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European high yield: Bonds vs. Loans

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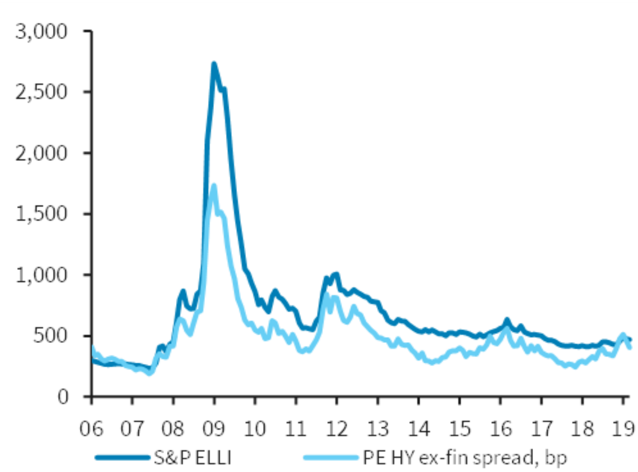
While bond and loan spreads have historically moved broadly in line with each other, the correlation is unstable. Although loans currently offer less attractive spread per unit rating vs. bonds than in the past, we prefer loans to bonds given our outlook for spreads to widen somewhat and that in such scenarios, loans usually outperform bonds. Importantly, we also expect CLO demand to remain robust and thus supportive to loan spreads. We detail their constraints but also how CLO managers can be more tactical in their bond vs. loan allocation, and highlight that the single B-rated bucket is the most attractive to look for spreads in the bond vs. loan markets. Finally, we highlight our favourite bond to loan swaps (and vice versa).

Unstable relationship, but each has something to offer

Historically, while bond and loan spreads do generally move broadly in line with each other, the correlation is unstable over time (see Figure 1 and Figure 2). We find that, while the relative ratings of loans and bonds have historically explained their spread performance between 2003 and 2009, ie. relative spreads widened as the average rating for loans worsened relative to bonds (Figure 3), the relationship since has been more mixed.

We think this is partly explained by the fact that, all else equal, bond versus loan is also a beta trade (Figure 4). This likely explains why loans outperformed bonds in 2009-12 despite the average loan rating worsening relative to bonds, as credit spreads were generally widening during that period. We note that, currently, loan spread levels do not look very different from bonds (ratio is c. 1.0x, see Figure 3), following persistent compression since late-2017, despite the average rating of loans worsening. In part, this is due to the widening in the bond market last year, but we also think the compression was further enhanced by strong demand for loans from institutions and CLO managers.

FIGURE 1
Historically, bonds and loans spreads move broadly in line with each other…



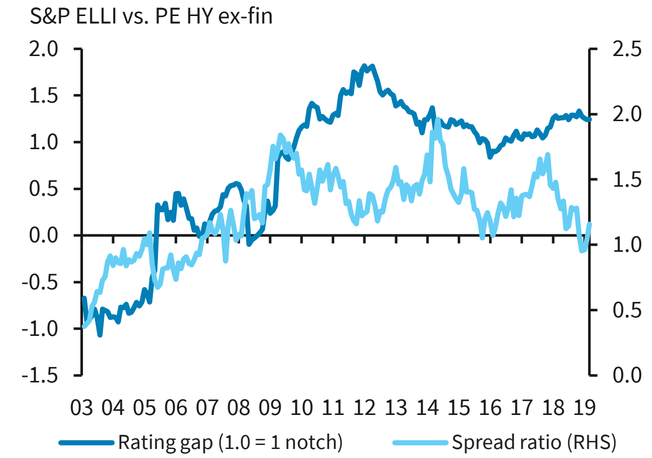
Source: Bloomberg Barclays Indices, S&P LCD, Barclays Research

FIGURE 2
… but the correlation is unstable

Source: Bloomberg Barclays Indices, S&P LCD, Barclays Research

FIGURE 3

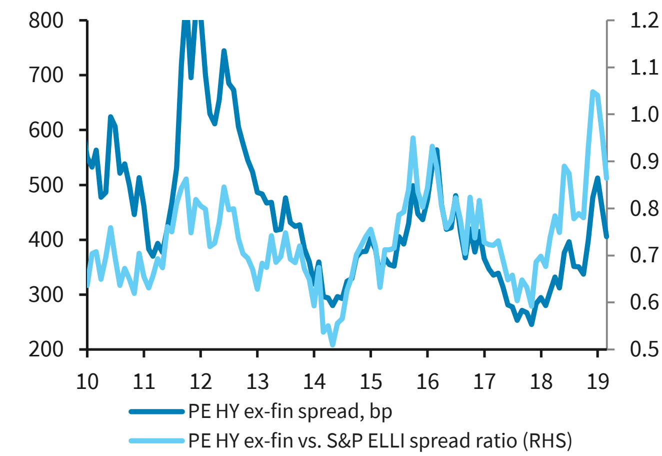
We find that relative rating could help explain the spread performance in some periods eg. 2003-09…



Source: Bloomberg Barclays Indices, S&P LCD, Barclays Research

FIGURE 4

…in other times, the beta of the bond vs. loan market is what explains performance



