

Corporate Bonds 2014

Challenges and Opportunities in a global perspective



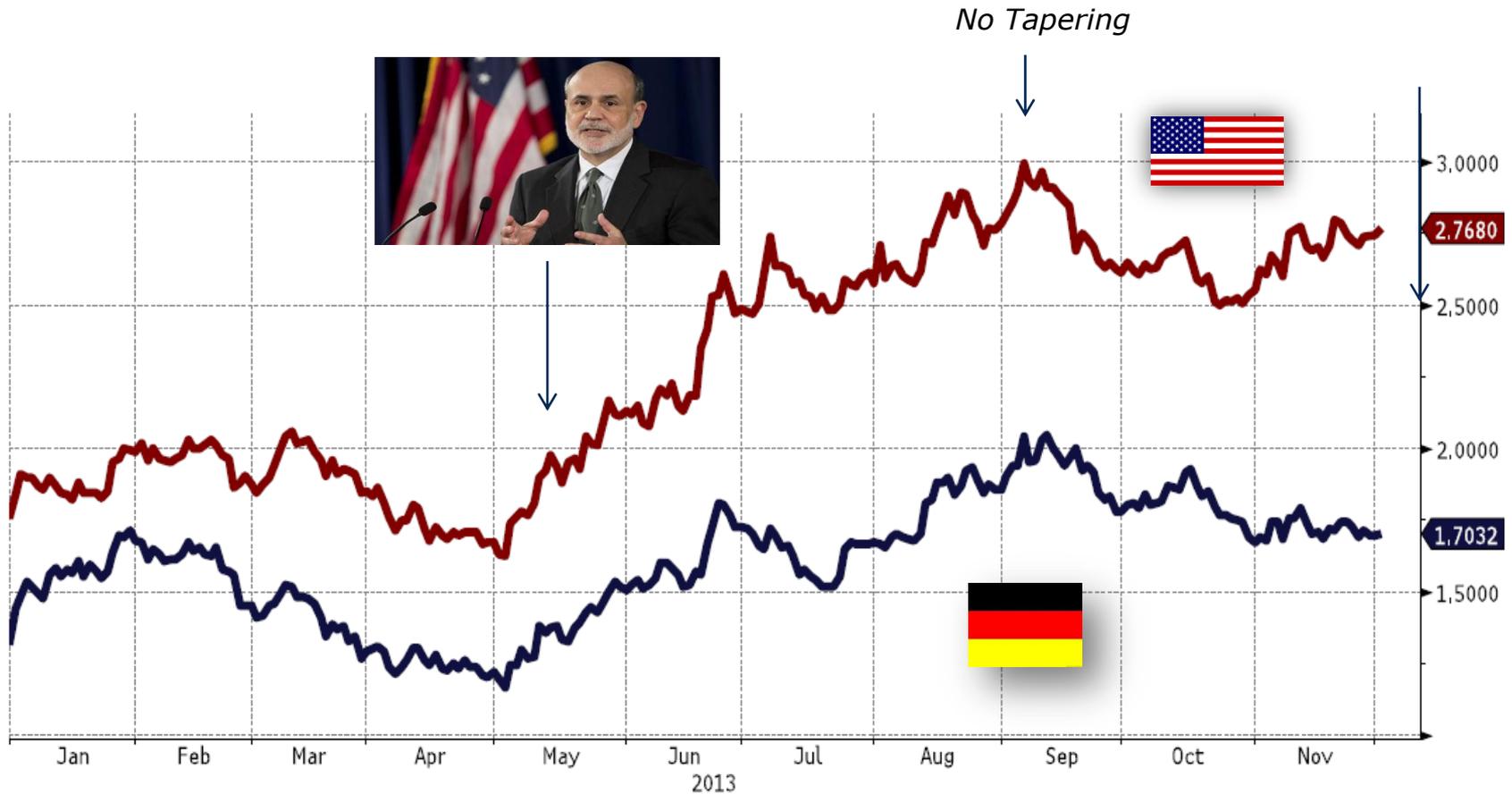
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Overall market theme: Rising yields...from tapering or inflation ?

10 year Core Yields



Emerging Markets turmoil, have only seen little recovery..

10 year government yields (local currency) in 2013



Biggest Fear is Rising Global Yields.....

Market Expectations – Is a Tapering Storm coming ?

- Global core yields to shoot up

Wrong ?

