Credit Strategy - Europe

Fallen Angels – the names to watch

Credit Analysis

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Credit Strategy
Europe

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The names at high risk of becoming Fallen Angels

In this note we highlight European BBBs, across the non-financial space, that we think are at risk of falling into high-yield during this unprecedented shock. In total, we see around €25bn of high-grade debt being impacted. The lion's share of this is made up of auto debt, but media, consumers and capital goods also populate our list, given their consumer-centric nature. Financials, on the other hand, are less conspicuous. We find that insurers have business models that are fairly resilient to financial crises, and banks now have much better liquidity and solvency positions than in the dark days of '08.

The names

In the non-financial space, the main names that our analysts highlight as having material Fallen Angel risk are: Valeo, Peugeot, Renault (RCI Banque), Schaeffler, CNH Industrial, Suedzucker (senior bonds) and ITV. These are companies where business models have become severely challenged by the COVID crisis. While we have less immediate concerns over bank Fallen Angels, we do flag Irish banks, Deutsche bank, Unicredit and Caixa as worth monitoring. Downgrade risk could increase here if the economic rebound underwhelms.

Look out above

Of particular concern for investors is the price action of Fallen Angels around downgrades. While far from the Lehman highs, we find that the current spread gap between BBBs and BBs is still an elevated 230bp. For some of our Fallen Angel candidates, therefore, this points to eventual price drops of up to 6pts, we think.

History says…

As central banks have become adept at intervening quicker in successive crises, the price action of Fallen Angels has evolved. We find that '08/'09 Fallen Angels would often drop 5pts heading into downgrade and then drop another 2pts thereafter. Conversely, Fallen Angels over the last 5yrs have tended to bounce strongly 2w *before* downgrade day and eventually recover substantially. In this crisis, the ECB's policy of keeping Fallen Angels as Eligible Collateral will partly help to manage bond price drops around downgrades.

ETFs and the risk of overshoot

Assets of the main IG ETFs tracking European credit are currently $45bn. We estimate that the Fallen Angel selling technicals from this part of the market are very manageable for all of our names. Moreover, HY ETFs have assets of $7bn – a relatively high number vs. IG ETFs. This means HY ETF "forced buying" could act as a significant counterweight.

When the dust has settled

After major financial shocks, we find that Fallen Angel debt tends to be a compelling overweight, outperforming original issue high-yield bonds. This likely reflects the drive by downgraded companies to delever balance sheets and return to IG. Post Lehman, for instance, Fallen Angel debt started to rally almost 4m before original issue HY bonds.

Fallen Angels – the key numbers

In this note we highlight European BBBs across the non-financial space that we think are at risk of falling into high-yield during this cycle, given the unprecedented economic shock underway.

The main take-aways from the analysis are:

- Our list of non-financial names accounts for €25bn of Euro IG debt. Year-to-date, there have been €22bn of European Fallen Angels (plus PEMEX).

- Autos form the bulk of our non-financial conviction list, with 4 names, reflective of the unprecedented effect of economic lock-downs, and a global consumer which has significantly retrenched.

- We also flag names the media, consumers and capital goods sectors.

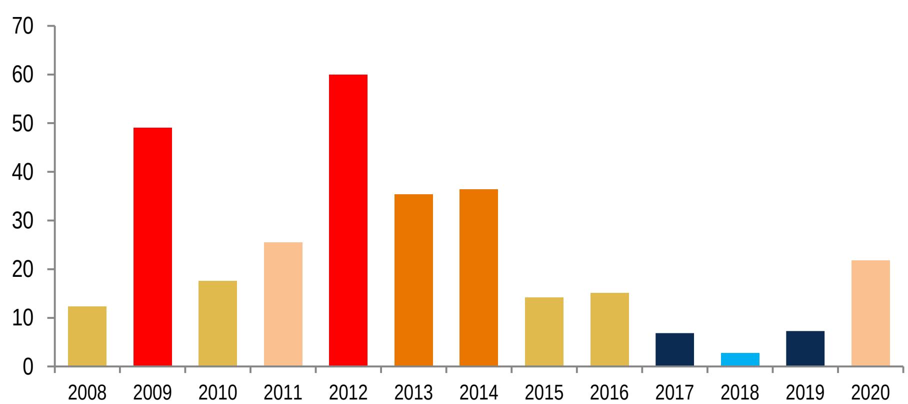
- Financials are sparse on our list. For insurers, business models are generally resilient to financial crises. For banks, the memory of 2008 means that banks enter the COVID crisis with much better levels of liquidity and solvency. Nonetheless, we flag 5 banks that investors should keep an eye on, especially if the economic rebound disappoints.

- We estimate that Euro IG ETFs currently have assets of $45bn. Thus, ETF rebalancing would likely involve gross IG ETF selling of bonds into the market. For Peugeot, one of our Fallen Angel candidates, we estimate gross IG ETF selling of ~€45mn, for instance. As Trace does not exist for Europe, we estimate daily cash bond trading volumes across dealers to be around €50mn for European on-the-run auto bonds. Hence, we see IG ETF selling as very manageable for the market. Moreover, Euro HY ETFs are relatively large with assets of $7bn: hence net IG ETF selling of bonds may in the end be close to zero, we find.

- Away from forced-selling technicals, our analysts see a fairly wide range of price downside (between 1-6pts) for their names, based on trading levels relative to BB comps. For some names, we see minimal price drops, reflective of how far BBB spreads have moved vs. BBs already.

- The current BBB-BB spread is around 230bp. It is down from 400bp just a few weeks ago, and much lower than the 1000bp record seen post Lehman. We think the ECB's recent announcement that Fallen Angels would remain Eligible Collateral will help to soften the price-drop dynamics of downgraded names.

Chart 1: Volume of Fallen Angel debt per year (Eur bn)



Source: BofA Global Research, ICE Data Indices LLC, Bloomberg. European FA debt.

Angel eyes

The Covid crisis has resulted in an unprecedented plunge for the world's economies. As the IMF recently forecast, all developed economies will, for the first time ever, experience a recession in 2020, with 75% of developed countries expected to see a contraction in excess of 5%. For some economies, such as the UK, this year will see GDP-per-capita decline by a painful 8%, the worst year-on-year drop since 1920.

For both corporations and governments, such challenging economic growth numbers are likely to mean tremendous stress for balance sheets and credit ratings. The rating agencies are already being proactive in responding to the shock: since March, European IG credit markets have witnessed a cumulative €220bn of net downgrades. Moreover, we find that there is currently €194bn of BBB2/BBB3 rated debt under negative outlook.

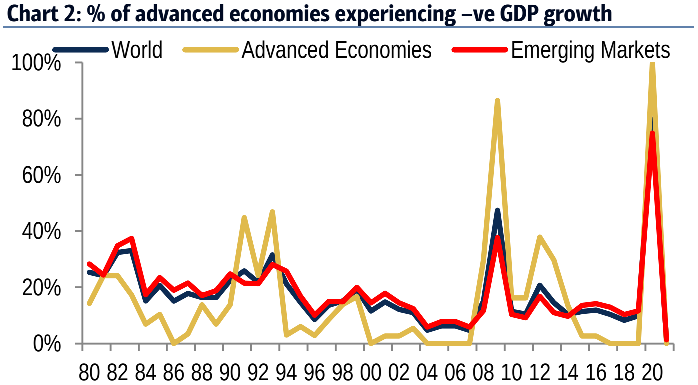
Highway to high-yield

Of particular focus in the Covid era is the risk of "Fallen Angels" – BBBs migrating to high yield, and subsequently experiencing a sharp drop in their bond prices as they move from one investor base to another. Today, exactly half of the European IG credit market (€1.2tr) is now BBB-rated, up from 30% in mid-2012, when Draghi famously uttered "whatever it takes". But given that the European HY bond market is only €320bn in size, the Fallen Angel risk is creating particular unease across the investment community.

In this note we highlight European non-financial BBBs – representing around €25bn of debt – that we think are most likely to be Fallen Angels in this cycle. For each name we estimate the potential price drop post downgrade, based on the current trading levels of BB-rated comps. We also highlight where we see names as likely having a high representation in IG ETFs – which might add to the selling pressure of Fallen Angels (in the short-term).