Source: Bloomberg Barclays Indices, S&P LCD, Barclays Research

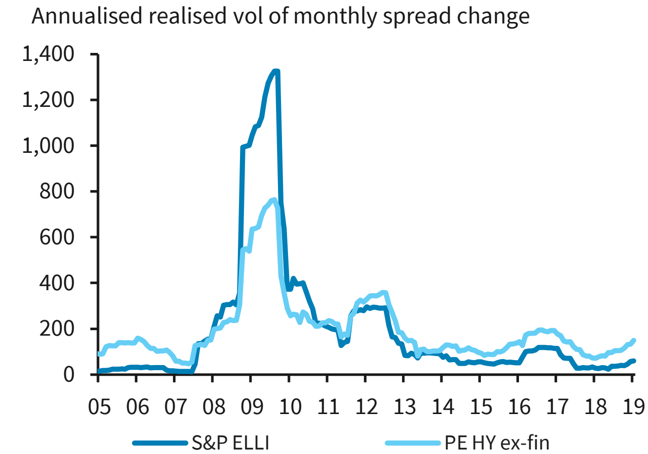
Although on one hand, investors' compensation per unit rating looks poorer in loans than bonds, on the other, we would argue that investors are better compensated for volatility by investing in loans instead of bonds. As Figure 7 shows, the spread per unit realised volatility on returns for bonds has been persistently lower than that for loans. Loan spread (with the exception of 2008-09) are usually less volatile than bond spreads. One reason is the long settlement times in loans, and general illiquidity of the market, reducing the incentive for investors to trade more frequently. But we think this can also be explained by the composition of the investor base. While we estimate that 40-50% of European high yield bonds are held by retail investors (Figure 8), only about 5% of loans are retail-held, with more than half held by CLO managers.

Thus, while we think that investors looking for spread per unit of rating should find some attractive opportunities in the bond market (particularly in the single B-rated bucket, see trade ideas further below), we prefer loans over bonds for two main reasons: i) our current outlook of slowing growth in 2019, relatively high volatility and expectation for HY bond spread to widen somewhat by year end and ii) our expectation of demand from CLO managers to remain strong. Anecdotally, demand from Japanese banks for CLO papers seems strong and we expect a number of CLO managers to print.

We would highlight the downside risks however. While not our base case, as we noted above, volatility for loans can spike well above that for bonds, as we saw in 2008-09 (Figure 5). Thus, in a downside scenario where Eurozone (and perhaps other major economies globally) goes into a severe recession, we would expect the loan market (which has a poorer average rating than the bond market and has been increasingly issuing highly levered deals (Figure 6)) to underperform bonds., particularly as we we would also expect demand from CLO managers to fall in such a scenario.

FIGURE 5

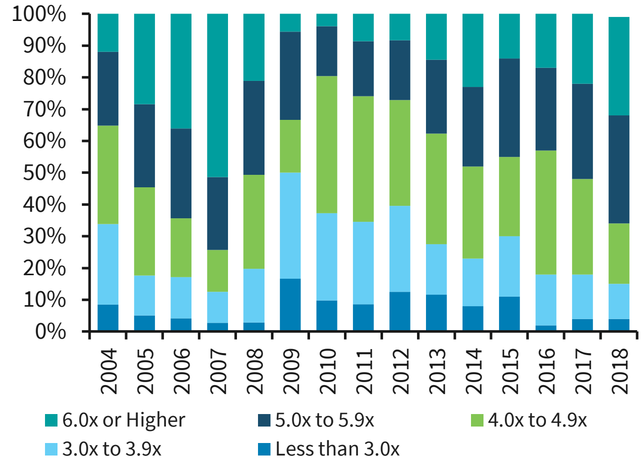
In a severe recession (like in 2008-09), we saw volatility for loan spread spiked well above that for bonds



Source: Bloomberg Barclays Indices, S&P LCD, Barclays Research

FIGURE 6

European Loans: distribution of deals by pro forma debt/EBITDA levels



Source: S&P LCD, Barclays Research

Macro backdrop favour loans over bonds

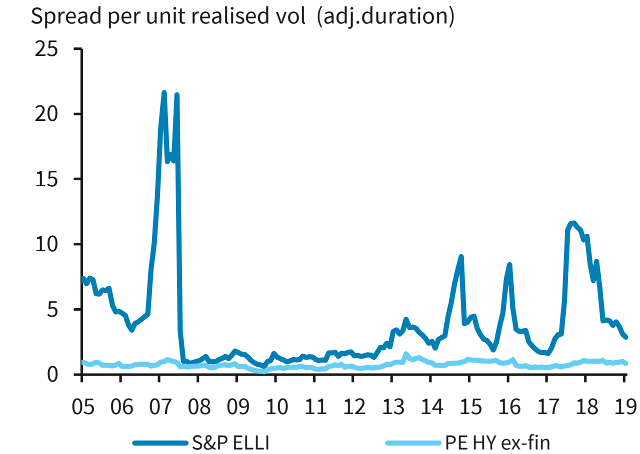
Currently, spread for the index is at 397bp vs. our base case target of 490bp by year-end. We note upside risks to our target should there be more-positive than expected resolution(s) from the EU-China trade negotiations and/or Brexit which result in volatility being lower than anticipated. While there have been some positive developments since our outlook publication at the end of November last year, in particular, a more dovish Fed has been very supportive to market sentiment and volatility and credit spreads in general, macro economic growth and indicators have pointed to more downside risks. We also note that the latest ECB lending survey suggests concerns that lending conditions (an input into our spread forecast) may tighten in Europe and lending activity by banks may slow, see *Money talks, who's listening*, 18 February 2019.

Thus we hold on to our base case spread target for now and continue to monitor developments in global macro growth as well as EU-China trade negotiations, Brexit and Italy (where though political risks seem to have subsided for now, economic growth has worsened, and tensions between Italy and European authorities could resurface in H2 this year after the European elections when weaker economic growth may cause the government to miss their budget deficit target, yet again).