- Emerging markets to underperform

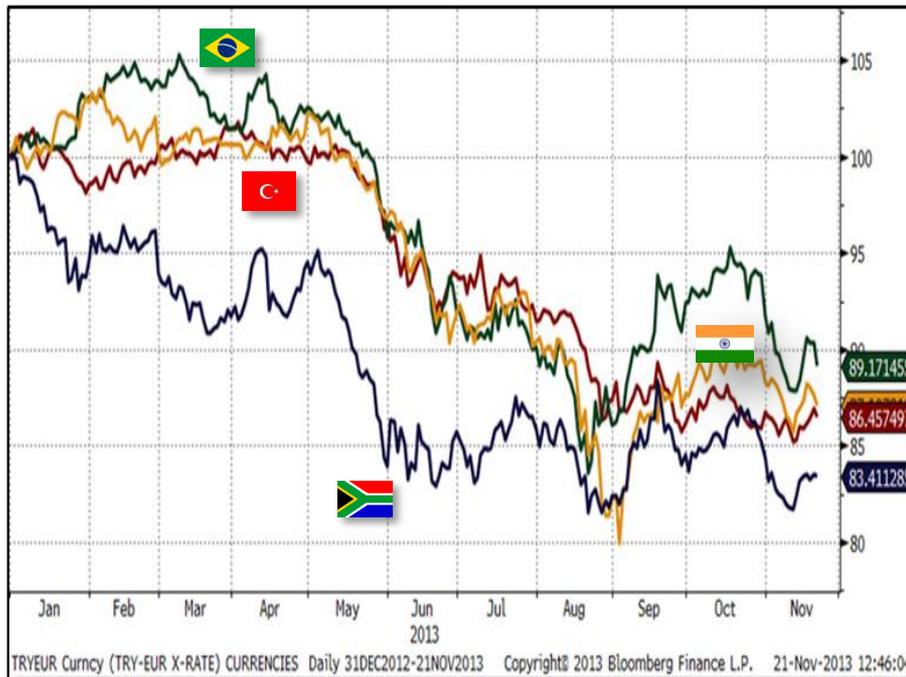
Wrong ?



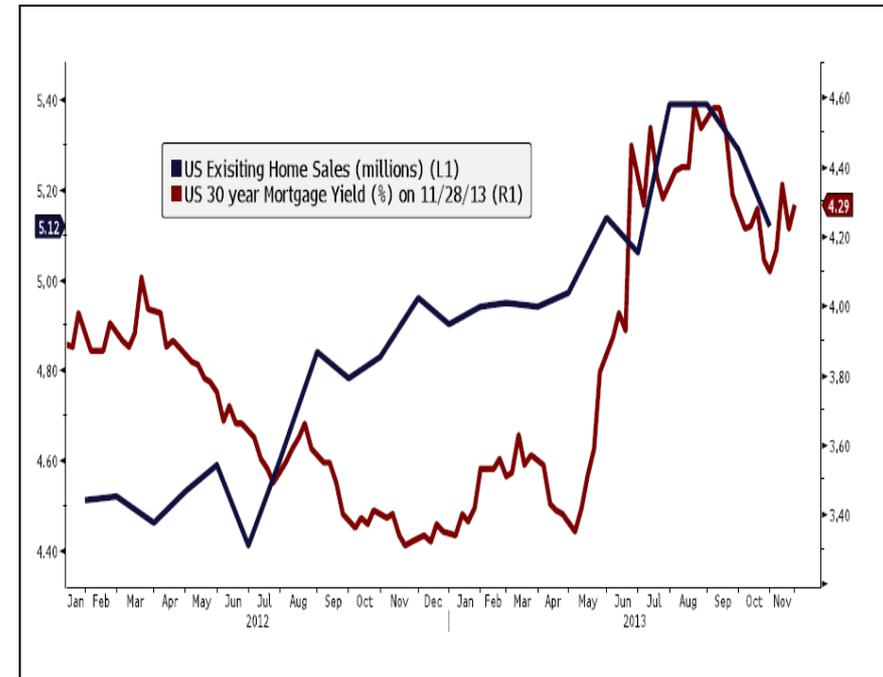
Global core yields to shoot up ?

