

# 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

- Emerging markets to underperform

**Wrong ?**

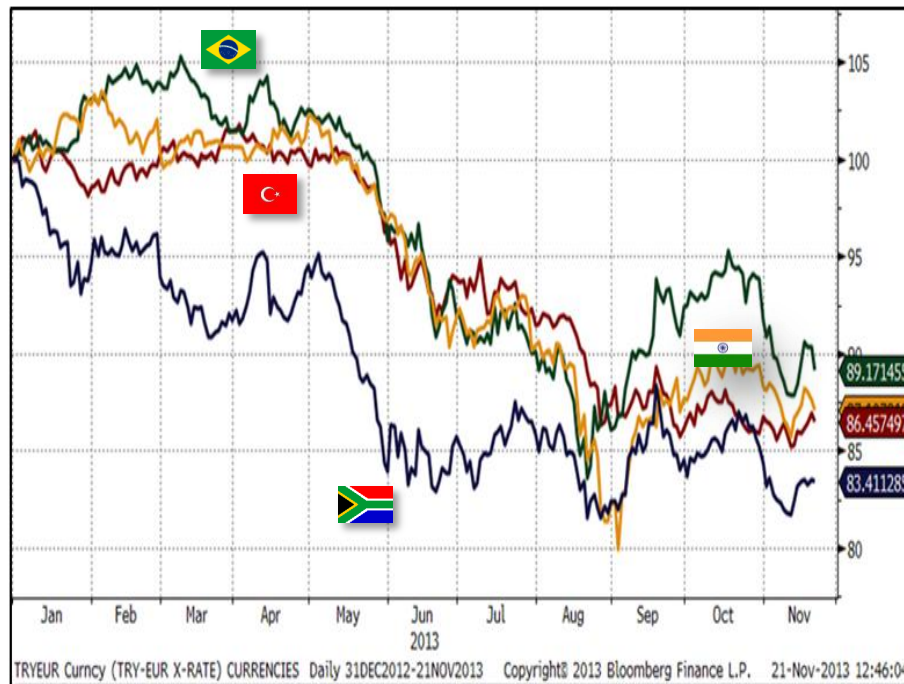
**Wrong ?**



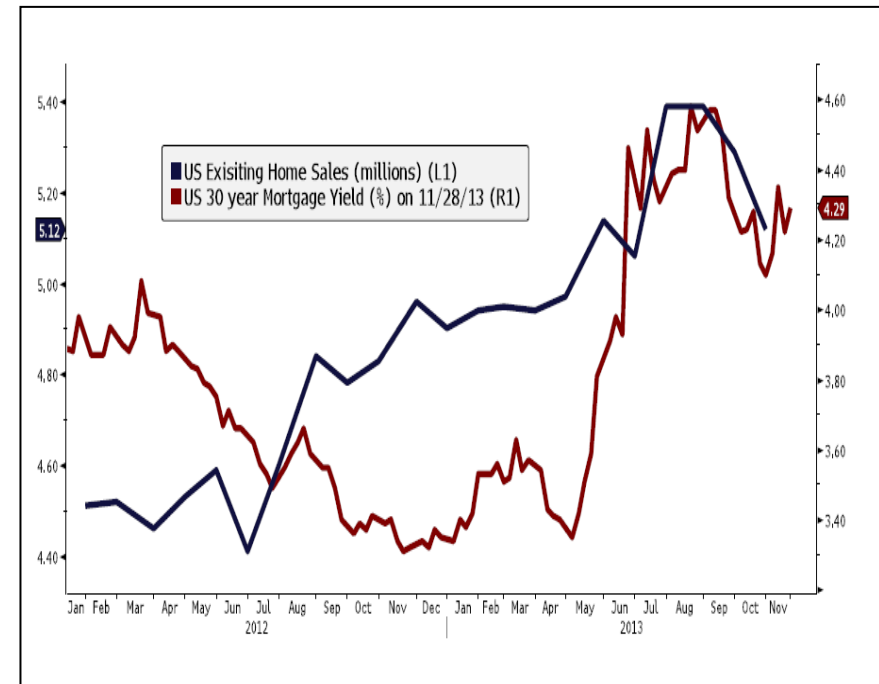
# Global core yields to shoot up ?