For more on our European high yield spread target in our base, bull and bear case scenarios, please see *Damage is in the price*, 30 November 2018, and for European economics, please see *Walking on eggshells*, 22 February 2019 and *Shaken by trade, stirred by politics*, 15 January 2019.

FIGURE 7

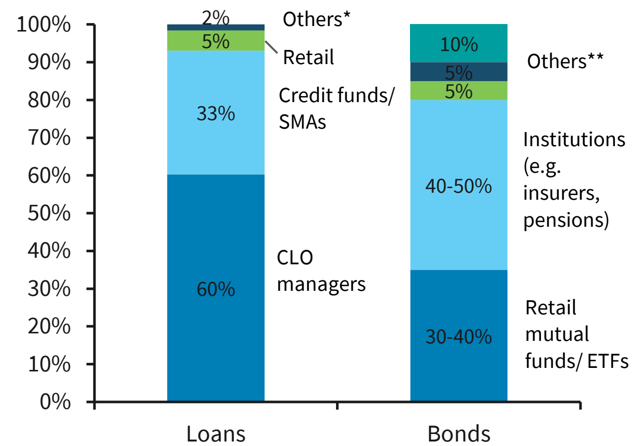
Spread compensation adjusted for volatility in loans has been persistently higher than bonds over time



Source: Bloomberg Barclays Indices, S&P LCD, Barclays Research
Note: Spread per unit realised vol (adj. duration) = Spread/ (Ann. St. Dev (of monthly spread change) * Duration)

FIGURE 8

Lower volatility for loan spreads is likely explained by the different investor bases for loans and bonds



Source: S&P LCD, EPFR, ECB, Bloomberg, Bloomberg Barclays Indices, Barclays Research
Note: Others' = insurers and finance companies. The estimates for loans are based on primary market demand data by S&P LCD. Others** = Distressed funds, ECB CSPP and CLOs, IG and other credit funds. For more details on HY bond demand estimates, please see *Low yields holding it together, for now*, 26 October 2018.

Bonds versus loans: their profiles

In this section, we provide a basic overview of the profile of both markets. We see in Figure 9, for example, that while the European high yield bond market is dominated by BB-rated names (60%), the European leverage loans market (using the S&P European Leverage Loan Index as a benchmark) largely consists of single B rated loans largely (75%), and the currency and regional/country of risk breakdown is broadly similar between the two markets.

While the average issuance size and maturity in both markets are also similar, the bond market is dominated by communications and cyclical sectors such as capital goods, autos and basic industry issuers, while the loan market features a large number of healthcare, business equipment & services as well as software & technology issuers.

The average leverage profile of high yield bonds is lower than that of the loan market, which is expected given the lower average rating of loans in Europe vs. bonds. We also note that though the default rate for loans is currently at its all-time low (in fact, the latest 12m trailing default rate of S&P ELLI is nil) and lower than the bond market in recent years, it has historically been higher than the bond market eg. between 2010 and 2015 (Figure 12). A study of historical recovery rates in both markets by Moody's (albeit a small sample size for loans, as there were only 23 loan observations between 1985 and 2017 versus 158 for bonds) has also shown loans have 10-20% higher recovery rates than bonds (Figure 13).

Finally, as we wrote in *Damage is in the price*, 30 November 2018 and *Sub-par coupon, bounded growth*, 30 November 2018, we expect the loan market to continue to grow amid an unchanged pace of LBO financing, by about €25bn this year. This compares to our forecast for the high yield bond market, which we see growing by about €10bn, supported by M&A activity and, to a lesser extent, LBO activity as we continue to expect most LBO-related issuance in the loan market given the preference of most sponsors for loans vs. bonds but, also, the continued support on the demand side by CLO managers.

FIGURE 9

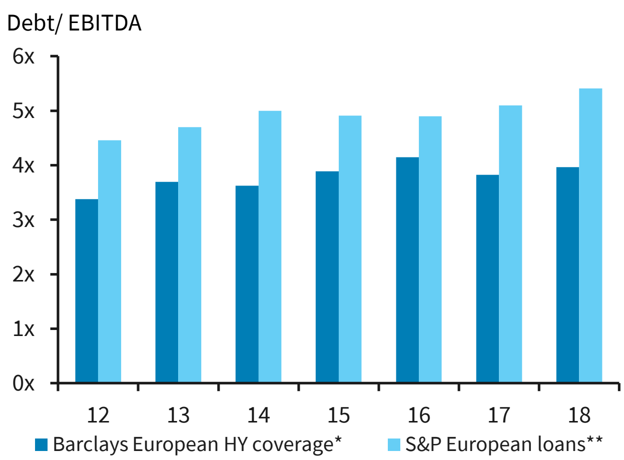
European high yield bond versus loan market: Basic profile

	Pan European High Yield (PE HY) ex-Fin Index	S&P European Leveraged Loan Index (ELLI)
Currencies (by par value)	87% EUR, 12% GBP, 1% Other	92% EUR, 8% GBP
Rating Breakdown (by par value)	BB 60%, B 34%, CCC 6%	BBB 2%, BB 18%, B 75%, CCC 1%, NR 4%
Top sectors (by par value)	Telcos & Media 27%, Cap Goods 13%, Autos 8%, Basic Industry 8%	Healthcare 14%, Business Equip & Svs. 13%, Technology/Software 10%, Chems 9%
Country of risk (by par value)	Europe ex-UK 65%, UK 16%, US 16%, Others 3%	Europe ex-UK 63%, UK 19%, US 13%, Others 5%
Par Value, €bn	250	181
Number of Bonds/Loans	511	355
Number of Issuers	291	287
Average Issue Size, €mn	489	480
Years to maturity	5.1	5.3
Average Rating	BB	B
Average OAS, bp	568	514
Median OAS, bp	337	421
Average Cash Price	98.7	97.7
Average YTM	4.5	4.1
% trading below cash price of 70 (#)	3%	1%
% trading below cash price of 70 (par)	2%	0%