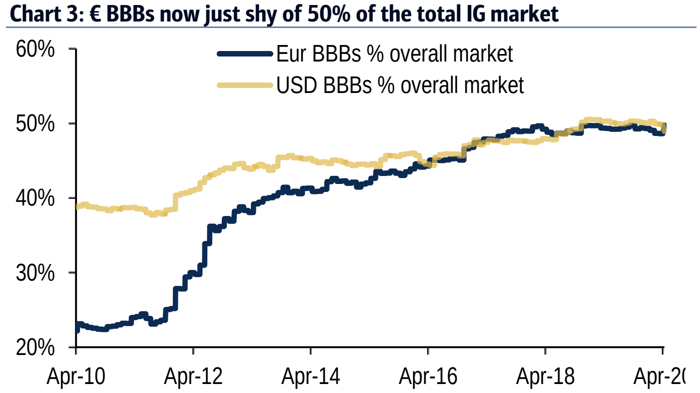
For financials, we think the Fallen Angel risk is less pressing given the relatively strong capital and liquidity backdrop of the sector. Nonetheless, for banks, we highlight a few names that investors should keep their eyes on if the economic rebound proves to be underwhelming.

Chart 2: % of advanced economies experiencing –ve GDP growth



Source: BofA Global Research, IMF

Chart 3: € BBBs now just shy of 50% of the total IG market



Source: BofA Global Research, ICE Data Indices LLC.

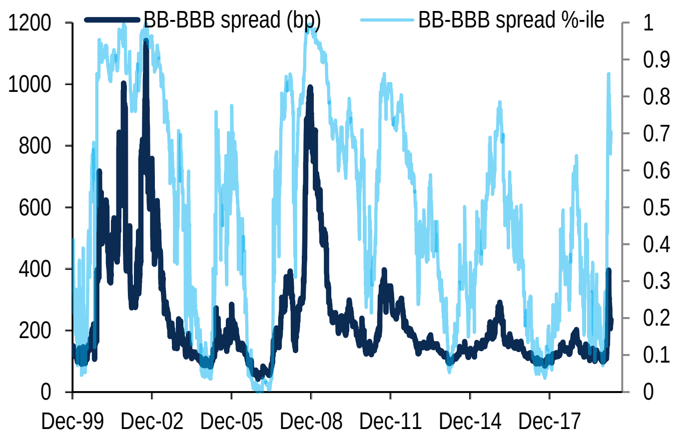
Watch out above

Of particular concern for both BBB and BB investors is the price action of Fallen Angels around the downgrade date. Before we even consider the "forced selling" technicals from IG investors, Fallen Angels are likely to experience a drop in the price of their bonds simply given the spread gap between BBBs and BBs…and in a crisis, this spread gap grows.

Chart 4 shows the BB-BBB spread gap over time. Today the spread is at 230bp. While this is a far cry from the almost 1000bp level seen at the depths of the Financial Crisis in December 2008, the current BB-BBB spread is still at the 75th percentile.

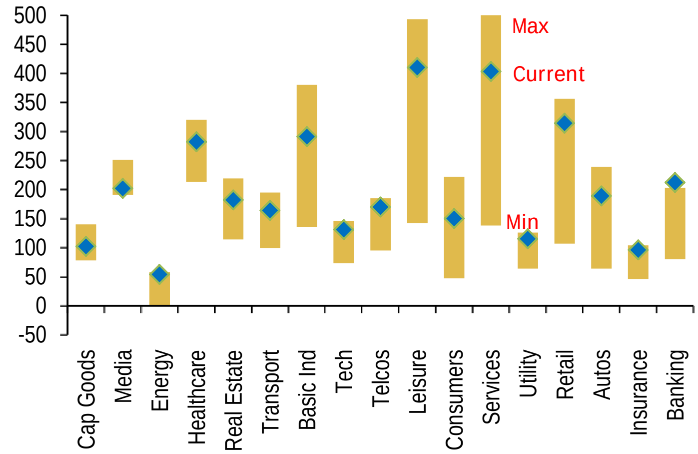
Chart 5 shows, by sector, how the BB-BBB spread gap varies. We also show the current gap in relation to this year's min and max range. Note retail, leisure and services currently have BB-BBB spreads gaps in excess of 300bp, which are also at the wider end of this year's trading range.

Chart 4: BBB-BB spread gap is 230bp (75th percentile)



Source: BofA Global Research, Bloomberg. Percentile (RHS).

Chart 5: BBB-BB spreads by sector (current vs max and min)



Source: BofA Global Research, ICE Indices LLC. Max and min BBB-BB spreads since the Feb tights.

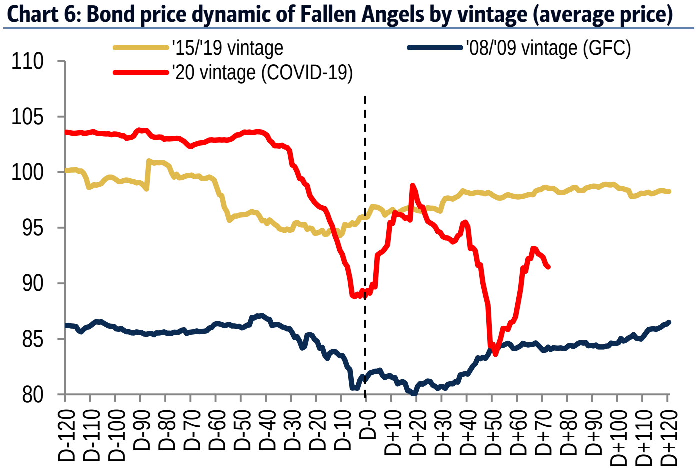
Note, one key recent development: the ECB's decision to keep Fallen Angels as Eligible Collateral. While, this hasn't as yet translated into the ECB agreeing to buy Fallen Angel debt as part of QE, it has nonetheless tightened the BB-BBB spread gap in the last week. The bottom line: while monetary policy will not stop challenged IG companies from seeing their ratings deteriorate, it may, in places, soften the price drop impact for future Fallen Angels.

History says...

What does history say about the price-drop dynamics around names falling from high-grade to high-yield? We find that many factors play a part here. What's clear, however, is that each distinct crisis, or period of financial stress, results in different Fallen Angel trends. In particular, the last decade has seen greater crisis-fighting responses from central banks over time, changing the outcome for downgraded bonds.

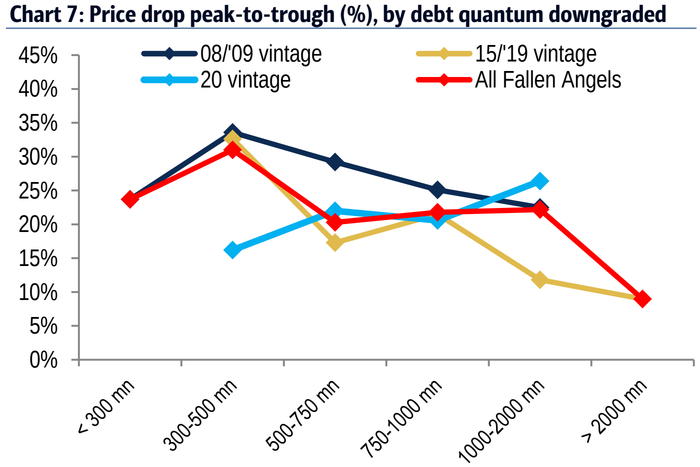
Chart 6 shows the price evolution for different Fallen Angel cohorts since 2008. We split the vintages into GFC ('08/'09), China growth scare plus trade wars ('15 to '19) and COVID ('20). Our sample captures Euro Area IG issuers only, that are ICE index members.

Chart 6: Bond price dynamic of Fallen Angels by vintage (average price)



Source: BofA Global Research, Bloomberg. D=0 is downgrade day. Weighted average price of bonds suffering a downgrade from IG to HY in their composite rating..

Chart 7: Price drop peak-to-trough (%), by debt quantum downgraded



Source: BofA Global Research, Bloomberg. Peak and trough in bond price observed over a period of +/- 120 working days around downgrade date.

