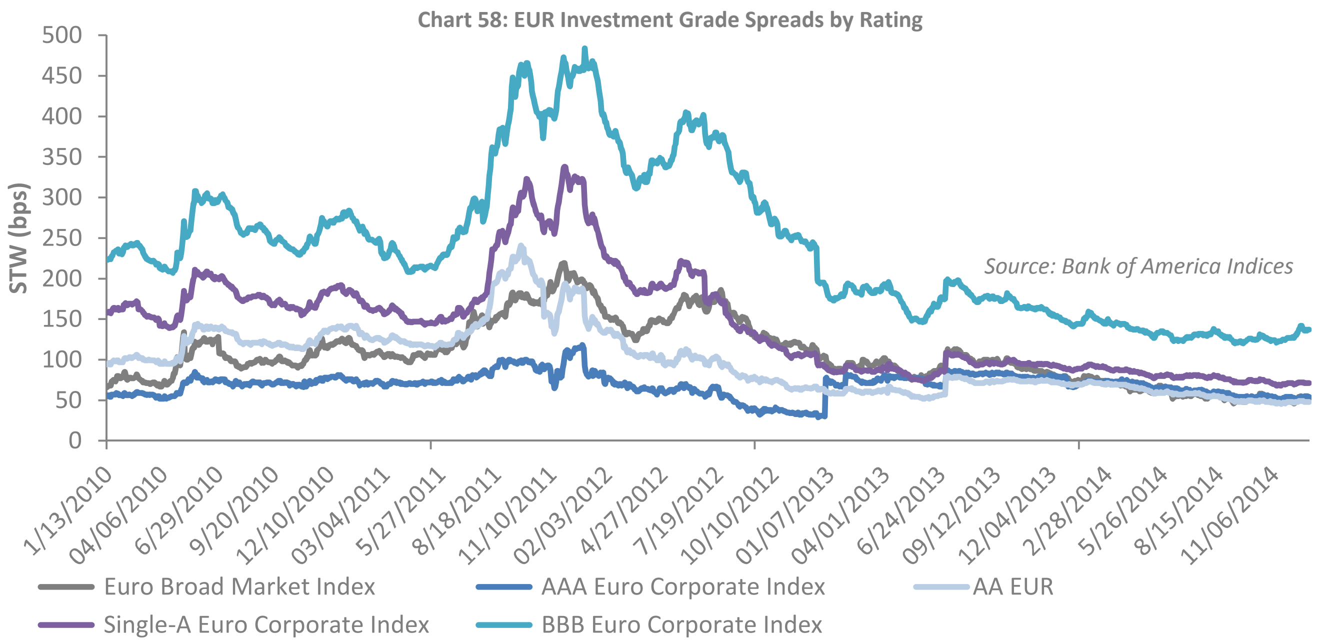
As a result of the increased demand for IG, issuers within this space sought to test the markets once again, printing more bonds in the form of senior and corporate hybrid issues, with a large number of issuers issuing corporate hybrid bonds for the very first time and issuance of such bonds remaining in the EUR30 billion area (see Chart 56). We expect this dynamic to persist in the first half of 2015; with economic growth in the Eurozone subdued, inflationary numbers anchored at low levels, and the next round of ECB QE around the corner, IG credit (despite the limitation of further spread potential, although it is worth mentioning the 10-Year German government bonds are yielding ca 0.50% at the time of going to print) stands to be well supported, and we feel that more issuers will be seeking to take advantage at the 'ridiculously' cheap levels of financing as fund flows should continue to be supportive from the demand side. M&A activity may well further accentuate this dynamic, although the confidence in the European economic outlook does not yet seem to support a substantial pickup in such transactions.