Source: Bloomberg Barclays Indices, S&P LCD, Bloomberg, Barclays Research

FIGURE 10

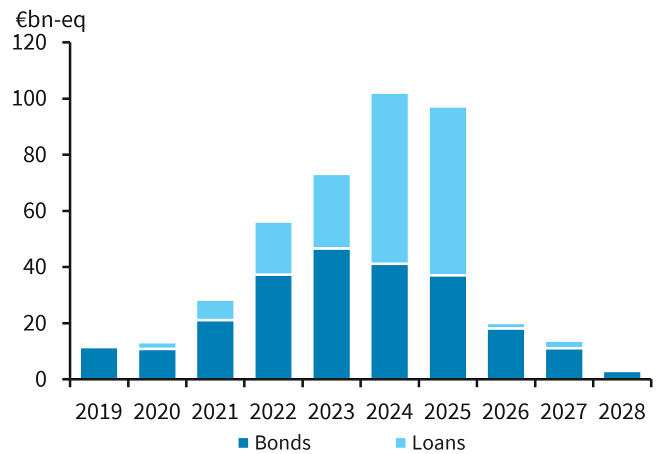
HY bonds vs. loans: Leverage



Source: Bloomberg Barclays Indices, Barclays Research
Note: Leverage for bonds is the market value-weighted net debt/EBITDA ratio of issuers under Barclays European high yield bonds coverage. Leverage for loans is aggregated annual pro forma total debt/EBITDA ratio for S&P's European loans universe.

FIGURE 11

HY bonds vs. loans: Maturity wall

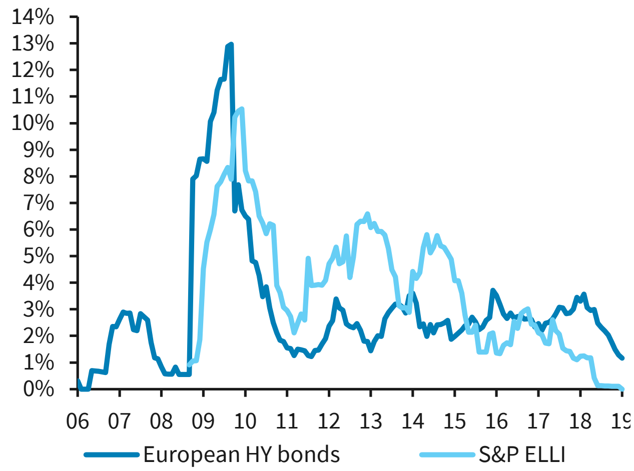


Source: S&P LCD, Barclays Research

For more on European high yield bond fundamentals, please see *Leverage stable, spreads more dispersed*, 16 November 2018, and *2019 earnings growth - differentiating the resilient from the vulnerable*, 01 February 2019.

FIGURE 12

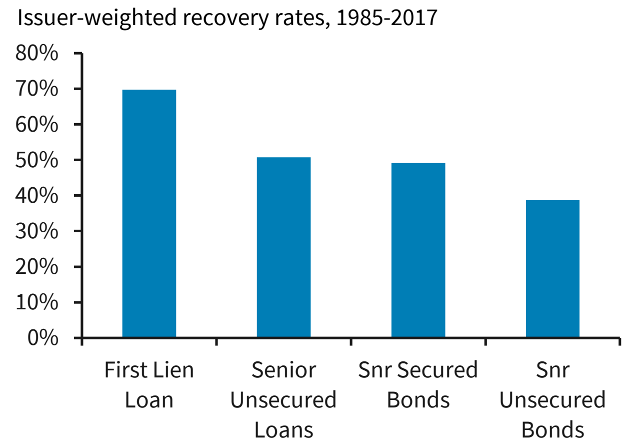
HY bonds vs. loans: Trailing default rate



Source: Moody's, S&P LCD, Barclays Research

FIGURE 13

HY bonds vs. loans: Recovery rate

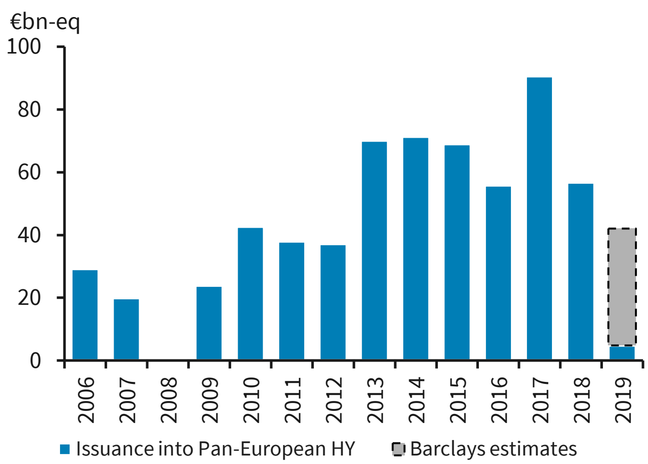


Source: Moody's, Barclays Research

For more on the European high yield and leveraged loan default outlook, please see *The longer the party, the bigger the hangover*, 19 October 2018.

