

Market overview

November saw a continuation of risk-on sentiment with signs of improvement in both US and European PMI and no changes to the dovish tone in central bank policy seen so far this year.

Credit spreads tightened in both European investment grade and high yield. The on-the-run (OTR) iTraxx Main Index tightened 4bp while the iTraxx Crossover Index ended the month 3bp tighter.

Spreads on major indices

	29 Nov	31 Oct	MoM change
iTraxx Main 5y	47.7	51.7	↓
iTraxx Crossover 5y	220.8	240.0	↓
CDX North Am IG 5y	50.0	55.2	↓
CDX North Am HY 5y	325.4	338.4	↓

Data: Tabula/Bloomberg, 30 November 2019

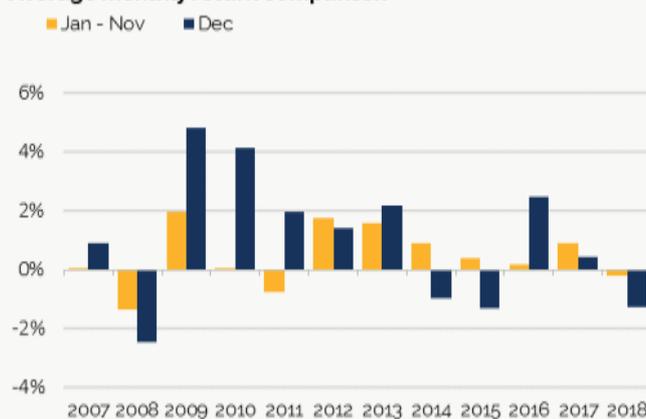
Going into December, attention is likely to remain on US-China trade tariffs which are set to increase on 15 December. In Europe, Brexit continues to dominate ahead of the UK general election taking place on 12 December.

A Santa rally in credit?

The argument for a 'Santa' rally in equity markets is well worn; historical data shows a positive momentum effect between the first eleven months of the year and December. Our analysis indicates that this theory can also be applied to European credit markets.

The last twelve years have seen positive January to November performance on nine occasions (as measured by the iTraxx European Performance Credit Index). Of these nine occasions, December returns were subsequently positive 78% of the time, exceeding the average monthly YTD return in more than half of these years. With the index up 11.2% so far this year, and indications of continued positive sentiment, we await to see whether events such as the US-China trade war and UK election derail the trend.

Average monthly return comparison



Data: Tabula/Bloomberg, 30 November 2019

Low volatility – still a reason to celebrate?

One indication of the current risk-on sentiment which could help drive a positive December, is the recent low volatility environment. November saw record net-short positions in equity volatility-linked indices such as the Cboe Volatility Index (according to Bloomberg). Similarly, the continuation of the positive macroeconomic outlook from September to November helped drive the low realised volatility regime in credit markets. This is reflected in the current premium of implied volatilities over realised volatility, highlighting that realised volatility has declined substantially while implied volatilities have remained elevated.

The initial implied to subsequent realised volatility ratio was 1.60x for the iTraxx Crossover Index and 1.56x for CDX HY in November. The JCREVOLP Index, which sells strangles on both indices, posted its third consecutive month of positive performance as a result.

JCREVOLP Index YTD Performance



Data: Tabula/Bloomberg, 30 November 2019

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 up 1.2% in November.

	1m	YTD	1y	Since TECP launch ¹
Fund (after fees)	1.1%	10.9%	9.4%	7.7%
Index	1.2%	11.2%	9.8%	8.2%

The Index sells protection on the iTraxx Main and iTraxx Crossover, making it effectively long credit. As a result, it will benefit when spreads tighten. Spread change made a performance contribution of approximately 101bp. The estimated one-year yield for TCEP now stands at 3.30% (gross).

Data: Tabula / IHS Markit, 30 November 2019. Performance prior to 30 April 2018 is simulated by IHS Markit. **Past performance (actual or simulated) is not a reliable indicator of future returns.** ¹21 August 2018

Tabula European iTraxx Crossover Credit UCITS ETF

The iTraxx Crossover Long Credit Index, the reference index for the Tabula iTraxx Crossover Credit UCITS ETF (TECC), was up 1.0% in November.

	1m	YTD	1y	Since TECC launch ²
Fund (after fees)	n/a	n/a	n/a	n/a
Index	1.0%	6.0%	5.0%	5.7%

The Index sells protection on the iTraxx Crossover, making it effectively long credit. Spread change made a performance contribution of approximately 90bp. The sensitivity to movements of the underlying credit spreads is measured in credit duration (DV01). The current DV01 of 4.6 means an approximate 4.6bp increase in the NAV per 1bp of spread tightening and vice versa for spread widening. The estimated one-year yield for TECC now stands at 2.12% (gross).

Data: Tabula / IHS Markit, 30 November 2019. Performance prior to 30 April 2018 is simulated by IHS Markit. **Past performance (actual or simulated) is not a reliable indicator of future returns.** ²11 December 2018. Fund performance is not available until a year after launch.

Tabula European iTraxx Crossover Credit Short UCITS ETF

The iTraxx Crossover Short Credit Index, the reference index for the Tabula European iTraxx Crossover Credit Short UCITS ETF (TECS), was down 1.5% in November.

	1m	YTD	1y	Since TECS launch ³
Fund (after fees)	n/a	n/a	n/a	n/a
Index	-1.5%	-8.1%	-7.2%	-5.9%

The Index buys protection on the iTraxx Crossover, making it effectively short credit. Spread change made a performance contribution of approximately -115bp. The sensitivity to movements of the underlying credit spreads is measured in credit duration (DV01). The current DV01 of -6.1 means an approximate 6.1bp increase in the NAV for per 1bp of spread widening and vice versa for spread tightening. The estimated one-year yield for TECS now stands at -5.46% (gross).

Data: Tabula / IHS Markit, 30 November 2019. Performance prior to 30 April 2018 is simulated by IHS Markit. **Past performance (actual or simulated) is not a reliable indicator of future returns.** ³8 February 2019. Fund performance is not available until a year after launch.

Tabula J.P. Morgan Global Credit Volatility Premium Index UCITS ETF

The J.P. Morgan Global Credit Volatility Premium Index (JCREVOLP), the reference index for the Tabula J.P. Morgan Global Credit Volatility Premium Index UCITS ETF (TVOL), rose 1.3% in November, mainly driven by a compression in implied volatility.

	1m	YTD	1y	Since TVOL launch ⁴
Fund (after fees)	n/a	n/a	n/a	n/a
Index	1.3%	-1.7%	-2.7%	-1.4%

The JCREVOLP Index provides short exposure to volatility in North American and European High Yield CDS markets by tracking the return of two credit volatility indices, rebalanced to an equal weighting monthly. To minimise market exposure, each credit volatility index sells and simultaneously delta hedges option strangles on the relevant CDS indices: iTraxx Crossover 5y and CDX HY 5y.

Data: Tabula / IHS Markit, 30 November 2019. **Past performance (actual or simulated) is not a reliable indicator of future returns.** ⁴28 March 2019. Fund performance is not available until a year after launch.

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