- FED will be VERY careful when addressing Tapering
 - Impact from initial talk allready done the job
 - Emerging Markets Assets Repriced
 - Cooling evidence in US numbers

EM Currencies



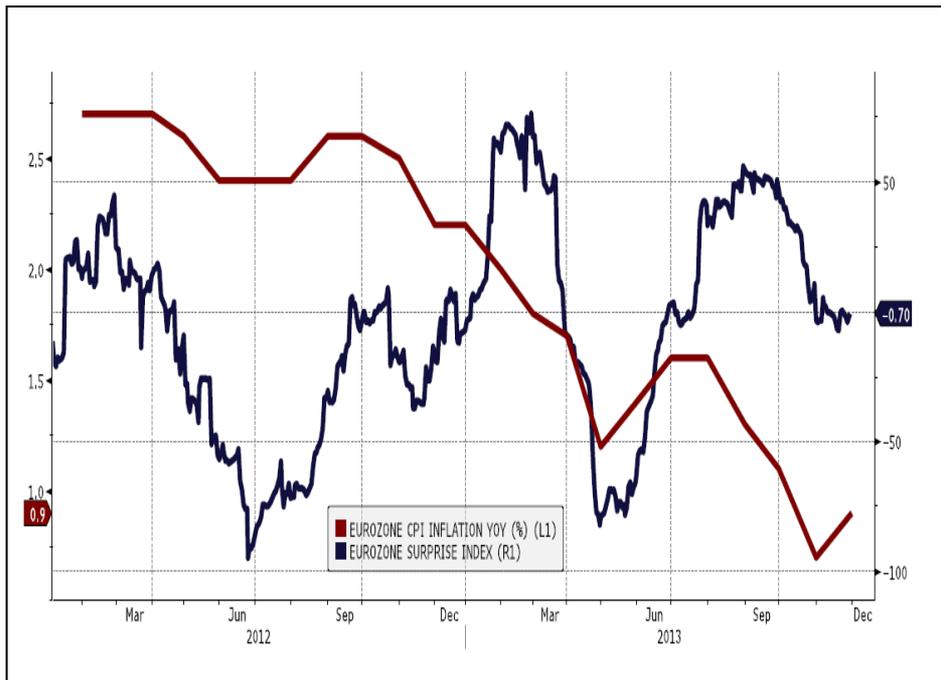
US Housing Market



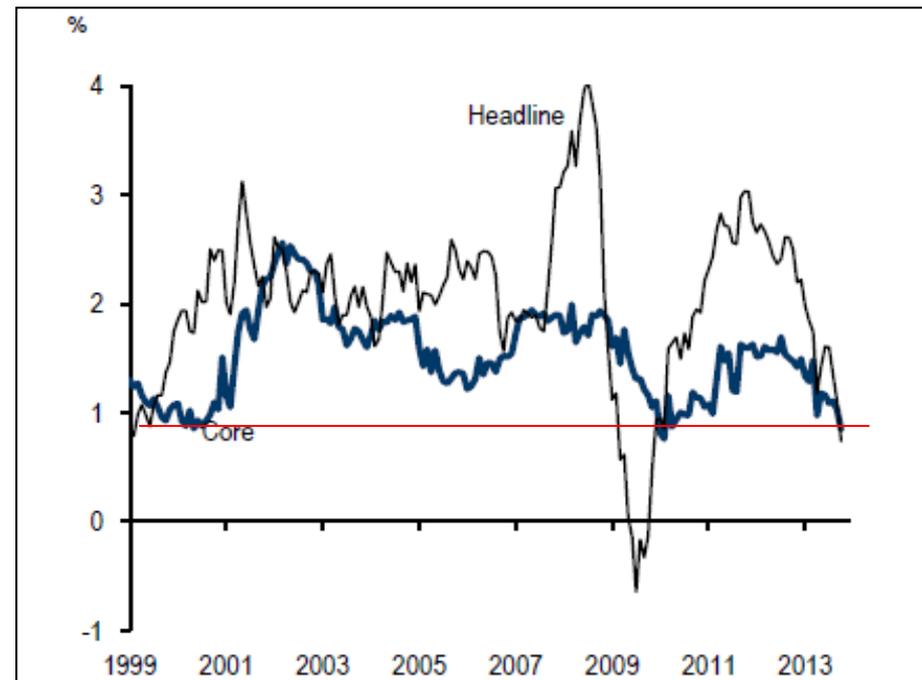
Global core yields to shoot up ?