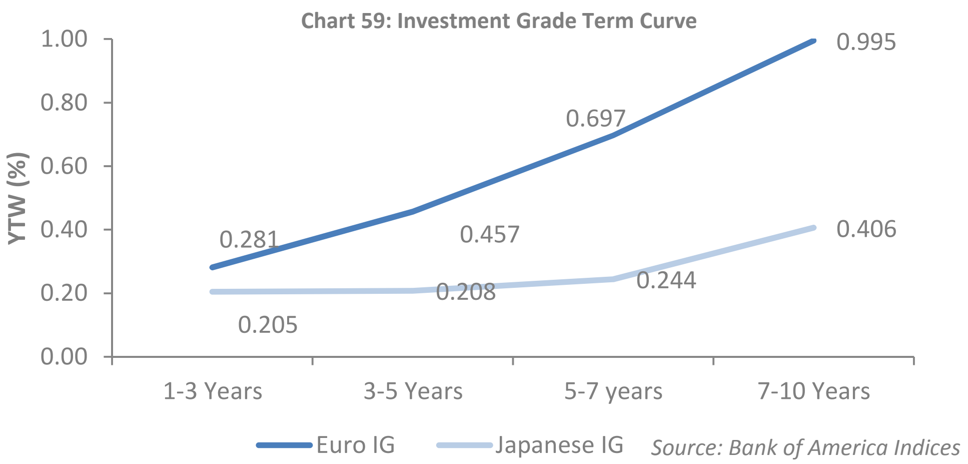
In 2015, banks are expected to issue more Senior paper, with the TLAC (Total Loss-Absorbing Capital) expected at 20bn (net) in euro terms given forecasted redemptions amounting to ca 65bn in euro terms. At the other end, with the ECB expected to enter the fray with its asset purchase programme, demand should get a further boost. Clearly, expanding its balance sheet to €1trn will not be an easy task for Draghi and his team, and doing so through the purchase of sovereign bonds solely will not be feasible, which is why we expect the ECB to add corporate bonds to its shopping list, similarly to what the Bank of England had done. Lessons could be learnt from the Bank of England's QE move, but the ECB's challenge at this stage is whether the supply will be sufficient. Nevertheless, the markets feel the need for something to happen, quickly, as the psychological impact could be very significant, in a positive way.

Where do we go from here? EUR IG to tighten more

Well, stubbornly low yields coupled with persistently low levels of realised and expected growth can only be supportive for the asset class offering fixed (known) streams of cash flow. What is certain is that in 2015, credit selection within all credit rating buckets will be the key for returns, which is why we are shifting from a beta-driven market to an alpha-driven market, which is a healthy move for credit on the whole. Good credits will be singled out from bad credits and this should remain supportive for credit overall, most notably IG. In view of this, we see IG credit spreads as having an overall tightening bias in 2015. Having said this, we expect an increased spread differentiation within the different sectors, and markets as specific idiosyncratic/sectorial risks are expected to remain elevated in a scenario where the economic backdrop and the reassessment of credit risk remains benign to say the least, most notably within the HY space.



We view BBB rated bonds as being the sweet spot within the IG space as it appears to offer the right balance between safety, attractive yield and capital preservation, as they clearly underperformed in 2014 (see Chart 58). All in all, given current market conditions, we would tend to prefer opting for higher duration lower rated bonds to generate yield, as the fundamental and technical backdrop remain supportive of credit, as the so-called "Japanisation" process of European credit markets persists. In fact, the Japanification would imply further bullish flattening of

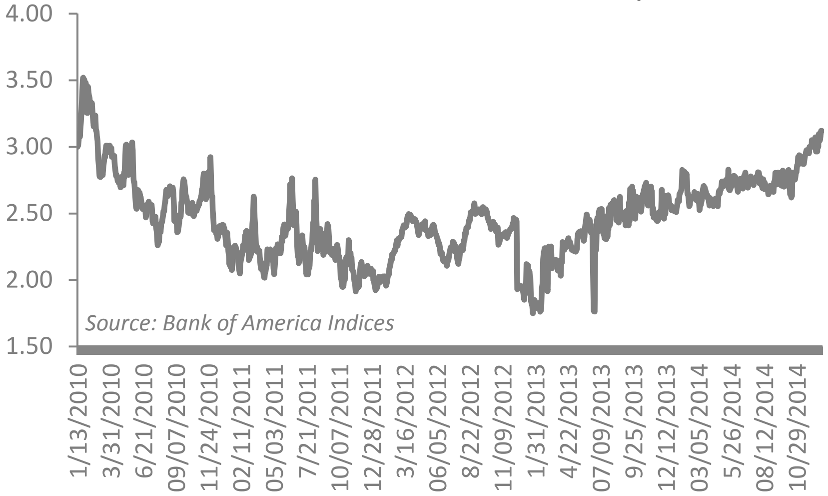


the spread curve from current levels (see Chart 59).