FIGURE 14

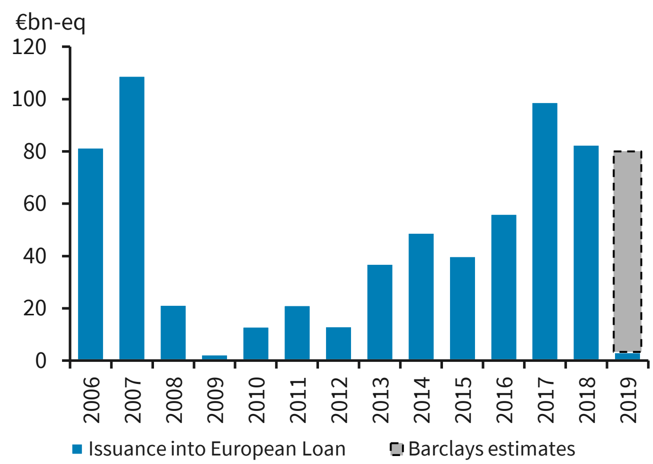
HY bonds: Gross supply trends and expectations for 2019



Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 15

Lev. Loans: Gross supply trends and expectations for 2019



Source: S&P LCD, Barclays Research

For more on high yield and leveraged loan supply, please see *European credit supply outlook for 2019*, 09 November 2018, and *HY bond supply: our expectations are unchanged*, 15 February 2019.

A CLO manager's perspective: each to its own

Even though European CLOs own about half of the European loan market, European managers have the ability able to switch some of their assets into bonds. European CLOs are generally able to hold 20-30% in bond buckets, due to the specific Volcker-compliance route taken by most European CLOs, with a typical sub-limit of 10-20% for fixed-rate bonds. To deal with the fixed-floating rate mismatch between the CLO liabilities and CLO assets, European CLOs are typically structured to include 4-6% of fixed rate tranches, with deals that allow higher fixed rate buckets generally issuing more fixed rate CLO liabilities.

Since late 2016 when CLO weighted average asset coupons (WAC), which accounts for fixed-rate coupons, began declining, CLO managers have had to manage CLO structures to prevent a restricted trading condition via a failed asset quality test, as discussed in *CLO Mythbusters: Fact-checking the headlines*, 15 February 2019. In such a scenario, managers can generally only "maintain or improve" the failing quality tests when trading the portfolio.

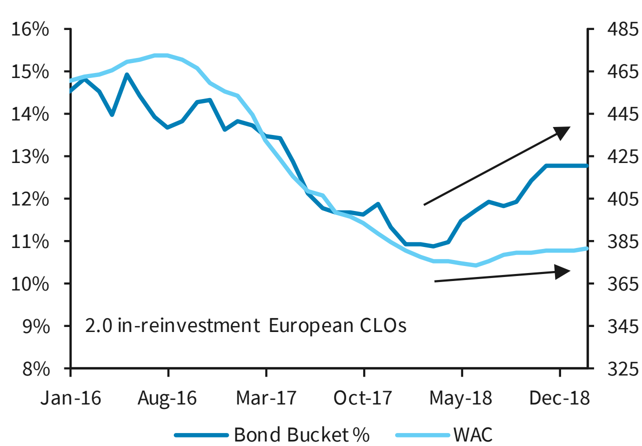
As the interest income on the underlying assets has declined, CLOs have increasingly shifted into lower credit quality assets to compensate. We have seen this through increased weighted average rating factors (WARF), but also an increased usage of bond buckets (Figure 16). As noted above, bonds tend to offer higher yields compared to loans (YTM of 4.5% versus 4.1%) and can allow for greater upside potential (bonds can trade well above par, while loans typically have a 101 soft-call), and thus greater ability to generate par for a CLO. Additionally, CLO managers could more easily take advantage of market dislocations through the more liquid bond versus the loan market.

CLOs may also be able to increase asset and industry diversification (diversity score) through a selection of bond issuers that may not issue in the loan market. We find that CLOs with higher bond buckets tend to have higher diversity scores and WACs (Figure 17), but also higher Caa buckets. A higher allocation to more volatile assets goes both ways, and could also create more opportunities for par losses. Additionally, recoveries on bonds are historically low compared to loans, which could pressure recovery ratings tests for CLOs.

One opportunity for CLO managers to pick up extra spread, without increasing already-high WARFs, is to switch from loans into bonds that have similar or higher corporate family ratings. Generally, the Moody's WARF calculation uses the *corporate family rating* (CFR), while the Caa excess bucket uses the *facility rating*.

FIGURE 16

Bond buckets have increased as CLO WAC remains flat



Source: Kanerai, Intex, Barclays Research

FIGURE 17

Higher bond buckets correlate with higher WAC

Manager	Bond Bucket	WAC Rank
PGIM	26.5%	5
Barings	23.4%	2
Chenavari Credit Partners	21.0%	4
BlackRock Financial	20.0%	14
Tikehau Capital Europe	19.6%	18
Carlyle	18.7%	16
CVC Credit Partners	17.5%	10
BlueMountain Capital Management	17.4%	23
Spire Partners	17.0%	15
Oaktree Capital Management	16.9%	34

Blue = Top 50% Percentile

Mgrs with min. 2 deals in reinvest, settled after Aug. '18 (36 mgrs)

Source: Kanerai, Intex, Barclays Research

Most senior secured loans have a facility rating one notch above the CFR (eg. loan facility is rated B2, with a CFR of B3) and senior secured bond facility ratings tend to be in-line with the CFR, while senior unsecured bonds and 2nd lien loans tend to have facility ratings 1-2 notches below the CFR. For example, the Garret LX I 5.12 15/10/2026 senior unsecured bond currently has a Moody's facility rating of B2, but CFR of Ba3 (near 35% reduction in rating factor for WARF calculations). However, buckets for 2nd liens, unsecured senior obligations and high yield bonds typically have a combined max limit of up to 10%.