- Eurozone might be running out of steam
 - Inflation is not a problem, deflation could be
 - No sign of acceleration in European economy
 - ECB will use tools available to address challenges and to push recovery
 - Creates low Eurozone yield environment

Eurozone Surprise Index vs Inflation



Eurozone Inflation long term view



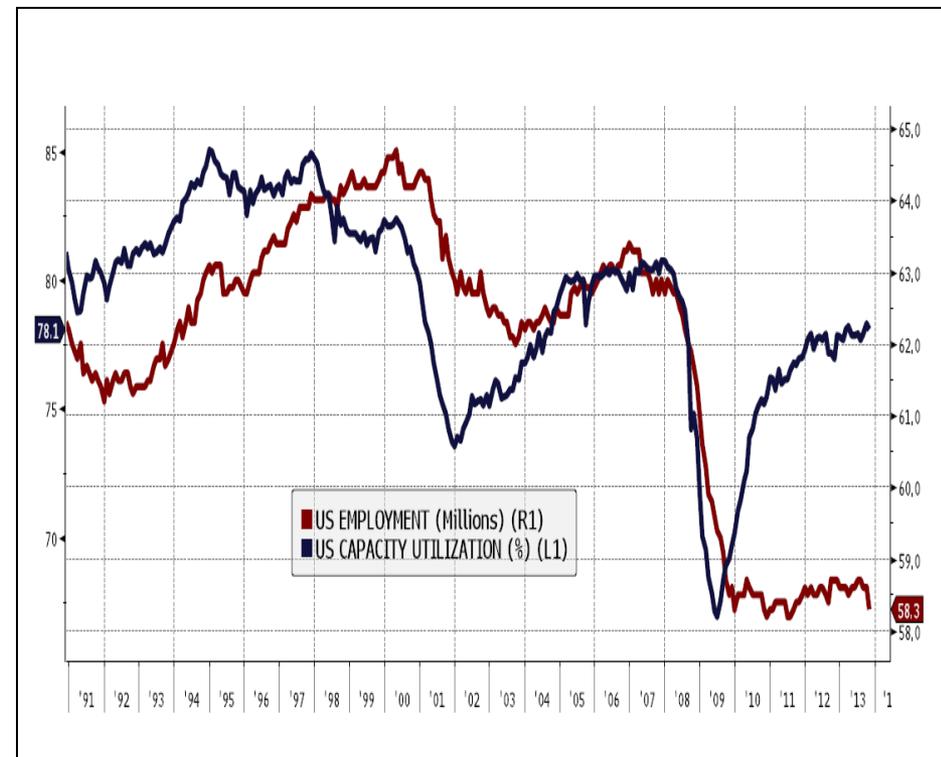
Inflation ?

- Global inflation to be subdued in 2014
 - Pressure not coming from commodities or pricing power
 - No US capacity pressure emerging as well