In the IG space, taking a look at the term structure of credit markets, we favour a long-to-neutral duration bias. We are aware that benchmark (sovereign) yields will eventually rise in the medium term (when this happens, the longer dated bonds will clearly bear the brunt), although it is yet unclear as to when this could possibly happen. Till then, we feel comfortable taking on additional risk by earning a higher yield through the extension of overall portfolio maturities (7-9 year maturity) within the BBB rating bucket.

Following an expected QE corporate bond announcement by the ECB, single A rated bonds would be the first to rally, aggressively (relatively from current levels) with a domino effect as we go down the ratings ladder, keeping IG supported. Furthermore, a slight growth revival could well translate into improved credit fundamentals and keep default rates contained.

Chart 60: EUR Subordinated to Senior Spreads



Finally, given the ongoing fall in yields, hybrids stand out as an attractive option for some extra yield pickup. Indeed, looking at the spreads offered by the non-financial senior paper and those of the subordinated bonds, we see scope for further tightening in the latter (see Chart 60).

Risks to the downside for European corporate credit in 2015

Re-emergence of Eurozone tensions will undoubtedly rattle European credit across all spectrums. We have a handful of elections to contend with this year, inside and out of the Eurozone; if there is an increase in the votes for anti-euro parties anti-EU parties, tensions could rise. Greece and the UK are possible candidates, lest we forget the situation with the Scotland referendum, which however had a short-lived effect. Markets can also lose faith in the ECB and its strategies, which, so far, have failed to revive investor expectations. Furthermore, renewed fiscal pressure and the delays of structural reforms could trigger ballooning of spreads in peripheral countries, which could disperse onto European credit.

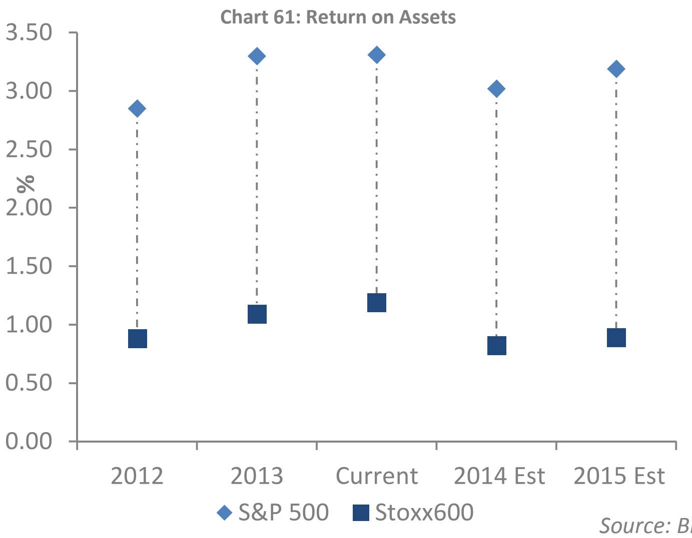
European growth frails. If the US recovery loses momentum, China and Japan slowdown more than market consensus and European consumption plummets, the Eurozone could run into fresh trouble, with the HY market being more susceptible to a correction than IG.

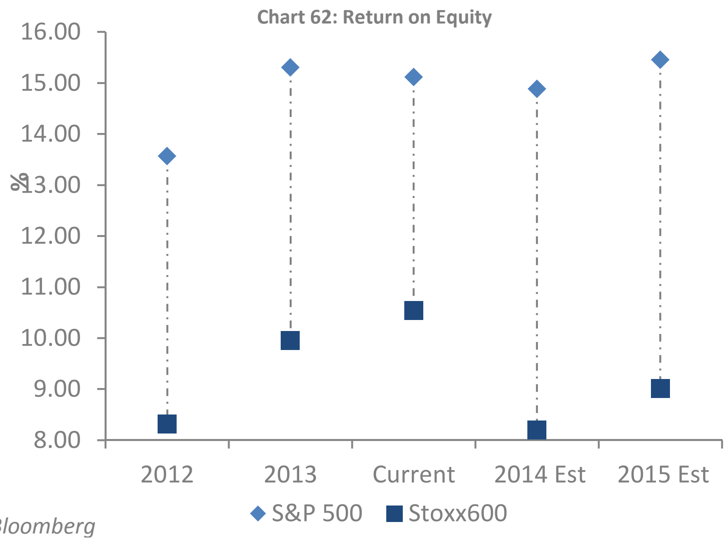
Increased M&A activity will increase leverage and result in deteriorating credit metrics. Most of the deals in 2014 were limited to the telecoms sector, but if the trend starts to spread to industrial companies, the auto sector, or even commodity producers like the oil companies, then European credit might be in for a bumpy transition. However, chances are for now this scenario is unlikely to unfold as slow growth coupled with weak valuations make the target companies relatively unattractive.