We show the average price for Fallen Angel bonds (ticker-weighted) heading into, and after, downgrade day (D=0).

- For the '08/'09 Financial Crisis, we find that bond prices dropped about 5pts in the 40 days heading to downgrade day. Yet, they still fell by a further 1-2pts in the 30 days post downgrade. During this era, multi-notch downgrades of corporate credit ratings would often take the market by surprise.

- We find that in the '15/'19 vintage of Fallen Angels, bond prices fell about 5pts in the run-up to downgrade day. But note that bond prices tended to hit a low about 10 days *before* downgrade day. 100 days after this, they had rebounded 4pts.

- The 2020 Fallen Angel vintage is more volatile however – but note that the sample set thus far is relatively small. We find that bond prices have dropped a more conspicuous 15pts heading into downgrade day. Moreover, prices have reached the lows just a few days before downgrade day. After this, we find evidence of a "W" shaped recovery in bond prices: rallying 10pts…dropping 15pts…and then recovering another 7pts. This volatility likely reflects the extreme sentiment changes that markets have witnessed over the last few months.

Common wisdom is also that the larger the quantum of debt being downgraded for an issuer, the greater the price drop, and vice-versa. Chart 7 shows the peak-to-trough price drop (%) vs. debt size for Fallen Angels across our three vintages.

- Interestingly, for the '08/'09 and '15 to '19 vintages, we don't find a strong case that the greater the debt outstanding, the greater the price drop of a Fallen Angel. If anything, the data suggests slightly the opposite.

- However, for this year's crop of Fallen Angels, we do find evidence that the higher the quantum of debt being downgraded, the larger the peak-to-trough price drop.

ETFs and liquidity – another part of the equation

Over the medium term, the price drop of Fallen Angels should reflect the relative value of names to their BB comps. For each of our Fallen Angel candidates, our analysts highlight expected price drops based on this. In the very short-term, however, price declines may be magnified by forced selling technicals from both IG funds and ETFs.

While we believe that IG funds will have a very varied response function to Fallen Angels today given mandate differences (time needed to sell, the inclusion of a BB bucket in an IG fund, ability to internally transfer bonds from IG to HY portfolios etc.), IG ETFs are likely to be more mechanical in their selling.

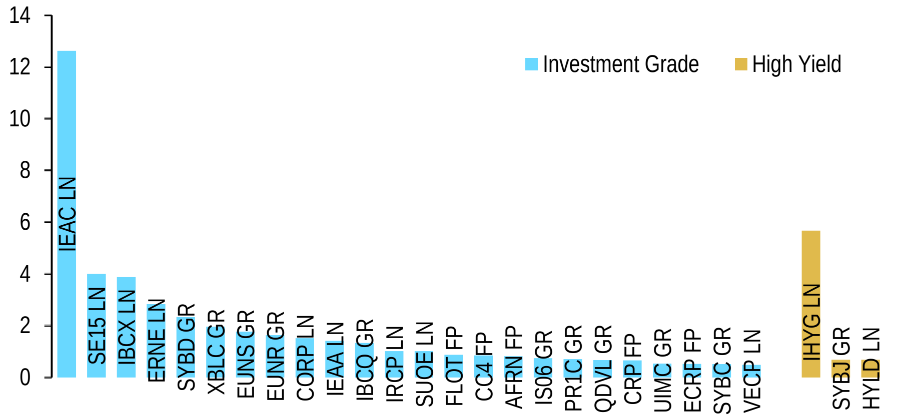
For each Fallen Angel candidate, we estimate a volume of potential <u>gross</u> and <u>net</u> IG ETF selling. To do this, we take the top European credit ETFs as highlighted by Bloomberg's ETF <GO> page.

The Euro credit ETF market

For institutional investors the IG/HY investment mandate line has become more blurry over the past years amid a reach for yield backdrop. IG Investors have been able to add high-yield risk into their high-grade portfolios, keeping the overall average rating high-grade. Many have been able to add a handful of "solid" double-B investments that offered yields far in excess of what the IG market has been offering, because of QE.

<u>Within the ETF space though, amid closer index tracking mandates, we think downgrades will more quickly be reflected in fund holdings</u>. Screening across the European ETF market, and focusing on ETFs with substantial holdings (above $500mn) we find that the IG ETF market is around the $45bn mark vs. the high-yield ETF market which is around the $7bn mark.

Chart 8: ETF balance between IG and HY – IG ETF market around 6.5x bigger than the HY ETF market ($bn of key European ETFs outstanding)



Source: Bloomberg , ETF credit funds with more than $500mn under assets

Our work shows that in the European credit ETF space there is likely to be a healthy balance between potential IG selling pressure of Fallen Angels, vs. "forced" buying from high-yield.

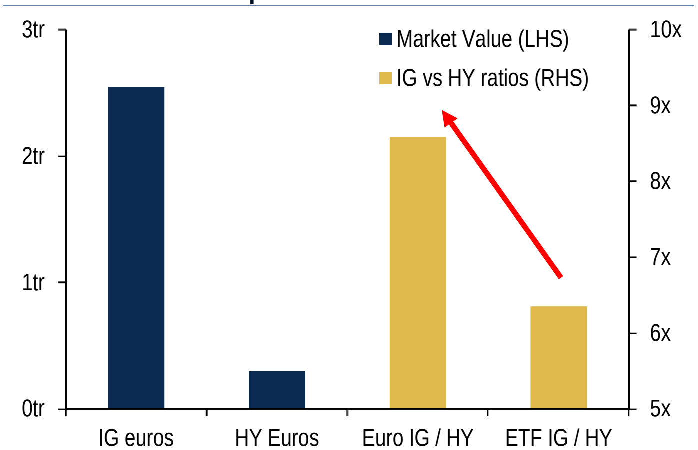
Actually we find that in some cases we could see more "forced" buying than "forced" selling. Simply put HY ETF funds are a bigger proportion of the real underling market, than IG credit ETFs are.

Table 1: ETF supply/demand dynamics based on our fundamental analysts' downgrade list.

Ticker	Name	Sum of debt (€mn)	HY buying (€mn)	IG selling (€mn)	Balance (€mn)
FRFP	Valeo SA	3,000	67	49	17
PEUGOT	Peugeot SA	3,050	68	45	23
RENAUL	RCI Banque	15,936	349	312	37
SHAEFF	Schaeffler AG	2,800	62	47	16
CNHI	CNH	4,776	75	45	30
SZUGR	Sudzucker	800	18	11	7
ITVLN	ITV PLC	935	21	14	7
			660	523	137

Source: Bloomberg. Debt number reflects sum of disclosed holdings of IG ETFs. Positive balance means that, over time, there will be more HY ETF buying of a name than IG ETF selling.

Chart 9: IG ETFs a smaller portion of the IG market vs. HY ETFs



Source: Bloomberg. IG and HY cash bond market sizes from ICE Indices.

Additionally we should also highlight that assuming there are no "net" outflows from high-yield ETFs, there will be no shortage of money to buy the downgraded bonds. As the tracking indices will rebalance post the downgrades, existing HY bonds will represent lower weights of the index, as they need to make room for the new Fallen Angels.

By selling small clips of existing high-yield bonds, HY ETFs will raise the funds needed and rebalance in order to acquire these new FAs. We should therefore also be cognizant about the selling pressure of existing high-yield bonds rather the "forced" buying of the new FAs.

All said, the strong support from global central banks policies in the high-yield space provides us with comfort that any imbalance between IG ETF selling and HY ETF buying will be relatively easily managed.

The names to watch

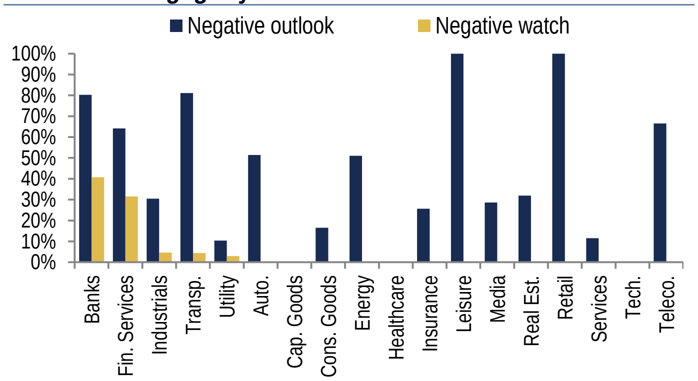
Below, our credit analysts flag non-financial names where we see higher risk of Fallen Angel status over the cycle. We focus on mid-to-low BBB rated names in this analysis (while acknowledging that BBB+ names could, of course, end up as Fallen Angels too). The highlighted names account for €25bn of Euro debt.

