From: Vinit Sahni [redacted]
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To: jeevacation@gmail.com
Subject: Jeffrey - HY today vs 2007 quick analysis [C]

Classification: Confidential

Jeffrey - picked up something interesting over the weekend, the below explains why we will get a lot more volatility around positions and why we need to pick our spots. EM retracing as expected, will be a noisy year though.

Need to watch a number of new relationships and we are building our analytics around that.

High Yield - 2007 vs today comparison - 1) liquidity is weaker now vs 2007, 2) less investor leverage in the system vs 2007, 2) prices are higher of bonds in general, 3) absolute yields are lower for sure, 4) ratings mix is weaker now vs 2007. The current bull market has lasted 62 months, at 104.22 average price market is already above the median call price of 104.

HY is 111bps tighter to fair value according to one analysis, in 2007 yields bottomed at 7.32% vs 5.46% today !!! spread of 246bps from 2007 is equivalent to 333bps in todays market (taking into account the above factors of differentiation). Here is the breakdown on how we get from 246 bps to 333 bps

HY spread in 2007 : 246bps
Compensation for
1) Lower liquidity: 24 bps
2) Higher $ prices: 28 bps
3) Ultra low yields: 16bps
4) Weaker ratings mix: 4 bps
5) Less availability of leverage: 15bps

An equiv spread to 2007 based on above: 333bps

best

vinit

Vinit Sahni
Managing Director | Global Head - Professional Client Group & Key Client Partners Capital Markets Group

Deutsche Asset & Wealth Management
105/108 Old Broad St (Pinners Hall),
EC2N 1EN London, United Kingdom
Tel. +44(20)754-13392
Mobile +447920-138521
Email vinit.sahni@db.com <mailto:vinit.sahni@db.com>