

October 2018

- Credit spreads widened significantly in October amid heightened geopolitical risk
- The iTraxx European Performance Credit Index fell by 1.1% but is up 0.4% since ETF launch
- The estimated 12m yield of the index, as at 31 October, is 5%

Market overview

The dominant theme in October was geopolitical risk. Major equity indices saw a pronounced sell-off and credit markets in both Europe and the US reacted with notable spread widening. European investment grade credit, reflected by iTraxx Main, widened by 6bps (almost 10%) while European High Yield, reflected by iTraxx Crossover, widened by 24bps (9%).

Spreads on major indices

	31 Oct	30 Sep	MoM change
iTraxx Main 5y	74.09	68.78	↑
iTraxx Crossover 5y	297.95	274.97	↑
CDX North Am IG 5y	68.76	59.18	↑
CDX North Am HY 5y	375.07	331.00	↑

Data: Tabula, 31 October 2018

Tabula European Performance Credit UCITS ETF

The iTraxx European Performance Credit Index, the reference index for the Tabula European Performance Credit UCITS ETF (TCEP), was down 1.1% in October.

Widening credit spreads were the key driver of this negative performance. The index has exposure to iTraxx Main and iTraxx Crossover and, by selling protection on both indices, it is effectively long credit. As a result, it will suffer when risk increases and spreads widen. Spreads on both iTraxx Main and iTraxx Crossover widened significantly in October, leading to a negative performance contribution of 140bps. This was partly offset by positive carry.

How sensitive is TCEP to spread movements?

The relationship between spread movements and fund performance is captured in the DV01 metric. TCEP currently has a DV01 of -0.15%. This means that, all else equal, the fund will lose 15bps for every 1bps widening in credit spreads and gain 15bps for every 1bps tightening. The DV01 can be found on the TCEP factsheet and at TabulaIM.com.

Performance

	1m	YTD	1y	Since TECP launch ¹
Fund	n/a	n/a	n/a	n/a
Index	-1.1%	-0.4%	0.2%	0.4%

Data: Tabula / IHS Markit, 31 October 2018. Performance prior 30th April 2018 is simulated by IHS Markit. Past performance (actual or simulated) is not a reliable indicator of future returns. ¹21 August 2018

Yield drivers²

	Oct	Sep
Spread	3.37%	3.15%
Roll	2.27%	1.99%
Cash	-0.54%	-0.54%
Transaction costs	-0.10%	-0.10%
Total 12m estimated yield	5.00%	4.50%

Data: Tabula, 31 Oct 2018. ²Estimated yield is calculated by ageing and repricing the fund portfolio and assuming that spread curves remain constant. The calculation involves a number of other assumptions and approximations. The estimated yield is not a guarantee of future returns, which will vary based on market price changes.

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