With banks having gone through a regeneration post Lehman – both in terms of their liquidity and capital – we see lower risks of banks dropping to HY in this cycle. That said, we flag 5 banks that investors should keep an eye on: we think Fallen Angel risk is low today, but an underwhelming economic rebound could raise the downgrade risk.

Likewise, for the insurance sector. Here, we find that business models are generally quite resilient to financial crisis and economic slowdowns due to the compulsory nature of most of their insurance policies. They are cash rich given the reverse cycle of production that characterizes the industry. They tend to be rated in the AA/A range leading to ratings of their subordinated bonds in the A/BBB range. A few issuers are already rated High Yield or are at the border between High Grade and High Yield: Unipol (Ba2/NR/BBB-), UnipolSai (Baa3/NR/BBB), Vivat (NR/NR/BBB-), SRLEV (Baa2/NR/BBB+) or Generali (Baa1/NR/A-) for example.

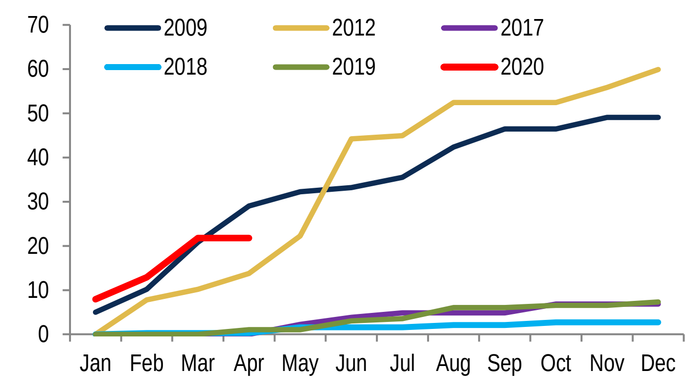
In our note assessing the impact of the coronavirus crisis on European insurers, we highlighted a few insurers (Aviva (A2/A/A), Axa (A2/A/A), Unipol and UnipolSai) with a relatively high risk profile due to their weak capital positions. Nevertheless, we do not expect Aviva's and Axa's subordinated bond ratings would fall below BBB-.

Chart 10: € debt rated BBB2/BBB3 under negative outlook or watch by at least one rating agency



Source: BofA Global Research, Bloomberg. As of 28/04/2020, % of debt rated BBB2 or BBB3.

Chart 11: Cumulative volumes of European Fallen Angels, by vintage. No European Fallen Angel recorded in Apr '20.



Source: BofA Global Research, ICE Data Indices LLC, Bloomberg. Cumulative monthly volumes of European Fallen Angels, € bn.

Chart 10 highlights the % of BBB-rated debt, across each IG sector, where bonds have either a negative watch or outlook by one rating agency. Leisure, transport, banks and retail stand out.

- In total, we find that there is €194bn of BBB2/BBB3 rated debt under negative outlook and €47bn of BBB2/BB3 rated debt is under negative watch.
- €30bn of BBB3 rated debt is under negative watch.

Finally, chart 11 shows the Fallen Angels dynamic this year and in previous cycles. Note that while there was just over €11bn of European Fallen Angels in March '20, there has been no European Fallen Angel in April (Pemex, whose average rating was downgraded on April 7th, is incorporated in Mexico).

Valeo (Phil Bagguley)

- Current composite ICE index rating Baa3.

- ICE IG Euro index debt: €3bn
- Potential gross IG ETF selling estimate: ~€49mn
- Bond price downside based on BB-rated comps: very minimal.

Valeo already trades amongst the widest of Auto BBB-BB cohort and thus we think a downgrade is well priced at this point. We have an Underweight recommendation on the Euro 2025 and 2026 notes, and a Neutral recommendation on 5yr CDS.

Peugeot (Phil Bagguley)

- Current composite ICE index rating Baa3.
- ICE IG Euro index debt: €3.05bn
- Potential gross IG ETF selling estimate: ~€45mn
- Bond price downside based on BB-rated comps: 3-4pts

We think there is a reasonable chance of a credit rating downgrade, albeit Peugeot is the best-in-class operator and has had a strong FCF profile pre-crisis. There is now significant event risk around the agreed merger with FCA, with some in market now expecting the terms of the merger to be renegotiated. We think that Peugeot trades the tightest of all BBB-BB Auto peers. We are UW bonds, and have a Buy recommendation on 5y CDS.

Renault – RCI Banque (Phil Bagguley)

- Current composite ICE index rating Baa2.
- ICE IG Euro index debt: €11.1bn
- Potential gross IG ETF selling estimate: €312mn
- Bond price downside based on BB-rated comps: 5-6pts

A RCI Banque downgrade to HY would be a significant event. There is a link to Parent co (Renault SA) which has already succumbed to HY. We think there would be material forced sellers. RCI Banque trades very tight relative to the peer group, as does its parent. There is room for Renault SA - RCI differential to widen significantly. There is substantial positive event risk at RCI Banque, particularly relative to Renault SA. We are UW the bonds.

Schaeffler (Phil Bagguley)

- Current composite ICE index rating Baa3.
- ICE IG Euro index debt: €2.8bn
- Potential gross IG ETF selling estimate: ~€47mn
- Bond price downside based on BB-rated comps: very limited

Schaeffler already trades amongst the widest of the auto BBB-BB cohort and we think that a downgrade to BB is well priced at this point. We are MW bonds (OW 22s), Neutral 5y CDS. See more in our Fallen Angel auto series here.

CNH (Phil Bagguley)

- Current composite ICE index rating Baa3.
- ICE IG Euro index debt: €3.3bn
- Potential gross IG ETF selling estimate: ~€45mn
- Bond price downside based on BB-rated comps: 4-6+pts

We think that there is a high chance of a downgrade, in our view, and CNH trades too tight relative to peers. We think that positive event risk (deconsolidation of its weakest segments) is likely off the agenda through the medium term now, given that the CEO recently resigned. We are Underweight CNH bonds, and we have a Buy recommendation on 5y CDS.

Suedzucker (Chris Ryan)

- Current composite ICE index rating Baa3 (senior bonds)
- ICE IG Euro index debt: 800m
- Potential gross IG ETF selling estimate: ~€11mn
- Bond price downside based on BB-rated comps: 1-2pts

Suedzucker risks a downgrade to high yield, as leverage was already weak for Moody's rating. The company was expected to benefit from an increase in European sugar prices, but the rally in international sugar prices has reversed course amidst the outbreak. Secondly, with plunging energy prices, we see this as a risk to the CropEnergies business. Suedzucker's guidance for a significant increase in operating results in the upcoming fiscal year does not factor in COVID-19 impacts. We are MW the senior bonds (that we think are Fallen Angel candidates). We are Overweight the hybrid bonds.

ITV (Nick Macdonald)

- Current composite ICE index rating Baa3.
- ICE IG Euro index debt: €1.2bn
- Potential gross IG ETF selling estimate: ~€14mn
- Bond price downside based on BB-rated comps: very small as bond has a coupon step-up which would be supportive.

ITV (Baa3/BBB-) has announced a series of measures to protect its credit profile which will buy it time. However it may not be enough to offset a prolonged steep decline in advertising and production interruptions. As a result we think there is a high risk of a downgrade to HY. The bonds have a 125bp step however, thus we think price downside is limited from here. We have an OW rating on the ‘23s and ‘26s and Buy Protection on 5y CDS.