QE could disappoint investors. ECB has the challenge of structuring a programme that will convince investors that it is on track to expand its balance sheet to EUR3 trillion and negate its history of sometimes reacting slower than expected and being too conservative. Should it fail to act credibly enough, we would expect the core sovereign yields to continue falling on fears of deflation, but the spreads for corporates would probably widen significantly, particularly in the high yield space.

The US IG market is lagging behind its EUR counterpart.

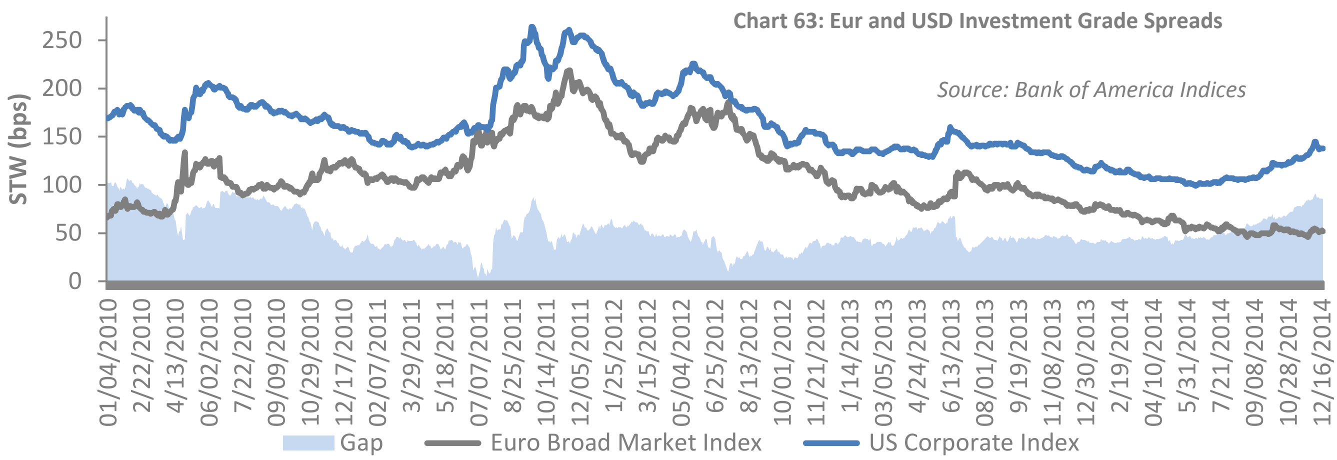
Several years of strong USD issuance contributed to the underperformance of the USD IG market relative to the EUR market (which in turn benefited from negative net issuance courtesy of the abrupt deleveraging of the bank sector). In addition, the USD segment of the market was faced with higher concerns around fundamentals as a more advanced economic cycle comes with several risks for bondholders of such names (i) increased M&A activity (ii) more emphasis on shareholders friendly measures – dividends and share buybacks- in a bid to support stock valuations and return the excess cash to investors (iii) limited scope for additional improvement in margins and (iv) larger sensitivity to monetary policy changes given the longer average maturity of this market. While the last argument likely lost its importance after the significant drop in long term rates and the increasing support that these maturities have seen from the fall in inflation expectations, the remaining factors remain relevant. Indeed, M&A, share buybacks and dividends resulted in significant cash outflows, whereas the profit margin, the Return on Assets and the Return on Equity remained broadly unchanged for the S&P 500 companies. What is more, the improvement in labour market conditions and the recent appreciation of the USD are expected to act as headwinds for the US companies' profitability and make investors question the sustainability of the large gap between the US and European corporate margins (see Charts 61 and 62).