Commodities vs. EC unemployment



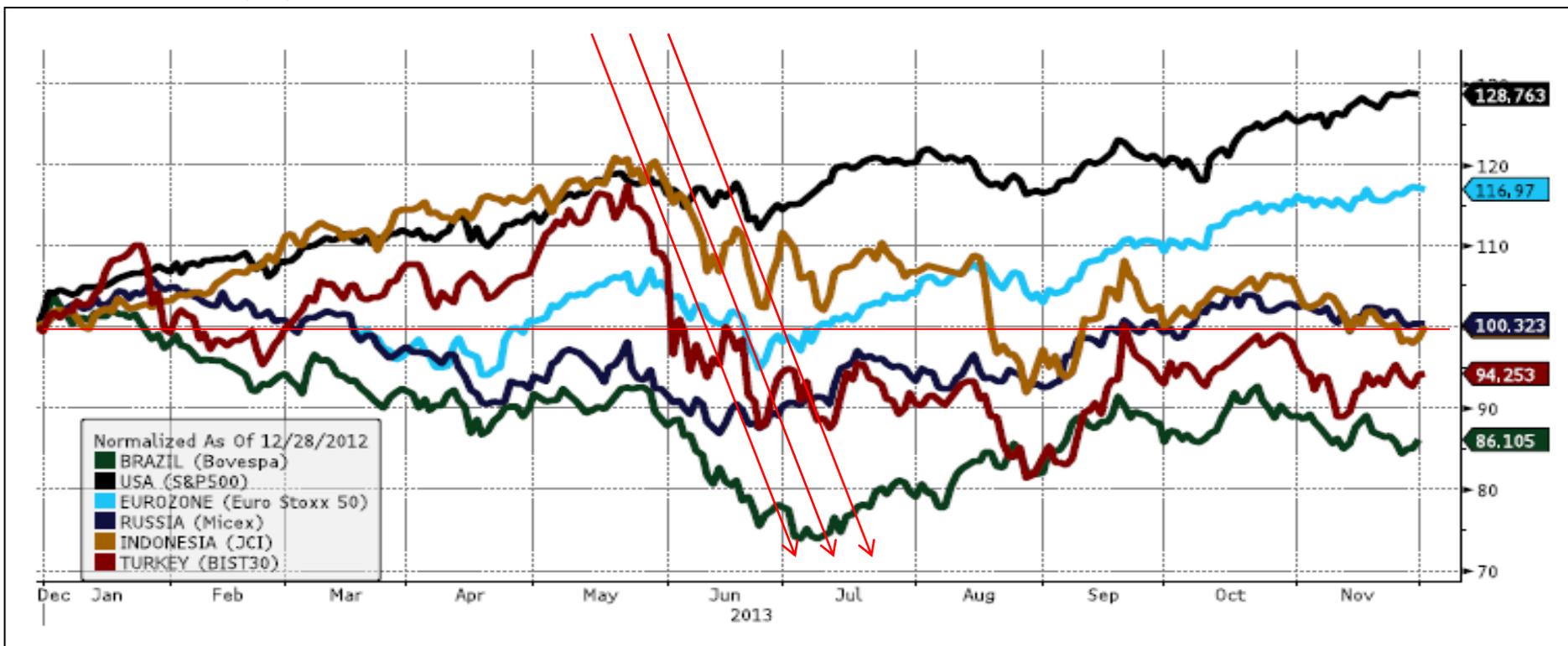
Long term employment and Capacity utilization



Global Cooling mechanism

- Fragile global upswing is cooled down by Tapering talk
 - Higher yields and outflow dampens recovery
 - In 2013, Emerging markets lost performance
 - The cooling makes room for stable low core yields

Selected Global Equity Index



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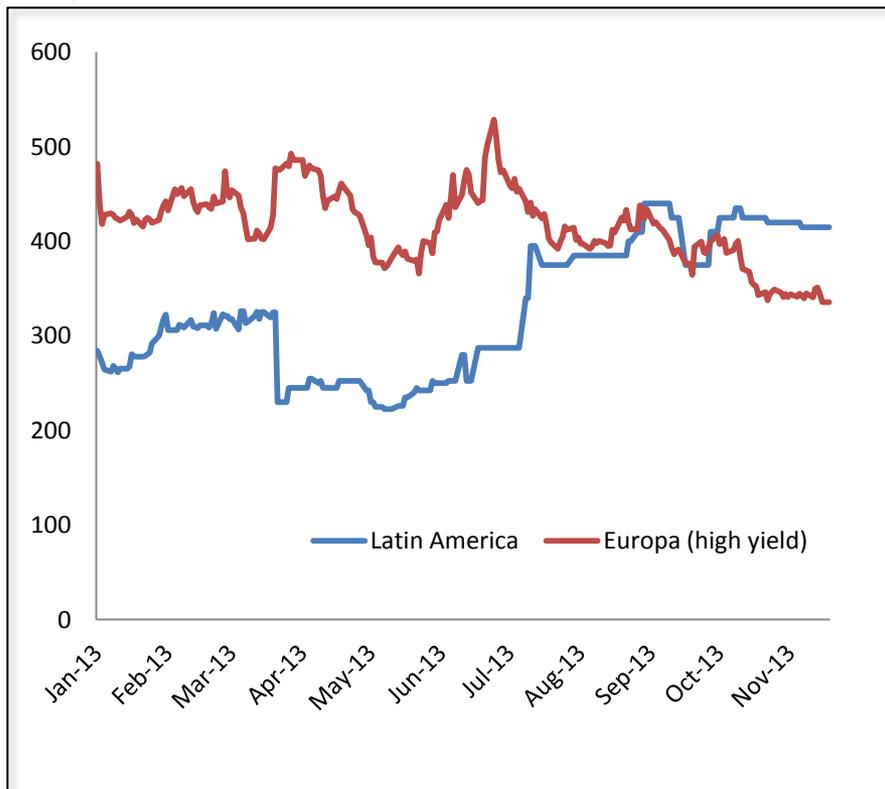
Wrong ?



