

MARKIT RECAP

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Positive earnings, strong economic data, low default rates and – most importantly – a favourable monetary policy environment continue to place downward pressure on spreads.

The Markit CDX.NA.IG was trading at 64bps in nearly May, which would be the tightest level this year if the roll effect in March is excluded. In Europe, the Markit iTraxx Europe was quoted around 69bps, and the narrow 5bps basis between the two indices reflects the diminution in systemic risk in Europe. The economic outlook has improved from a low base, but the comforting presence of the ECB – and the possibility of QE – is likely the overriding factor compressing spreads.

High-yield debt naturally benefits from the global glut of liquidity, and issuance continues to be buoyant. But investment grade CDS is the place for idiosyncratic risk, with M&A activity causing considerable fluctuations. Pfizer's bid to takeover British rival Astrazeneca has resulted in the CDS spreads of the two companies converging, suggesting that the market is confident the deal could be completed. Bondholders in Astrazeneca would benefit from a combination, as the US firm has a strong AA credit profile. Indeed, single A-rated Astrazeneca is now trading like a AA credit, according to Markit implied ratings.

But a successful deal is by no means certain, as Astrazeneca has mounted a robust defence and the transatlantic takeover approach has attracted political scrutiny in the UK. The CDS basis between the two firms will change over the next few weeks as the market tries to digest the probability that the deal will be completed.

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