Banks (Richard Thomas, Luis Garrido)

We assess ‘fallen angel’ risk as moderate overall for European banks in 2020. We see no immediate and significant rating downgrade risks at the issuer level. Almost all negative outlooks for banks indicate a general deterioration in economic prospects, rather than specific idiosyncratic risks. There are no European banks in our coverage whose issuer rating is within one notch of high yield and with a negative outlook or watch at more than one rating agency, which would imply a more pressing risk and would potentially have index eligibility implications for senior debt.

Irish banks are the closest to this, after S&P revised their outlook to negative (holdcos rated at BBB-), but the other two agencies rate these banks a notch higher.

Banks’ capital structures are generally more complicated than corporates’, with most large banking groups issuing across as many as five parts of the liability structure (from AT1, Tier 2, senior holdco/senior non-preferred to senior opco/senior preferred), with the fifth potentially being secured debt such as covered bonds. Ratings thus vary widely. Rating changes in any part of the stack can also be a function of agency criteria tweaks.

- For instance, Fitch very recently has been upgrading most European banks’ AT1 ratings by a notch, and downgrading Tier 2 debt, to reflect their updated expectations of loss given default, based on evolving experiences and expectations of losses in resolution, which remain a rare occurrence in European banking.

- We cannot rule out rating agency criteria changes. This adds some complexity to identifying Fallen Angels within banks’ liability structures.

Below we assess the key cases and developments which could lead to Fallen Angels banks, while again highlighting that we don't see these risks as pressing as in the non-financial space.

Irish banks

Among European banks in our coverage, only Bank of Ireland and Allied Irish Banks (AIB) are rated BBB- at the issuer level (their holding company in this case) with a negative outlook from at least one agency. This follows S&P's outlook revision to negative on 28 April. Both Irish banks' holding companies are rated two notches above junk by Moody's and Fitch (which also has a negative outlook), which limits the risk that these banks' senior holdco debt would slip into ICE BofA HY indices, based on average ratings. At the time of writing, Bank of Ireland and AIB had €3.6bn and €4.3bn respectively in outstanding senior holdco debt. S&P's rating action indicates 'substantial downside risks' as earnings and asset quality are likely to weaken as a result of the likely sharp recession in Ireland. The timing and strength of the subsequent recovery remains uncertain at this stage, but a prolonged downturn is a rating sensitivity. Strong competition, pressure on costs from investment needs and a lack of diversification are existing vulnerabilities for the Irish banks, according to S&P. The agency will need more visibility on asset quality and earnings risk, in our view, before a downgrade becomes more likely than not. We think this is unlikely to happen before 3Q20.

UniCredit senior non-preferred debt

The risk of the average rating on UniCredit's SNP bonds (Baa2/BBB-/BBB-) falling to HY is worth highlighting, in our view. Fitch downgraded Italy to BBB- (with a stable outlook) on 28 April, which we think will shortly result in a downgrade for UniCredit's SNP bonds to BB+. That would mean the bank's SNP bonds could be eligible for inclusion in HY indices in the event of an S&P downgrade. A downgrade of the sovereign is an obvious risk here, but not the only one. S&P affirmed Italy's sovereign rating on 24 April at BBB (outlook negative). A sovereign review is scheduled at Moody's on 8 May (Baa3/Stable), but sovereign reviews can and do happen off-cycle, if credit developments warrant it in the agencies' view. We see €9.5bn outstanding SNP issued by UniCredit at the time of writing.

Fitch and S&P currently have a Negative outlook on the UniCredit issuer rating (BBB in both cases), which is one notch above that of SNP debt. Up to 28 April, this mirrored the sovereign rating for Fitch. S&P had previously noted a sovereign downgrade would likely trigger downgrades across UniCredit's capital structure, with the possible exception of senior preferred debt. This reflects the agency's belief that a theoretical sovereign default would require a resolution (and consequently a bail-in of junior debt instruments) of UniCredit. We think the bank starts this crisis in a position of relative strength, given its comparatively more diversified profile, satisfactory capital and improved earnings and asset quality.

Deutsche Bank senior non-preferred debt

We see a fairly low risk of the average rating on Deutsche Bank's senior non-preferred debt (Baa3/BBB-/BBB) falling to HY in 2020. This is because it would require both S&P and Moody's to downgrade, which based on our reading is not the current base case. This could be significant, as Deutsche had €64bn senior non-preferred debt outstanding at end-4Q19. S&P and Moody's have negative outlooks on the issuer ratings (and Fitch a Negative Watch). A downgrade by both S&P and Moody's could push the SNP average rating to HY. In its 23 April German banking sector review (which included a downgrade of Commerzbank), S&P noted Deutsche's restructuring remains on track and should improve its business model, in spite of potentially weaker earnings, asset quality and capital. S&P notes a downgrade would require the agency to reach the conclusion that a return to stronger earnings is 'threatened', rather than delayed by the crisis. We think we are not there yet. Moody's last reviewed Deutsche's ratings in July 2019 and acknowledged early signs of progress in the bank's restructuring in January 2020.

CaixaBank Tier 2 subordinated debt

CaixaBank's Tier 2 debt stood at €3.2bn at the time of writing, and was rated Ba1/BBB-/BBB-. Only Fitch has a negative outlook on the issuer, which would in and of itself be sufficient for the bank's Tier 2 to be rated HY on average. Fitch revised the outlook on CaixaBank's BBB+ issuer rating to negative on 27 March, to reflect a 'medium-term risk to ratings' from the economic consequences of Covid-19. Its diversified franchise provides some earnings cushion. A delay to a sharp economic recovery in Spain in 2021 is a key negative rating sensitivity.

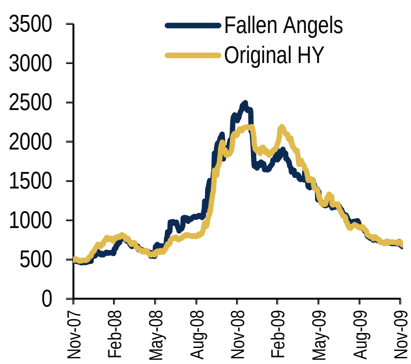
When the dust has settled?

When the dust has settled, history also suggests that Fallen Angels are an attractive part of the HY market to overweight. The charts below compare the spread performance of Fallen Angel debt to original issue high-yield (using ICE indices HEFA and HEHY).

We contrast performance across 3 big events: GFC, the Euro Area periphery crisis and the China growth scare. As can be seen Fallen Angel debt tends to outperform original issue high-yield bonds. One reason is that Fallen Angels try to repair balance sheets with the aim on heading back to investment-grade ratings.

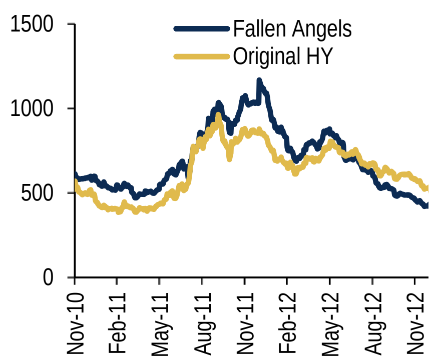
- Note post the Lehman event, Fallen Angel spreads peaked in Dec '08 but original issue HY spreads didn't peak until March '09.
- Post the Eurozone crisis, Fallen Angels posted a significant outperformance vis-à-vis original issue HY bonds.
- And after the China scare, while both parts of the market peaked at the same time, Fallen Angel spreads outperformed original issue HY spreads in the rally, despite starting at tighter levels.

Chart 12: Fallen Angels rallied first post Lehman (bp)



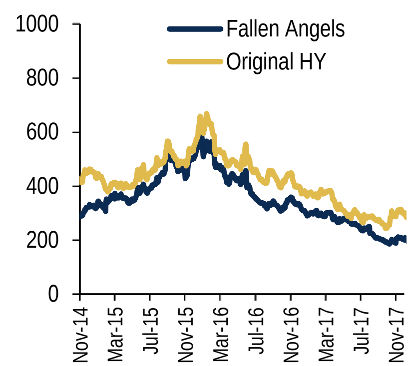
Source: ICE Data Indices LLC, BofA Global Research

Chart 13: Fallen Angels rallied stronger post the Eurozone crisis (bp)



Source: ICE Data Indices LLC, BofA Global Research

Chart 14: Fallen Angels outperformed original issue HY after the China scare (bp)



Source: ICE Data Indices LLC, BofA Global Research

Valuation & risk

Allied Irish Banks (AIB)

AIB's senior holdco bonds screen expensive compared with UK banks, especially in EUR. The EUR 4.125% Tier 2 bonds offer limited upside given their proximity to call. The EUR 1.375% 2020 senior opco bonds look fairly valued as they are pulling to par.