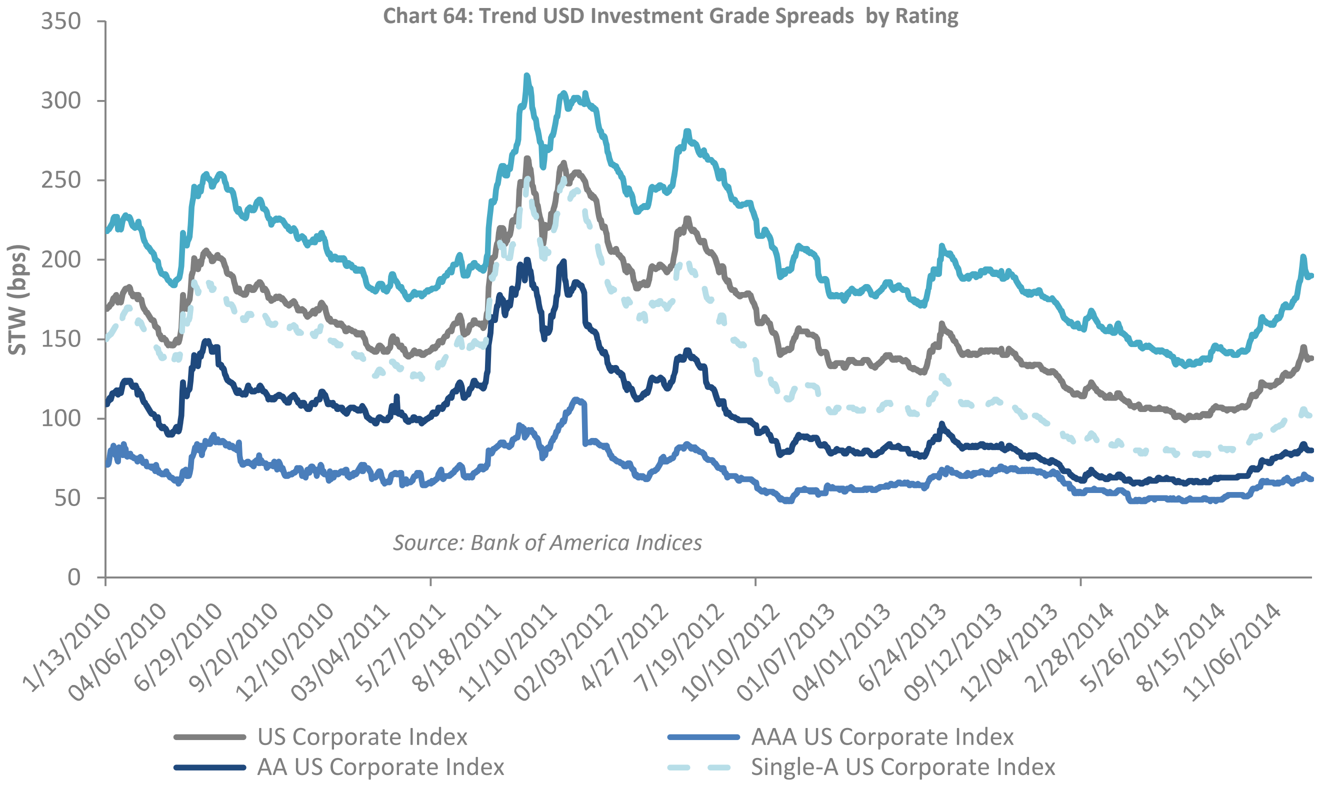
Source: Bloomberg

However, at this stage much of the negativity could already be priced in, as the 20 bps spread widening seen over 2014, pushed the spread pick-up relative to the EUR IG to the highest in about 3 years (see Chart 63). Moreover, whereas the higher USD spreads also reflect the higher duration of this market, investors might be willing to overlook the interest rate risk in the aftermath of the recent fall in the 10 year US Government yield and what looks like a significant reassessment of the long term inflation expectations (refer to Section II).