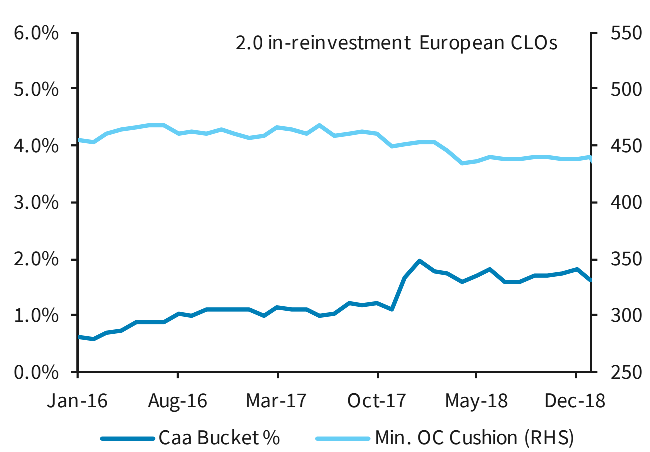
Even though the amount of B3-rated assets in CLOs is rising and has increased the risk of a sudden jump in Caa buckets, average Caa bucket levels are quite low in European CLOs at only 1.6%, on average, a distance away from the typical 7.5% limit. Similarly, the average lowest OC test cushion, which can be haircut by excess Caa assets, is 440bp (Figure 18). As such, we think CLOs could relieve pressure from higher WARFs and gain additional interest income by buying single-B rated bonds (median bond bucket is currently 12.8%).

Beyond a pure rating perspective, CLO managers who take a long-term fundamental view on the underlying issuers and are more adept at trading the portfolio, could also take advantage of the higher volatility provided by the bond market. For example, in late 2018 when the credit markets briefly sold off, some European CLO managers took the opportunity to switch from loans to bonds in the same issuer to position themselves for more price upside in the bonds (Figure 19).

For example, some CLO managers sold Stada (Nidda Healthcare) loans as prices fell, but then bought the similarly rated senior secured bond (similar rating and coupon), typically on the same day. For example, for a manager who simply bought the loan at the lows of 97.5 and sold today at 99.5, the gain on the position would only be 2%. But for a manager who originally bought the loan at par, took a loss by selling at 98, used that cash to buy the bond at 94 and sold today at 99, the total gain would be closer to 5%. Some managers simply bought the bonds, whether they owned the loans are not, and potentially built even more par.

FIGURE 18

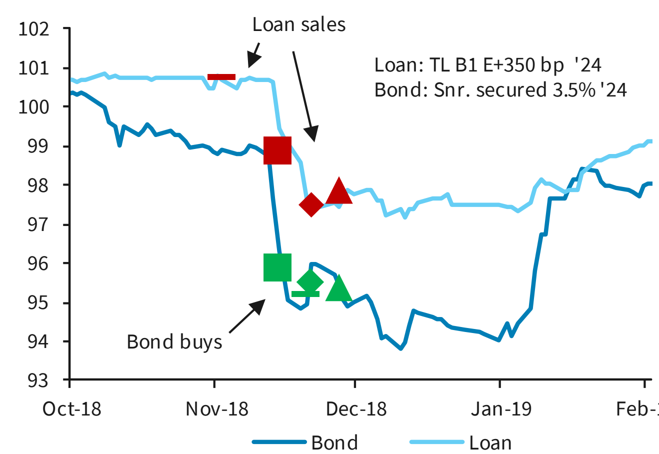
European CLO Caa buckets are low and OC cushion is high



Source: Kanerai, Intex, Markit, Bloomberg, Barclays Research

FIGURE 19

CLOs switched out of Stada loans into Stada bonds in Q4



Source: Kanerai, Intex, Markit, Bloomberg, Barclays Research

Trade I: Our favourite bond to loan swaps

In line with our preference for loans over bonds, we highlight bond to loan swaps by issuers covered by our fundamental analysts that we think look attractive in Figure 20. These are:

CCK: Although both bond and loan are due in April-May '25, and trade at similar spread levels and yields, the bond is subordinated with an average rating of BA2 vs. the loan at BAA3 (secured on more assets) and trades about 6 points higher on cash price vs. the loans.

DOUGR: Bond and loan are pari-passu with similar duration. The bond offers a bit more spread, but as we wrote in *DOUGR: Q1 add extra sparkles - relative value in the loans*, 19 February 2019, we prefer DOUGR loans to bonds on an RV basis as the loans benefit from additional security from their French assets. The bonds trade about 9pt higher on cash price vs. the loans (average LTM price differential is 4pt, while 9pt is the greatest and they were flat to each other on the lower end). The bonds also arguably have more coupon risk.

VERISR: The bond is secured with the same average rating as the loan, has slightly longer maturity, but trades tighter with lower yields compared to the loan. It is also trading at over 3 points on cash price vs. the loan. This trade is also fitting in our view that while we remain constructive on Verisure's prospects in 2019, we think the bond currently trades too tight vs the index particularly given its high leverage. For more details, please see *VERISR: Strong EBITDA growth continues; lower to Underweight on tight valuations*, 28 February 2019.