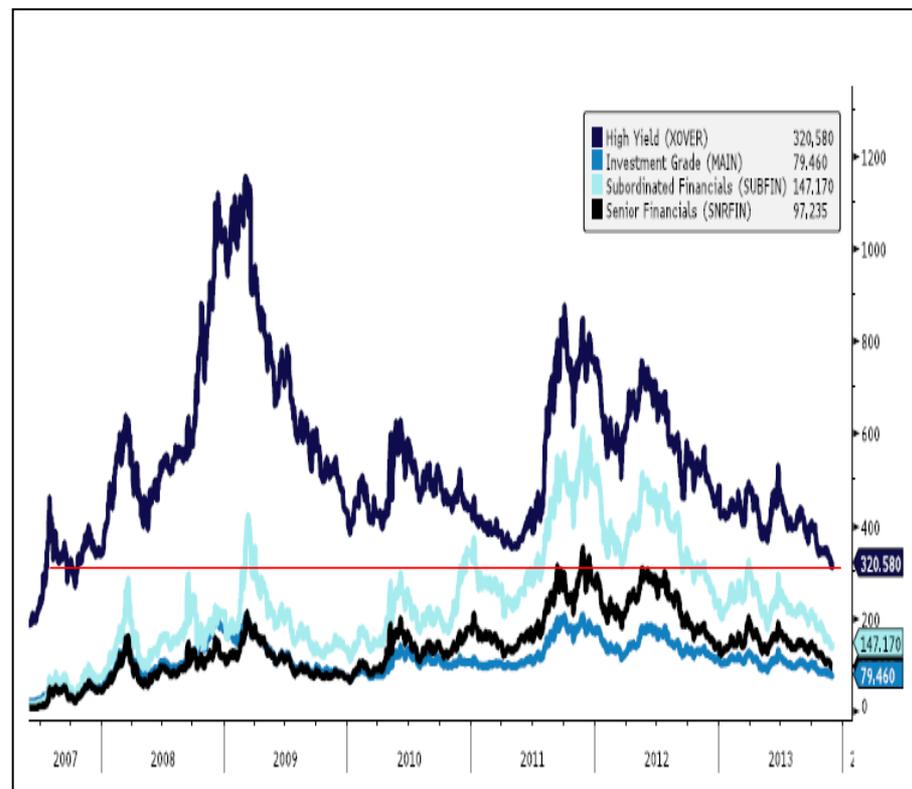
Emerging markets to underperform ?

- Elevated risk premiums in Emerging markets
- Very contracted levels in Eurozone corporate bonds on a supply/demand mismatch
- Spread contraction lowers potential upside in Eurozone and US corporate bonds
- Accelerate the process for global diversification