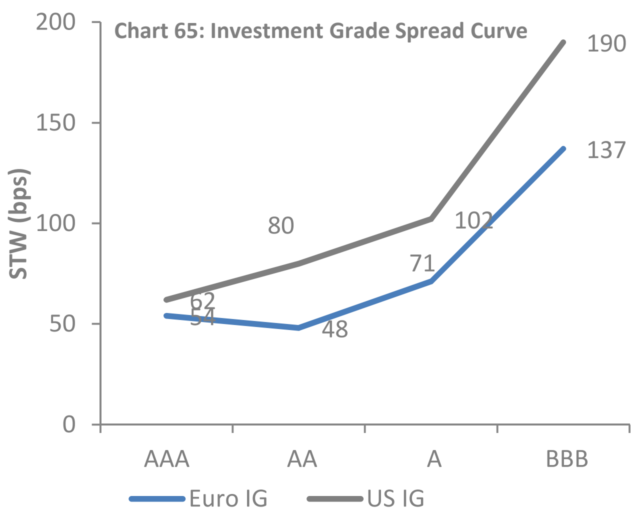


How to position oneself in the US IG market?

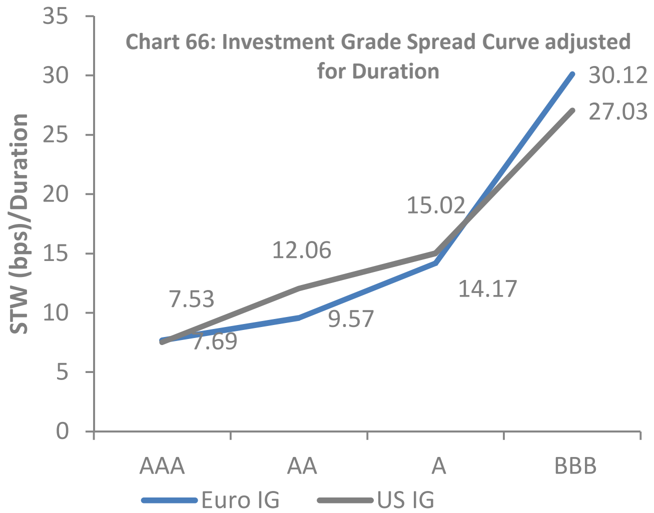
Whereas all rating buckets weakened last year, the AAA fared better, while the AA segment saw spreads increasing by 23% (see Chart 64).



As a result, putting the spreads for EUR and USD rating buckets aside, we find that the spread pickup is higher for the below AAA names (see Charts 65 and 66) and suggests that the over-performance of the AAAs should come to a halt.

