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Markit Recap – 6/8/2015

THE LEAD | June 11, 2015

Macro themes continue to dominate fixed income markets, but investors shouldn't lose sight of the idiosyncratic stories that are unfolding in the background.

New Look, a British high street retailer, saw its spreads tighten dramatically this week after it announced a refinancing that should improve its credit profile. The company was bought by South African investment firm Brait last month, a move that initially saw New Look's spreads widen from 240bps to 270bps. New Look was highly leveraged after being taken private in 2004, and there was uncertainty around the company's financial strategy under new ownership.

But the situation changed this week when New Look released details of the refinancing. The company will issue seven-year senior secured notes and eight-year senior unsecured notes totalling $1.2bn, the proceeds of which will be used to pay down existing debt, including an expensive PIK facility. The refinancing will extend the firm's debt maturity profile and result in lower interest costs – clearly positive credit developments.

New Look's spreads responded in kind, tightening by 150bps to 136bps. In contrast, the Markit iTraxx Crossover, of which New Look is a constituent, widened to over 300bps for the first time since the roll in March. There are several names in the Crossover that trade tighter than New Look; Clariant is quoted at 75bps, tighter than a quarter of the Markit iTraxx Europe constituents. But there also a significant number of names that trade at very wide levels are highly illiquid, resulting in the Crossover hittig levels in excess of 300bps.

New Look demonstrates that there are single names that don’t get caught up in the macro tide, though there is little doubt what is currently driving the broader market. Greece is the driving force of sentiment in Europe, and at the time of writing the mood was one of cautious optimism that a deal can be agreed before the end of the month. Hopes have been dashed with wearying frequency in recent months and years, so caution is the watchword. Volatility in the government bond yields shows no sign of abating, with 10-year Bund yields rising above 1% for the first time since September and US yields at a 9-month high. Poor liquidity could see the swings exacerbated as we go into the summer lull.

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