ZIGGO: The secured bond maturing in '25 has the same rating and similar maturity as the loan but trades about 85bp tighter and almost 4pt higher on cash price vs the loans. The subordinated bond maturing in May 2024 looks even more unattractive vs the loan, trading on even tighter spreads, a lower yield and higher cash price despite a more risky rating.

FIGURE 20
Bonds to loans swap trade ideas

				Sell Bonds							
Analyst	Ticker	Bond ISIN	Bond Issuer Name	Curr.	Payment Rank	Latest Price	OAS, bp	Coupon, %	YTW, %	Maturity (yrs)	Average Rating
Brian Lalli	CCK	XS122728722	CROWN EURO HOLDINGS SA	EUR	Sr Unsecured	106.8	238	3.4	2.1	15/05/2025	BA2
Karine Elias	DOUGR	XS125107800	KIRK BEAUTY ZERO GMBH	EUR	1st lien	95.6	814	6.3	7.8	15/07/2022	B2
Maggie O'Neal	VERISR	XS190825019	VERISURE MIDHOLDING AB	EUR	Secured	102.8	275	3.5	2.7	15/05/2023	B2
Daniel Rekrut	ZIGGO	XS117581365	LGE HOLDCO VI BV	EUR	1st lien	102.8	265	3.8	2.8	15/01/2025	B1
	ZIGGO	XS102841115	ZIGGO SECURED FIN. BV	EUR	1st lien	104.9	199	7.1	1.4	15/05/2024	B3

				Buy Loans							
Analyst	Ticker	Loan FIGI	Loan Issuer Name	Curr.	Payment Rank	Latest Price	Discount margin	Coupon, %	YTM, %	Maturity (yrs)	Average Rating
Brian Lalli	CCK	BBG00JPWYY	Crown Cork & Seal Co Inc	EUR	1L Gtd Sr. Secd	100.6	258	2.4	2.3	03/04/2025	BAA3
Karine Elias	DOUGR	BBG00GQNYK	Douglas Holding AG	EUR	1L Gtd Sr. Secd	86.6	801	3.3	7.7	13/08/2022	B2
Maggie O'Neal	VERISR	BBG00MGYN2	Verisure AB	EUR	1L Gtd Sr. Secd	99.8	386	3.5	3.6	21/10/2022	B2
Daniel Rekrut	ZIGGO	BBG00FRXLR	Ziggo BV	EUR	1L Gtd Sr. Secd	99.1	346	3.0	3.2	15/04/2025	B1
	ZIGGO			-		-	-	-	-	-	-

Source: Bloomberg Barclays Indices, S&P LCD, Bloomberg, Barclays Research
For more on Douglas, please see *DOUGR: Q1 add extra sparkles - relative value in the loans*, 19 February 2019.

Trade II: Our favourite loan to bond swaps

For investors looking for better compensation on rating and thus a loan to bond swap, we highlight these two trades in Figure 21:

TNET: The bond is secured with the same average rating and similar cash price, but offers about 45bp more in spreads and 1% more yield.

VMED: The bonds are secured with the same average rating and similar cash price, but offer about 30-35bp more in spreads and more than 1% extra yield. The Jan '27 bond also trades on lower cash price compared to the loans.

FIGURE 21
Loan to bond swap trade ideas

				Buy Bonds								
Analyst	Ticker	Bond ISIN	Bond Issuer Name	Curr.	Payment Rank	Latest Price	OAS, bp	Coupon, %	YTW, %	Maturity (yrs)	Average Rating
Daniel Rekrut	TNETBB	BE630037127	TELENET FINANCE VI (LUX)	EUR	1st lien	99.9	322	3.5	3.5	01/03/2028	BA3
Daniel Rekrut	VMED	XS120745972	VIRGIN MEDIA SECURED FIN.	GBP	1st lien	98.4	373	4.9	5.2	15/01/2027	BA3
	VMED	XS155517301	VIRGIN MEDIA SECURED FIN.	GBP	1st lien	99.9	367	5.0	5.1	15/04/2027	BA3

				Sell Loans							
Analyst	Ticker	Loan FIGI	Loan Issuer Name	Curr.	Payment Rank	Latest Price	Discount margin	Coupon, %	YTM, %	Maturity (yrs)	Average Rating
Daniel Rekrut	TNETBB	BBG00KY5XC	Telenet Communications	EUR	1L Gtd Sr. Secd	99.7	277	2.5	2.5	15/12/2027	BA3
Daniel Rekrut	VMED	BBG00J59N3	Virgin Media Finance	GBP	1L Gtd Sr. Secd	99.0	340	4.1	4.3	15/01/2027	BA3
	VMED	BBG00J6L5T1	Virgin Media Finance	GBP	1L Gtd Sr. Secd	99.0	339	4.1	4.2	15/11/2027	BA3

Source: Bloomberg Barclays Indices, S&P LCD, Bloomberg, Barclays Research

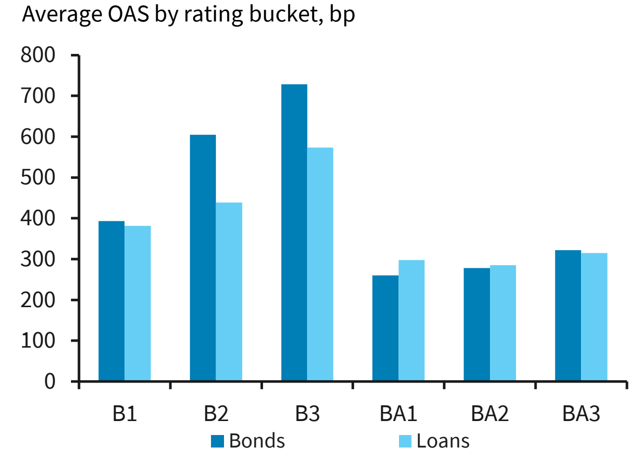
Trade idea III: Looking for spreads in single-B bonds