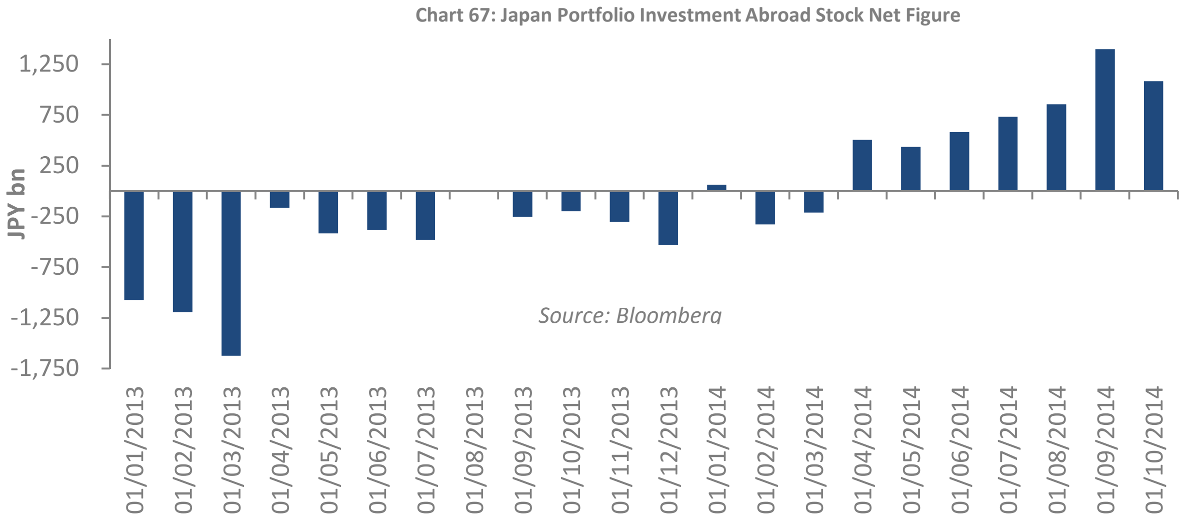


Source: Bank of America Indices

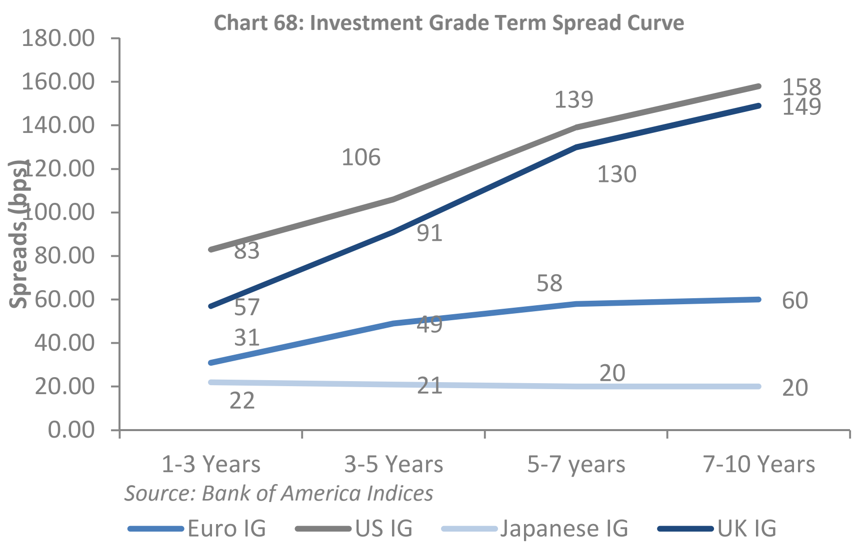


Source: Bank of America Indices

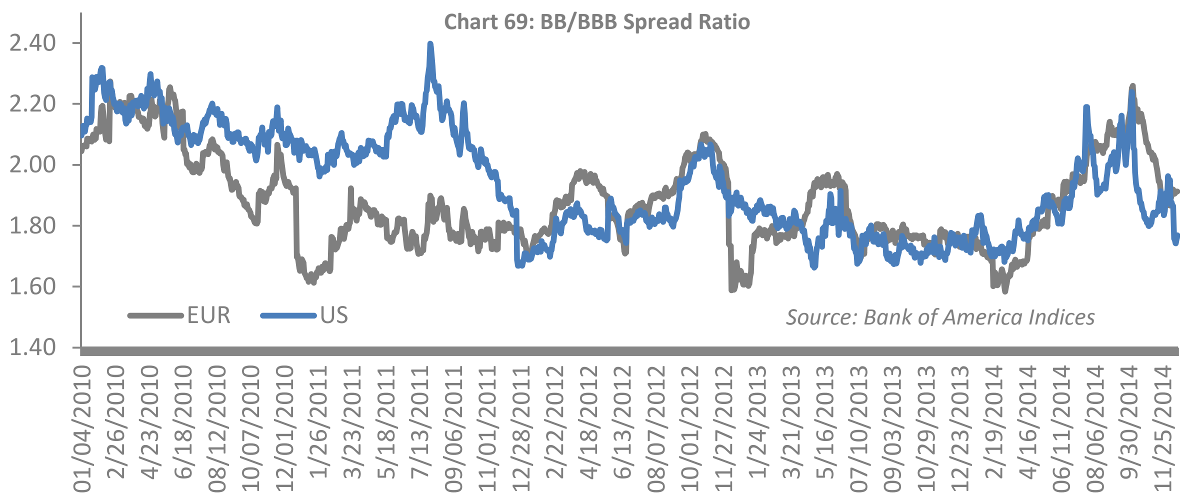
However, some technical factors, such as Japanese portfolio inflows (see Chart 67) could provide impetus to the higher rated names given that the general assumption is that Asian investors are more familiar with US names than with the European issuers. Given the new and aggressive measures taken by the Japanese authorities in an attempt to tackle deflation, the country experienced large portfolio outflows (i.e. investments abroad) as the local asset managers found the local yields increasingly unattractive.