Upside risks: Brexit deal agreed, more benign impact of the regulatory agenda than currently anticipated, acceleration in running down the bad book. Downside risks: Lower than targeted rundown of problem loans, more capital required to be set aside as a result of regulatory developments, economic downturn in Ireland and a disruptive Brexit resulting in new problem loan inflows and reduced value of current impairments.

Bank OF Ireland (BKIR)

Bank of Ireland's senior holdco bonds screen expensive compared with UK banks, we think. Bank of Ireland has recovered well from the financial crisis prior to Covid. The USD 4.125% T2 bonds screen cheap, we think.

Downside risks: (i) Covid risks to earnings, provisions and capital, (ii) weaker than expected outlook for domestic asset quality, (iii) competitive pressures in Ireland and the UK, (iv) disruption to the bank's business model due to Brexit.

CaixaBank (CABKSM)

A potential negative outcome from the ECJ's ruling on the IRPH case (basically a lack of transparency in mortgages sold) has weighed heavily on CaixaBank securities and has pushed selected bonds to trade at quite wide levels which we think are attractive, as a significant amount of bad news appears priced in, in our view, whatever the outcome. CaixaBank is one of the most exposed to these mortgages with around EUR 7bn outstanding. Recent earnings have shown resilience, with stronger capital and impaired loan reductions outperforming expectations. CaixaBank's EUR SNP bonds are now rated investment grade by all the major agencies. We see modest on-going supply risk as the bank builds its MREL buffers in the coming years. We prefer Caixabank to Santander/BBVA which are much more complex credits. BBVA in particular is exposed to events in Turkey, we fear. We also view the balance sheet clean-up positively and believe that the SNP is better positioned than Spanish peers.

Downside risks: significant IRPH provisions that would significantly dent capital rather than earnings, write-downs of the bank's exposure in Angola, a miss in terms of capital expectations. Upside risk: better-than-expected improvement in profitability and capital levels.

CNH Industrial NV (CNHI)

We think CNHI bonds trade tight to its peer group both within the sector and the wider market. We think front-end bonds are unlikely to underperform, particularly those which are Euro-denominated, given the technical influence of the CSPP. Hence, we have a Marketweight recommendation on all front-end CNHI bonds: 4.375% $ '20, 4.875% $ '21, 3.875% $ '21, 4.375% $ '22, 1.375% € '22 bonds.

We are Underweight the belly of the curve: 4.5% $ '23, 4.2% $ '24, 3.85% $ '27, 2.875% € '23, 1.75% € '25, 1.875% € '26 bonds and on 1.75% € '27
and 1.625% € '29 bonds. We think spreads of these bonds could widen relative to low BBB rated industrial peers as their weaker relative operational outlook.

We have a Buy Protection recommendation on CNHI 5y CDS.

Upside risks are stronger than expected demand, less price competition, lower raw material costs, improved market dynamics, improved operating performance, bondholder-friendly capital markets activity, M&A.

Downside risks are weaker than expected demand, more price competition, higher raw material costs, weaker market dynamics, weaker operating performance, bondholder-unfriendly capital markets activity, M&A.

Deutsche Bank (DB)

Most of Deutsche Bank cash securities and CDS trade wide even when compared to other troubled comps and this has been especially the case in Coronavirus related volatility. The bank has previously announced a new restructuring which entails a significant shrinkage in its business profile in investment banking especially in Equities and its leverage assets. We viewed the plan favourably from the credit perspective but it will no doubt be harder to implement with a volatile backdrop. DB bonds remain sensitive to market volatility but even so, valuation looks very cheap across the capital structure. We now believe there is a high risk of liability management as evidence that the bank would backstop its spreads (which it has done in the past) would be, we think, helpful for the senior CDS. The senior preferred looks cheap given its protections and SNP and sub spreads look cheap in USD and EUR. We also see value in DB's USD T2 ($4.296% and $4.875%).

Downside risks: We see risks in any case around the execution of the bank's new strategic plan, impact of regulatory changes relating to the calculation of RWAs, residual litigation and conduct charges beyond what the bank has already provisioned for, weak performance of the bank's markets business as a result of difficult market environment.

ITV PLC (ITVLN)

We view levels in the EUR23s and EUR26s as attractive given i) attractive carry vs. BBB- peers, ii) wide levels vs. Media names, iii) step-up coupons which compensate for a downgrade and iv) CoC protection.

We view levels in the EUR22s as adequately reflecting the risks facing creditors including Liberty's stake in the business. In CDS we believe levels are too tight given the absence of downside protection offered by the bonds in the form of coupon step-ups and CoC put options.

Downside risks: i) more debt financed acquisitions, ii) a material decline in the UK advertising market potentially exacerbated by COVID/Brexit uncertainty, iii) an acceleration of the structural headwinds facing the linear TV market, iv) an increase in Liberty Global's stake.

Upside risks: i) a change in financial policy to allow for consistently lower leverage, ii) a return to growth in the UK advertising market and iii) more benign Brexit negotiations than we currently anticipate.

Peugeot (PEUGOT)

We rate Peugeot bonds UW given they trade tight to peers (Valeo, Schaeffler), with the exception of the €25 bonds, which trade at fair value to the same. Ratings risk has arisen as a result of the Covid-19 pandemic.

We have a Buy recommendation on its 5-year CDS, which trades tight to peers (Valeo, Schaeffler, Renault).

Upside risks include further cost savings and volume gains, bringing higher margins and cash flow. The agreed merger with FCA may bring additional margin benefits.

Downside risks include a downturn in Europe, the region to which Peugeot is most exposed, a more aggressive financial policy including M&A, or idiosyncratic risk such as VW's emissions scandal.

Renault (RENAUL)

We expect Renault operations may perform more weakly in the near future. We think spreads may move wider as a result, and we see better relative value elsewhere in the auto cash bond market.

We think CDS can trade wider than current levels, with the possibility of closer integration with Nissan now lower, in our opinion. Upside risks: better than expected operating performance, and a quicker realization of closer integration with Nissan in a credit positive fashion. Downside risks: lower than expected light vehicle demand, rising import costs, greater than expected competition, regulatory pressure.

Schaeffler Finance (SHAEFF)

We have a MW recommendation on the €25s at Schaeffler BV. We now do not expect these bonds to be called for several years, and they trade at comparable levels to other Schaeffler AG bonds, and to peers (such as Faurecia). We expect the business to imminently be downgraded to high yield. We expect profitability and Free Cash Flow (FCF) to continue to deteriorate as a result of both cyclical and idiosyncratic developments associated with the Automotive OEM segment. Schaeffler faces challenges as it transitions from its ICE business. We think it has a promising product pipeline (hybrid & electric axle) but see significant cost headwinds in the near & medium term.

We see leverage remaining elevated and perhaps increasing, in part as it continues to pay dividends up to the HoldCo level.

Upside risks: Faster hybridization of drivetrain drive sales more than anticipated. Further large customer wins for its hybrid and electric axle offerings. Successful completion of cost cutting in industrials and better than expected end markets could drive a faster and more significant margin improvement.

Downside risks: A very fast transition (before its full electric axle can replace traditional volumes) from combustion to full electric could impact addressable content per vehicle. Restructuring in industrial division might not achieve anticipated targets/division continues to underperform in weak end markets. Spiralling costs from investments into e-mobility which pressure margins.

Suedzucker (SZUGR)
The unsecured bonds are, in our view, a little tight versus similarly rated names. Downside risks are: 1) Suedzucker's earnings remain highly sensitive to even small changes in the EU sugar price, 2) Suedzucker may seek to make debt-financed acquisitions of weaker competitors, 3) sugar prices following liberalization of the EU market continue to decline, sustaining pressure on earnings.

