

- Credit spreads sold off heavily in market rout in December
- The iTraxx European Performance Credit Index fell by 1.29%
- The estimated 12m yield of the Tabula European Performance Credit UCITS ETF is 5.46% (Dec 31, 2018)

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Market overview

December saw the biggest sell-off in equities in the U.S. since the great depression and Europe saw the worst year for risk assets since the great financial crises 2008. The general risk off sentiment also sent risk premia in the credit space up.

European investment grade credit, reflected by iTraxx Main, widened by 7bps (~8%) while European High Yield, reflected by iTraxx Crossover, widened by 25bps (8%).

Spreads on major indices

	31 Dec	30 Nov	MoM change
iTraxx Main 5y	87.37	80.85	↑
iTraxx Crossover 5y	352.70	327.91	↑
CDX North Am IG 5y	87.75	74.96	↑
CDX North Am HY 5y	449.15	392.65	↑

Data: Bloomberg, 31 December 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 1.29% in December.

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 in December, leading to a negative performance contribution of 142bps. This was partly offset by positive carry.

What happened 2018?

European equities represented by MSCI Europe turned into bear market territory losing over 10% while spreads in EUR IG nearly doubled from 44.8 at the beginning of the year. Xover widened by 51% closing the year on levels last seen in 2016 after having digested the second credit event in an on-the-run series in the past ten years.

For iTraxx Performance Credit Index this resulted in a volatile sideways market oscillating in a corridor of ~5%. Total returns only turned red due to the steep sell off in Nov. and Dec. ending the year with a loss of 3.59% overall. Looking into 2019 spread widening has increased the 12m estimated yield.

Performance

	1m	YTD	1y	Since TECP launch ¹
Fund	n/a	n/a	n/a	n/a
Index	-1.29%	-3.59%	-3.59%	-2.77%

Data: Bloomberg / IHS Markit, 31 December 2018. Index 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

TCEP Yield drivers²

	Dec	Nov
Spread	4.31%	3.92%
Roll	1.93%	2.14%
Cash	-0.67%	-0.69%
Transaction costs	-0.10%	-0.10%
Total 12m estimated yield	5.46%	5.27%

Data: Tabula, 31 Dec 2018. ²Estimated TCEP yield is calculated by ageing and repricing the fund portfolio and assuming that spread curves remain constant and excludes fees. 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 changes.

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