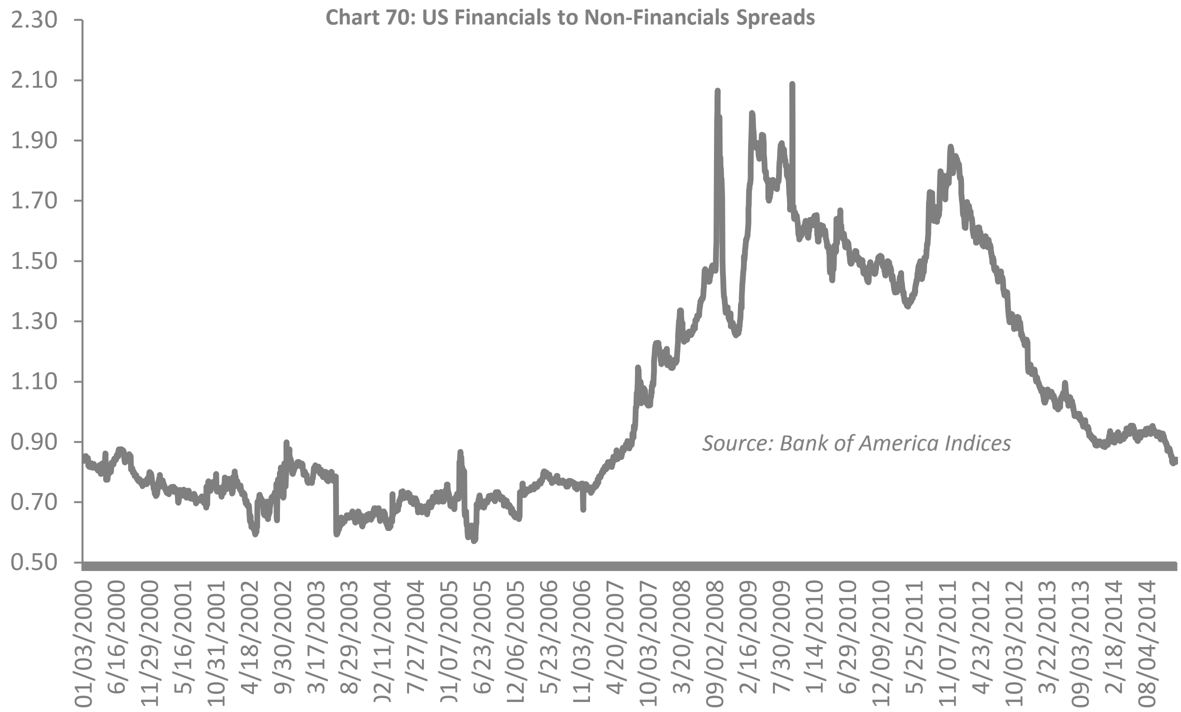
Going back to chart 65, the BBBs stand out as carrying a spread per duration lower than in EUR as the USD bonds of such rating have a much longer duration (7 years vs 4.5 years in EUR). However, we would caution against putting too much emphasis on this metric given that duration risk is now likely to preoccupy investors less. In the same vein, we highlight that the term curve is quite steep (see Chart 68) at this moment and warrants overweighting long term bonds.



Having said that, we also note that the spread gap between BBBs and BB increased and is now higher than in the EUR space, while the ratio between the spreads offered by the two rating buckets also fell dramatically (see Chart 69), a trend which could herald a tightening of BBBs.



Finally, it probably warrants looking into how the financial sector valuations compare to non-financials and we find that there is room for further compression between the two segments (see Chart 70) although we worry that this will be deterred by supply concerns and uncertainties around how these will impact issuance; TLAC is a critical concern in this respect.



This document was prepared by:

Michael Galea – Head Investment Management & Fund Services

Raluca Filip, CFA - Investment Manager

Mark Vella - Investment Manager

Simon Psaila – Analyst

www.cc.com.mt | +356 25 688 688 | info@cc.com.mt

Disclaimer

This document is being issued by Calamatta Cuschieri & Co. Ltd ("CC") of 5th Floor, Valletta Buildings, South Street, Valletta VLT1103, Malta and bearing company registration number C13729. CC is licensed to conduct Investment Services in Malta by the Malta Financial Services Authority. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax and/or legal recommendations or advice. CC has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CC does not accept liability for actions, proceedings, costs, demands, expenses, damages and losses suffered by persons as a result of information, views or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.