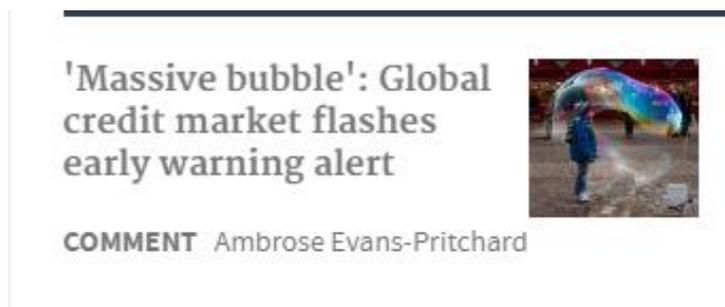


Slow news days and the scars of the GFC; great for headlines

Readers probably saw this headline in the Fairfax media earlier this week relating to an article written by the well-known Ambrose Evans-Pritchard (Cambridge, The Economist, The Telegraph (UK)).



In the article he brings up the spectre of GFC type stuff and how the recent high yield market increase of yields by 0.4% may be a warning of the next catastrophe.

Before selling everything, it's worthwhile looking at a few longer term charts. The charts below are from BAML/ML Global Index and show the margin over risk free rates for "BBB" and "BB" rated securities

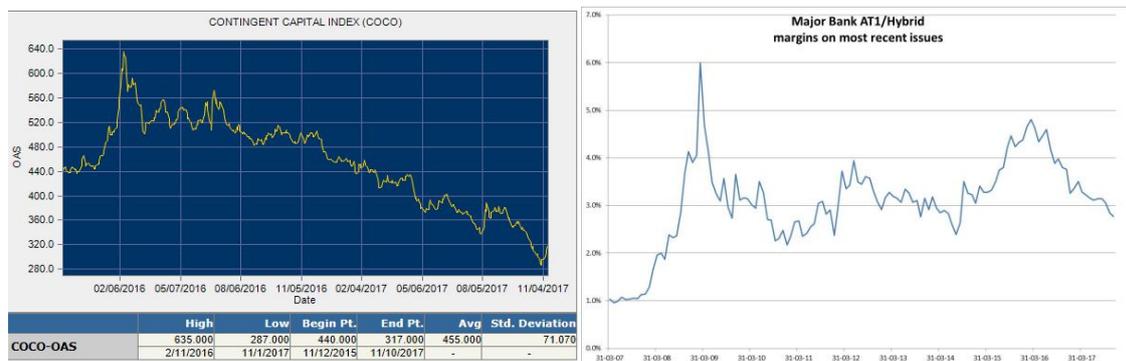


That last little bump at the right is the end of the world. Based on the last 21 years of history it is a less than 1 standard deviation move. In statistical terms that means that margins move more than the 0.48% increase (that Evans-Pritchard talks about) in 2 months out of every 12. It is not even close to an abnormal occurrence.

Of course every GFC or recession starts off with small moves, so we're not saying it's a meaningless trifle, but we're not at the next GFC yet.

Hybrids/Bank Capital instruments

We've attached the comparative charts for CoCo's and Australian major bank hybrids/AT1. Not much to see there either.



Source: BAML/ML

Source: Elstree and ASX

Our views

We're still of the view that for investment grade credit and Australian bank issued hybrids, you should be invested unless you think there is a high chance of recession.

We readily accept that other credit markets may be overvalued enough to sell (and that includes the high yield market that Ambrose Evans-Pritchard refers to). However, your portfolio risk is dominated by equities. The high yield market index has fallen by 0.8% in total return terms. That's about the daily movement in the Westpac (WBC) share price.

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