When we look at the average spread per by rating bucket for loans vs. bonds (Figure 12), we see that the average single B-rated bond offers more attractive spread than the average single B-rated loan. The spread differential is less obvious in BB rating bucket. We think this is because: i) loans are generally more secured over bonds; ii) the single B rated bucket is the most liquid in the loans market at c. 75% (see Figure 9), compared to the bond market at 34%; although the larger size of the bond market means that in par outstanding, the size of the two markets is pretty comparable (€100bn for loans and €80bn for bonds). We think this is the part of the market that's driving the relatively poorer compensation per unit rating that we discuss above (Figure 3); and iii) the BB market in bonds is comparatively more liquid than the BB market in loans (€150bn vs. €25bn) and also benefits from demand by IG investors (see *Tourism hotspots in 'BB's*, 28 September 2018.

Particularly for CLO managers looking for bonds with more attractive spreads, we highlight in Figure 23 our favourite single B bonds under coverage (where our analysts have an "Overweight" rating on) with attractive spreads.

FIGURE 22

Average spreads for bonds is more attractive for the single B bucket than loans



Source: Bloomberg Barclays Indices, Bloomberg, S&P LCD, Barclays Research

FIGURE 23

We highlight B-rated names which our analysts like with attractive spreads

Security	OAS, bp	Price	YTW, %	Maturity	Next Call Date	Index Rating
SHODFP 7 3/4 11/15/22	1,046	89.2	11.4	15/11/2022	15/11/2019	B2
BALTAL 7 3/4 09/15/22	957	95.5	9.3	15/09/2022	11/03/2019	B2
CDRSM 6 3/4 11/01/21	861	96.6	8.2	01/11/2021	01/04/2019	B2
LECTA 6 1/2 08/01/23	831	94.3	8.0	01/08/2023	01/08/2019	B2
MTNLN 6 3/4 01/31/23	726	95.1	8.2	31/01/2023	31/01/2020	B3
PRMHLD 6 3/4 08/15/23	644	101.4	6.3	15/08/2023	15/08/2020	B2
PFDLN 6 1/4 10/15/23	444	101.8	5.6	15/10/2023	15/06/2020	B2
BWY 4 3/4 04/15/24	427	101.4	4.3	15/04/2024	15/04/2020	B2

Source: Bloomberg Barclays Indices, Bloomberg, S&P LCD, Barclays Research

Analyst Certification

We, Geoffrey Horton, CFA and Hanyi Lim, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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BWAY HOLDING CO, CD/J/K/M
BWY 4 3/4 04/15/24, Overweight (EUR 101.18, 27-Feb-2019)

CODERE FINANCE 2 LUXEMBOURG SA, CD/J
CDRSM 6 3/4 11/01/21, Overweight (EUR 96.52, 27-Feb-2019)

CROWN EUROPEAN HOLDINGS SA, CD/D/J/K/L/M
CCK 3 3/8 05/15/25, Market Weight (EUR 106.47, 27-Feb-2019)

DOUGLAS GMBH, CD/J/K/N
DOUGR 6 1/4 07/15/22, Market Weight (EUR 95.25, 27-Feb-2019)

LECTA SA, CD/D/E/J/K/L/M
LECTA 6 1/2 08/01/23, Overweight (EUR 93.72, 27-Feb-2019)

LSF9 BALTA ISSUER SARL, CD/J
BALTAL 7 3/4 09/15/22, Overweight (EUR 95.30, 27-Feb-2019)

MATALAN FINANCE PLC, CD/D/J/K/L/M/N
MTNLN 6 3/4 01/31/23, Overweight (GBP 94.84, 27-Feb-2019)

PREMIER FOODS FINANCE PLC, A/CD/D/J/K/L/M/N
PFDLN 6 1/4 10/15/23, Overweight (GBP 101.49, 27-Feb-2019)

PROMONTORIA HOLDING 264 BV, A/CD/D/J/K/L/M
PRMHLD 6 3/4 08/15/23, Overweight (EUR 101.31, 27-Feb-2019)

SHOP DIRECT FUNDING PLC, CD/J
SHODFP 7 3/4 11/15/22, Overweight (GBP 88.78, 27-Feb-2019)

TELENET FINANCE LUXEMBOURG NOTES SARL, CD/J
TNETBB 3 1/2 03/01/28, Market Weight (EUR 99.86, 27-Feb-2019)

VERISURE HOLDING AB, A/CD/D/J/K/L/M
VERISR 3 1/2 05/15/23, Underweight (EUR 102.19, 27-Feb-2019)

VIRGIN MEDIA SECURED FINANCE PLC, CD/D/J/K/L/M/N
VMED 4 7/8 01/15/27, Market Weight (GBP 97.73, 27-Feb-2019)
VMED 5 04/15/27, Market Weight (GBP 99.02, 27-Feb-2019)

ZIGGO BOND CO BV, CD/D/J/K/L/M/N
ZIGGO 7 1/8 05/15/24, Underweight (EUR 104.70, 27-Feb-2019)

ZIGGO BV, CD/D/J/K/L/M/N
ZIGGO 3 3/4 01/15/25, Market Weight (EUR 102.50, 27-Feb-2019)

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For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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