Monthly review

January 2020

TABULA

Market overview

The new decade began as 2019 ended with risk markets continuing their strong performance and credit spreads tightening. However, concerns over the coronavirus outbreak saw volatility increase towards month end and credit markets ended the month wider.

The on-the-run iTraxx Main Index moved c.2bps wider while iTraxx Crossover ended the month 24bps wider.

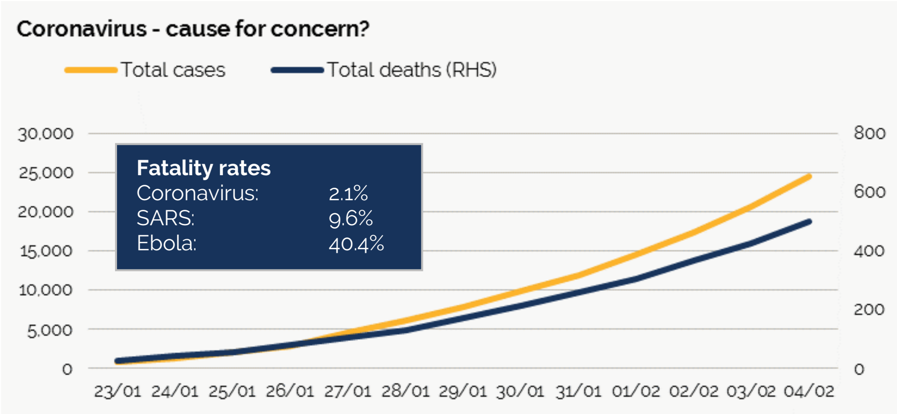
Spreads on major indices (bps)

	31 Jan 2020	31 Dec 2019	MoM change
iTraxx Main 5y	46.4	44.2	2.2bps wider
iTraxx Crossover 5y	231.3	207.3	24.0bps wider
CDX North America IG 5y	50.2	45.3	4.9bps wider
CDX North America HY 5y	305.2	280.5	24.7bps wider

Data: Tabula/Bloomberg, 31 January 2020

Coronavirus and credit volatility

In January 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 recorded its first month of negative performance since August 2019. Positive performance in the first part of the month was more than offset by the widespread pickup in realised volatilities across asset classes at month end, as investors grew concerned by the Coronavirus outbreak.



February performance will very likely depend on whether the coronavirus outbreak continues to cause elevated volatility in financial markets (which may lead to negative performance for the strategy) or whether the previous period of low volatility reasserts itself (potentially leading to positive performance). Information from the World Health Organization (WHO) shows that while the coronavirus infection rate outpaces that from the SARS epidemic of 2003, fatality rates are currently significantly lower. The speed with which the Chinese government has reacted to the outbreak, with travel restrictions improsed on 45 million people in China, as well as its similarities to SARS in terms of how the virus targets its victims, may help contain the outbreak and enhance its treatment.

It is also worth noting that the current levels of implied volatility for iTraxx Crossover and CDX HY are the highest month-end levels since October 2019 (for iTraxx Crossover) and August 2019 (for CDX HY), providing a significant buffer against further spikes in volatility compared to implied volatility levels at the start of the year.

Tabula added to its global credit volatility ETF range during the month by launching the Tabula J.P. Morgan Global Credit Volatility Premium Index UCITS ETF (USD hedged, distributing class), offering a dollar hedged passive vehicle for capturing the difference between realised and implied volatility in CDS index options markets.

Tabula launches bond ETF mirroring European CDS benchmark

In January, Tabula launched the Tabula iTraxx IG Bond UCITS ETF, with LSE ticker TTRX (Xetra ticker TABX) and an annual total expense ratio of 0.29 per cent. The ETF offers passive exposure to the new iBoxx iTraxx Europe Bond Index, developed by Tabula and IHS Markit. The index is the first to track a portfolio of European investment grade bonds issued by the same corporates that define the iTraxx Europe CDS index. The ETF is focused solely on European corporate bonds and equal notional per issuer as well as fixed weighting bands helps reduce large sector biases. Bonds are selected with a narrow 5yr maturity band allowing more efficient hedging.

For more information click here.

Data: Tabula, Bloomberg and WHO.