We are Overweight on the hybrids, driven by attractive current yield, and early indications of a turnaround in sugar prices. We see less downside than competitor Tereos' unsecured bonds. Suedzucker's bonds trade wide to the market and we think there is upside to a turnaround in sugar.

UniCredit SpA (UCGIM)
Unicredit has made significant progress in risk reduction especially of NPLs and its P&L looks to be on a much more sustainable footing now, in our view. 4Q19 NPL ratio print of 5% was a much more physiologically acceptable level, we thought. Yet overall, recent performance of the Italian complex leads us to believe that improvements are fully priced. In the meantime, Unicredit's €1% senior nonpreferred's protection parameters have improved as a result of the NPA declines, though they remain weak on a relative basis, leaving us at MW. We see high cash price bonds in particular as vulnerable to any return of political volatility in Italy. Senior and Sub CDS spreads are vulnerable to Turkey turmoil though ironically we don't think Turkey is a major point for UC.

As well as the political risks now in Italy, we continue to see (1) some residual risk as the high provisions in 4Q19 underline, whilst admitting that execution so far has been good, (2) unresolved systemic risks in Italy, though our sense is that these two are waning. Although Italy has been very supportive of senior creditors, we doubt that it would be supportive at all of any bonds that have explicit TLAC language, (3) Covid related concerns though the 1Q 'preview' on provisions goes a long way to allaying these concerns in our view.

Upside risks: further NPE declines, consistent and higher ROEs, political and systemic risks in Italy remain in abeyance.

Valeo SA (FRFP)

We think Valeo spreads may widen relative to peers. Most Valeo bonds trade tight, in our view, relative to comparably-rated credits. However, the 22s, 23s and 24s trade at fair value, we believe, to peers.

We think Valeo bonds should trade at a comparable level to those of auto supplier Schaeffler, implying up to 100bps of downside in Valeo bonds from current levels. We further think Faurecia credit fundamentals are in many ways superior to those of Valeo. Whilst Faurecia's high-yield ratings will likely constrain relative spread performance (not least because Valeo bonds are eligible for the ECB's recently restarted CSPP), we again think its bonds offer superior return for the fundamental credit risk on offer, relative to Valeo bonds. We think Valeo CDS trades at a comparable level to peers, reflecting imminent downgrade concerns.

Several factors may strengthen/weaken Valeo's credit profile: greater/weaker volume demand, more/less pricing power, higher/lower costs. M&A may have a positive or negative effect, depending on the terms of any deal.

Analyst Certification

We, Christopher Ryan, CFA, Luis Garrido, CFA, Nick Macdonald, CFA, Phillip Bagguley and Richard Thomas, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

BofA Securities is currently acting as financial advisor to CaixaBank SA and Banco de Sabadell SA in connection with the proposed sale of their combined debt and equity stakes in Nueva Pescanova SL to Abanca Corp Bancaria SA, which was announced on March 27, 2020.

BofA Securities is currently acting as financial advisor to Fiat Chrysler Automobiles NV in connection with its proposed 50/50 merger with Peugeot SA, which was announced on October 31, 2019. The proposed transaction is subject to approval by shareholders of Fiat Chrysler Automobiles NV and Peugeot SA. This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding or revocation of a proxy.

Security/Loan pricing

Allied Irish Banks / AIB

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
4.125, Subordinated, EUR, 2025:B	750	26-NOV-2025	Baa3/BB+/BB+	99.01	29-Apr-2020	3.95	459
7.375, Junior Subordinated, EUR, Perp/2049:B	500	29-DEC-2049	Ba2u/NR/BB-	98.83	29-Apr-2020	7.19	726
1.5, Senior, EUR, 2023:B	500	29-MAR-2023	Baa2/BBB-/BBB	99.20	29-Apr-2020	1.79	248
2.25, Senior, EUR, 2025:B	500	03-JUL-2025	Baa2/BBB-/BBB	100.68	29-Apr-2020	2.11	276
4.75, Senior, USD, 2023:B	750	12-OCT-2023	Baa2/BBB-/BBB	103.70	29-Apr-2020	3.60	331
4.263, Senior, USD, 2025:B	1,000	10-APR-2025	Baa2/BBB-/BBB	101.24	29-Apr-2020	3.68	330
1.25, Senior, EUR, 2024:B	750	28-MAY-2024	Baa2/BBB-/BBB	97.05	29-Apr-2020	2.01	270

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Bank of Ireland / BKIR

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
7.375, Junior Subordinated, EUR, Perp/2049:B	750	29-DEC-2049	Ba2/BB-/NR	96.89	29-Apr-2020	6.93	700
4.125, Subordinated, USD, 2027:B	500	19-SEP-2027	Baa3/BB/NR	95.64	29-Apr-2020	4.00	381
1.375, Senior, EUR, 2023:B	750	29-AUG-2023	Baa2/BBB-/NR	97.84	29-Apr-2020	2.05	275
4.5, Senior, USD, 2023:B	500	25-NOV-2023	Baa2/BBB-/NR	101.71	29-Apr-2020	3.98	368
.75, Senior, EUR, 2024:B	600	08-JUL-2024	Baa2/BBB-/NR	95.71	29-Apr-2020	1.83	253

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CaixaBank / CABKSM

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
6.75, , EUR, Perp/2049:B	1,000	31-DEC-2049	Ba3u/BB/NR	93.42	29-Apr-2020	6.82	695
5.25, , EUR, Perp/2014:B	1,250	31-DEC-2049	Ba3u/BB/NR	79.50	29-Apr-2020	5.71	582
3.5, Subordinated, EUR, 2027:B	1,000	15-FEB-2027	Ba1/BBB-/BBB-	100.01	29-Apr-2020	3.21	387
2.75, Subordinated, EUR, 2028:B	1,000	14-JUL-2028	Ba1/BBB-/BBB-	98.70	29-Apr-2020	2.55	324
1.125, Senior, EUR, 2023:B	1,250	12-JAN-2023	Baa3/BBB/BBB+	98.70	29-Apr-2020	1.62	231
1.75, Senior, EUR, 2023:B	1,000	24-OCT-2023	Baa3/BBB/BBB+	99.84	29-Apr-2020	1.80	249
2.375, Senior, EUR, 2024:B	1,000	01-FEB-2024	Baa3/BBB/BBB+	101.97	29-Apr-2020	1.83	252
1.375, , EUR, 2026:B	1,250	19-JUN-2026	Baa3/BBB/BBB+	96.00	29-Apr-2020	2.08	269

For pricing information refer to "Other Important Disclosures" below.
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CNH Industrial NV / CNHI

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
3.85, Senior, USD, 2027:B	500	15-NOV-2027	Baa3/BBB/BBB-	97.82	29-Apr-2020	4.19	364
4.5, Senior, USD, 2023:B	600	15-AUG-2023	Baa3/BBB/BBB-	102.43	29-Apr-2020	3.71	344
Senior Unsecured, EUR, Y5:CDS					29-Apr-2020		219