Corporate Bonds Risk Premiums CDX LATAM/ITRX XOVER

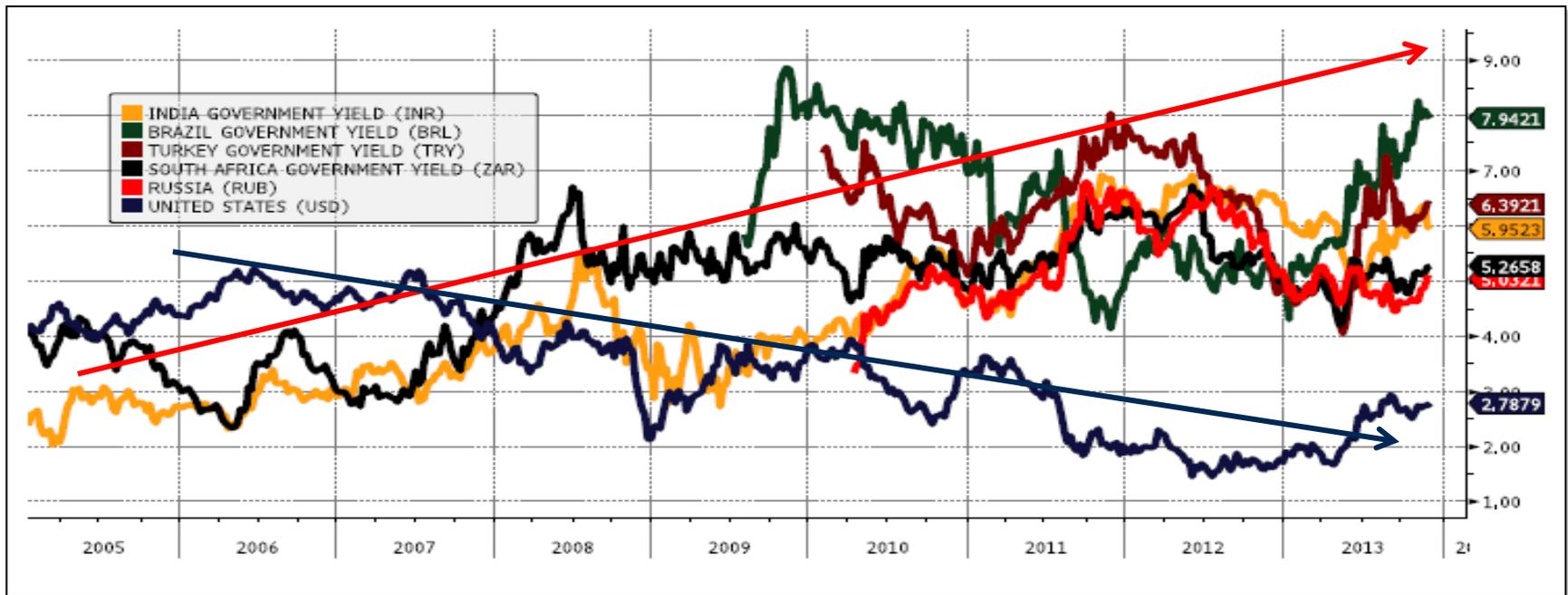


Eurozone Corporate Bonds Risk Premiums



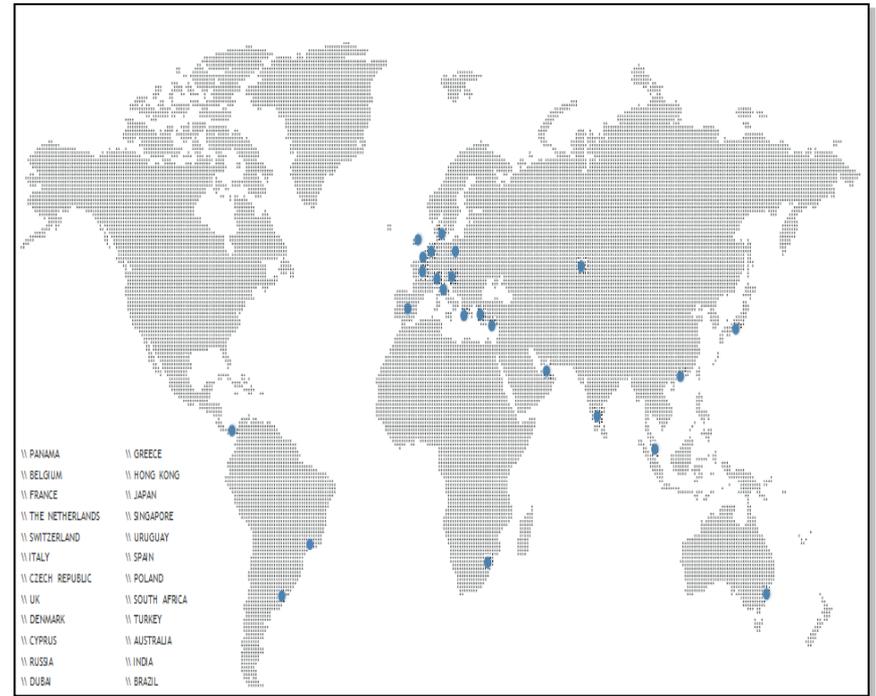
Emerging markets to underperform ?

- Significant value in Emerging markets rates, especially corporate bonds in selected EM
 - Repricing gives EEMEA and LATAM sovereign spreads attention on a relative value basis
 - As global diversification takes hold, focus on elevated risk premiums will rise
 - After or even before Tapering impact is seen, market will likely be on buy side again
 - Overcompression of US and Eurozone spreads will likely be main trigger for yield hunting
 - But also transformation of bond market (example euroclear settlement) will help the process



Trading Corporate Bonds in Saxo Bank

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- Competitive pricing
- Track bond positions on saxo webtrader
- Direct access to trading desk



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