Tabula European Performance Credit UCITS ETF

The Tabula European Performance Credit UCITS ETF (TCEP) fell 0.8% in January. TCEP aims to track the iTraxx European Performance Credit Index (ITRXPRFL), less fees and expenses.

	1m	YTD	1y	Since TCEP launch[1]
Fund (after fees)	-0.8%	-0.8%	7.3%	7.8%
Index	-0.7%	-0.7%	7.6%	8.4%

The Index sells protection on the iTraxx Main and iTraxx Crossover, making it effectively long credit and the spread widening environment drove negative performance in January. The estimated one-year yield for TCEP now stands at 2.9% (gross) while the one-year gross yield for the GBP-hedged share class (TCEG) is 4.1%.

Data: Tabula / IHS Markit, 31 January 2020. Performance prior to 30 April 2018 is simulated by IHS Markit. ***Past performance (actual or simulated) is not a reliable indicator of future returns.*** *[1]21 August 2018*

Tabula European iTraxx Crossover Credit UCITS ETF

The Tabula iTraxx Crossover Credit UCITS ETF (TECC) fell 0.9% in January. TECC aims to track the iTraxx European Crossover Long Credit Index (ITRXXOVL Index), less fees and expenses.

	1m	YTD	1y	Since TECC launch[2]
Fund (after fees)	-0.9%	-0.9%	3.1%	5.1%
Index	-0.9%	-0.9%	3.5%	5.5%

The Index sells protection on the iTraxx Crossover, making it effectively long credit. The current DV01 of 4.5bps predicts an approximate 4.5bps 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 2.3% (gross).

Data: Tabula / IHS Markit, 31 January 2020. Performance prior to 30 April 2018 is simulated by IHS Markit. ***Past performance (actual or simulated) is not a reliable indicator of future returns.*** *[2]11 December 2018..*

Tabula European iTraxx Crossover Credit Short UCITS ETF

The iTraxx European Crossover Credit Short index, the reference index for the Tabula European iTraxx Crossover Credit Short UCITS ETF (TECS) was up 1.0% in January.

	1m	YTD	1y	Since TECS launch[3]
Fund (after fees)	n/a	n/a	n/a	n/a
Index	1.0%	1.0%	-5.7%	-6.0%

The Index buys protection on the iTraxx Crossover, making it effectively short credit. The current DV01 of -5.8bps predicts an approximate 5.8bps increase in the NAV per 1bp of spread widening and vice versa for spread tightening. The estimated one-year yield for TECS was -5.5% (gross) at month end.

Data: Tabula / IHS Markit, 31 December 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.*** *[3]8 February 2019. Fund performance is not available until a year after launch.*

Tabula iTraxx IG Bond UCITS ETF

The iBoxx iTraxx Europe Bond Index, the reference index for the Tabula iTraxx IG Bond UCITS ETF (TTRX), was up 1.0% in January.

	1m	YTD	1y	Since TTRX launch[4]
Fund (after fees)	n/a	n/a	n/a	n/a
Index	1.0%	1.0%	4.8%	0.6%

The Index aims to provide corporate bond exposure that closely reflects iTraxx Europe, a liquid and widely-used credit benchmark comprising 125 European investment grade entities.. The fund's current yield to maturity is 8.6%.

Data: Tabula / IHS Markit, 31 December 2019. Performance prior to 12 December 2019 is simulated by IHS Markit. ***Past performance (actual or simulated) is not a reliable indicator of future returns.*** *[4]6 January 2020. 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), fell 0.5% in January, as volatility spiked at month end.

	1m	YTD	1y	Since TVOL launch[5]
Fund (after fees)	n/a	n/a	n/a	n/a
Index	-0.5%	-0.5%	-2.5%	-1.8%

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, 31 January 2019. ***Past performance (actual or simulated) is not a reliable indicator of future returns.*** *[5]28 March 2019. Fund performance is not available until a year after launch.*

About Tabula

Tabula is an ETF provider focused on passive fixed income. Tabula is based in London and offers Irish domiciled UCITS funds to European investors, mainly in the form of ETFs. Tabula recognises that the trend toward passive investing, which has transformed equity investing in the past two decades, has only just begun in fixed income.

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