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Deutsche Bank / DB

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
5, Lower Tier 2, EUR, 2020:B	1,150	24-JUN-2020	NR/BB+/BB+	100.08	30-Apr-2020	4.20	471
4.296, Lower Tier 2, USD, 2028:B	1,500	24-MAY-2028	Ba2/BB+/BB+	90.03	29-Apr-2020	4.87	462
2.75, Lower Tier 2, EUR, 2025:B	1,250	17-FEB-2025	Ba2/BB+/BB+	97.37	29-Apr-2020	3.35	400
4.5, Lower Tier 2, USD, 2025:B	1,500	01-APR-2025	Ba2/BB+/BB+	95.08	29-Apr-2020	5.66	524
4.875, Subordinated, USD, 2032:B	1,000	01-DEC-2032	Ba2/BB+/BB+	90.78	29-Apr-2020	5.28	463
1.125, Senior, EUR, 2025:B	971	17-MAR-2025	Baa3/BBB-/BBB	92.47	29-Apr-2020	2.80	345
4.25, Senior, USD, 2021:B	4,500	14-OCT-2021	Baa3/BBB-/BBB	100.411	30-Apr-2020	3.95	377
1.75, Senior, EUR, 2028:B	856	17-JAN-2028	Baa3/BBB-/BBB	91.06	29-Apr-2020	3.07	360
3.375, Senior, USD, 2021:B	854	12-MAY-2021	Baa3/BBB-/BBB	100.06	29-Apr-2020	3.32	316
1.125, Senior, EUR, 2023:B	1,000	30-AUG-2023	A3/BBB+/BBB+	100.05	29-Apr-2020	1.11	181
3.3, Senior, USD, 2022:B	1,100	16-NOV-2022	Baa3/BBB-/BBB	98.32	29-Apr-2020	4.00	380
3.15, Senior, USD, 2021:B	1,500	22-JAN-2021	Baa3/BBB-/BBB	99.83	29-Apr-2020	3.38	325
4.25, Senior, USD, 2021:B	1,000	04-FEB-2021	Baa3/BBB-/BBB	100.18	29-Apr-2020	4.00	386
6, Tier1, EUR, Perp/2049:B	1,750	31-MAY-2049	B1/B+/B+	78.50	29-Apr-2020	5.88	587
6.25, Tier1, USD, Perp/2049:B	1,250	29-MAY-2049	B1/B+/B+	66.00	29-Apr-2020	.00	
7.125, Tier1, GBP, Perp/2049:B	650	30-APR-2049	B1/B+/B+	74.00	29-Apr-2020	7.53	677
7.5, Junior Subordinated, USD, 2025:B	1,500	29-DEC-2049	B1/B+/B+	81.75	29-Apr-2020	7.40	684
1.25, Senior, EUR, 2021:B	1,807	08-SEP-2021	Baa3/BBB-/BBB	97.99	29-Apr-2020	2.77	339
1.5, Senior, EUR, 2022:B	1,750	20-JAN-2022	Baa3/BBB-/BBB	97.69	29-Apr-2020	2.89	354
.375, Senior, EUR, 2021:B	1,250	18-Jan-2021	Baa3/BBB-/BBB	98.20	29-Apr-2020	2.94	345
3.95, , USD, 2023:B	1,000	27-FEB-2023	Baa3/BBB-/BBB	99.60	29-Apr-2020	4.10	387
1.625, , EUR, 2021:B	1,500	12-FEB-2021	Baa3/BBB-/BBB	99.05	29-Apr-2020	2.85	338
Senior Unsecured, EUR, Y5:CDS	400				30-Apr-2020		125
Subordinated, EUR, Y5:CDS	1,132				30-Apr-2020		425

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

ITV PLC / ITVLN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
2.125, Senior, EUR, 2022:B	335	21-SEP-2022	Baa3/BBB-/NR	101.49	29-Apr-2020	1.41	210
2, Senior, EUR, 2023:B	259	01-DEC-2023	Baa3/BBB-/NR	100.38	29-Apr-2020	1.89	258
Senior Unsecured, EUR, Y5:CDS					29-Apr-2020		267
1.375, Senior, EUR, 2026:B	600	26-SEP-2026	Baa3/BBB-/NR	90.45	29-Apr-2020	3.04	363

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Peugeot / PEUGOT

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
2.375, Senior, EUR, 2023:B	500	14-APR-2023	Baa3/BBB-/BBB-	101.05	29-Apr-2020	2.01	270
2, Senior, EUR, 2024:B	700	23-MAR-2024	Baa3/BBB-/BBB-	100.28	29-Apr-2020	1.92	262
2, Senior, EUR, 2025:B	650	20-MAR-2025	Baa3/BBB-/BBB-	98.26	29-Apr-2020	2.38	304
1.125, Senior, EUR, 2029:B	600	18-SEP-2029	Baa3/BBB-/BBB-	85.60	29-Apr-2020	2.90	337
Senior Unsecured, EUR, Y5, CDS:CDS					29-Apr-2020		262

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Renault / RENAUL

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
1, Senior, EUR, 2023:B	750	08-MAR-2023	Ba1/BB+/NR	95.22	29-Apr-2020	2.77	345
1, Senior, EUR, 2025:B	750	28-NOV-2025	Ba1/BB+/NR	90.66	29-Apr-2020	2.83	346
1, Senior, EUR, 2024:B	700	18-APR-2024	Ba1/BB+/NR	91.95	29-Apr-2020	3.19	387
1.25, Senior, EUR, 2025:B	1,000	24-JUN-2025	Ba1/BB+/NR	90.24	29-Apr-2020	3.34	398
2, Senior, EUR, 2026:B	750	28-SEP-2026	Ba1/BB+/NR	90.86	29-Apr-2020	3.62	420
1.125, Senior, EUR, 2027:B	500	04-OCT-2027	Ba1/BB+/NR	86.24	29-Apr-2020	3.24	378
Senior Unsecured, EUR, Y5:CDS					29-Apr-2020		294

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Schaeffler Finance BV / SHAEFF

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
3.25, Secured, EUR, 2025:B	600	15-MAY-2025	Baa3/BBB-/BBB-	96.05	29-Apr-2020	4.13	480
Senior Unsecured, EUR, Y5:CDS					29-Apr-2020		160

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Suedzucker / SZUGR

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
1.25, Senior, EUR, 2023:B	300	29-NOV-2023	NR/BBB-/NR	100.10	29-Apr-2020	1.22	192
2.781, Junior-Subordinated, EUR:CS	700	29-JUN-2049	B2/B+/WD	74.67	30-Apr-2020	3.80	74.67
Senior Unsecured, EUR, Y5:CDS					29-Apr-2020		147

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UniCredit SpA / UCGIM

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
9.375, Tier 1, EUR, Perp/Call:B	246	21-JUL-2049	Ba3/BB-/BB-	100.32	30-Apr-2020	7.27	779
6.95, Lower Tier 2, EUR, 2022:B	1,500	31-OCT-2022	Baa3/BB+/BB+	108.20	29-Apr-2020	3.46	413
Subordinated, EUR, Y5:CDS					29-Apr-2020		428
Senior Unsecured, EUR, Y5:CDS					29-Apr-2020		166
3.25, Senior, EUR, 2021:B	1,250	14-JAN-2021	Baa1/BBB/BBB	101.77	29-Apr-2020	.73	126
8, Tier1, USD, Perp/2049:B	1,250	03-APR-2049	NR/NR/BB-	89.99	29-Apr-2020	6.87	652
6.75, Junior Subordinated, EUR, Perp/2049:B	1,000	29-SEP-2049	NR/NR/BB-	91.88	29-Apr-2020	6.45	709
5.75, Lower Tier 2, EUR, 2025:B	1,000	28-OCT-2025	Baa3/BB+/BB+	100.00	29-Apr-2020	4.03	448
4.375, Subordinated, EUR, 2027:B	750	03-JAN-2027	Baa3/BB+/BB+	100.51	29-Apr-2020	4.05	468
2.125, Senior, EUR, 2026:B	1,000	24-OCT-2026	Baa1/BBB/BBB	101.27	29-Apr-2020	1.91	252
3.75, Senior, USD, 2022:B	1,250	12-APR-2022	Baa1/BBB/BBB	101.06	29-Apr-2020	3.18	302
1, Senior, EUR, 2023:B	1,500	18-JAN-2023	Baa2/BBB-/BBB-	96.13	29-Apr-2020	2.49	317

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Valeo SA / FRFP

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
.375, Senior, EUR, 2022:B	600	12-SEP-2022	Baa3/BBB-/NR	93.34	29-Apr-2020	3.35	401
.625, Senior, EUR, 2023:B	500	11-JAN-2023	Baa3/BBB-/NR	92.54	29-Apr-2020	3.57	424
3.25, Senior, EUR, 2024:B	700	22-JAN-2024	Baa3/BBB-/NR	97.50	29-Apr-2020	3.98	464
1.5, Senior, EUR, 2025:B	600	18-JUN-2025	Baa3/BBB-/NR	89.06	29-Apr-2020	3.89	452
1.625, Senior, EUR, 2026:B	600	18-MAR-2026	Baa3/BBB-/NR	88.37	29-Apr-2020	3.87	447
Valeo 5y CDS SR					29-Apr-2020		311

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Hold	216	48.21%	Hold	180	83.33%
Sell	82	18.30%	Sell	70	85.37%

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