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

EM Currencies



US Housing Market

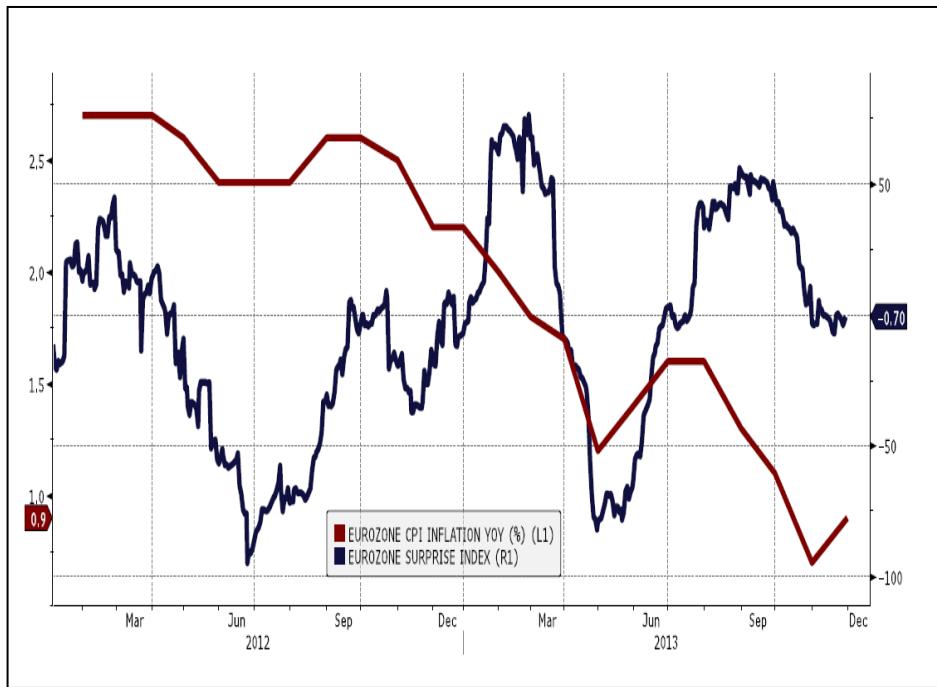




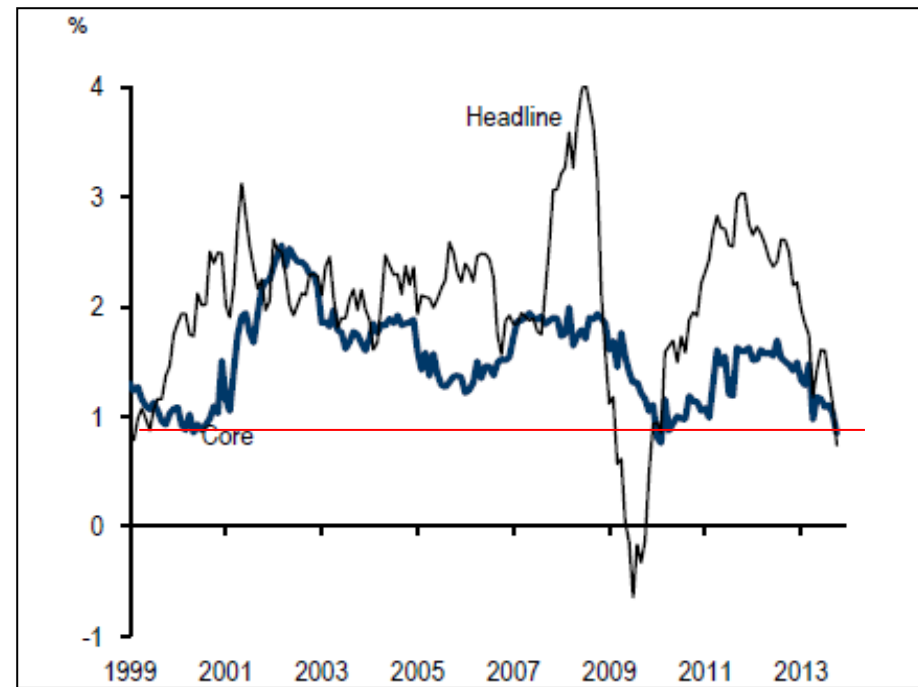
# Global core yields to shoot up ?

- 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*



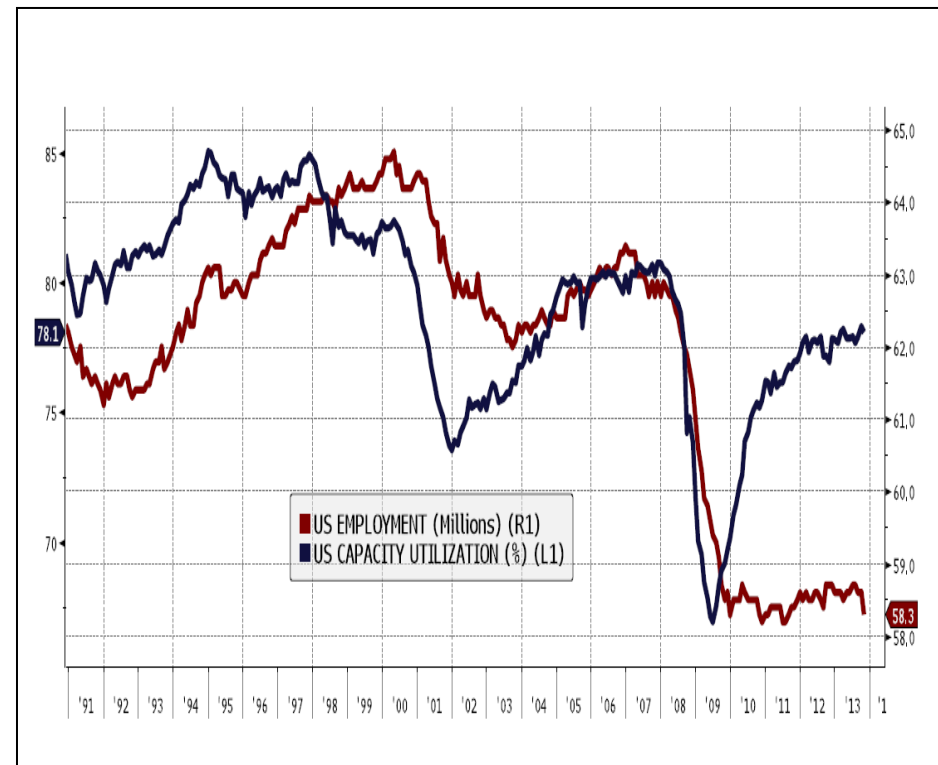
# Inflation ?

- 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*

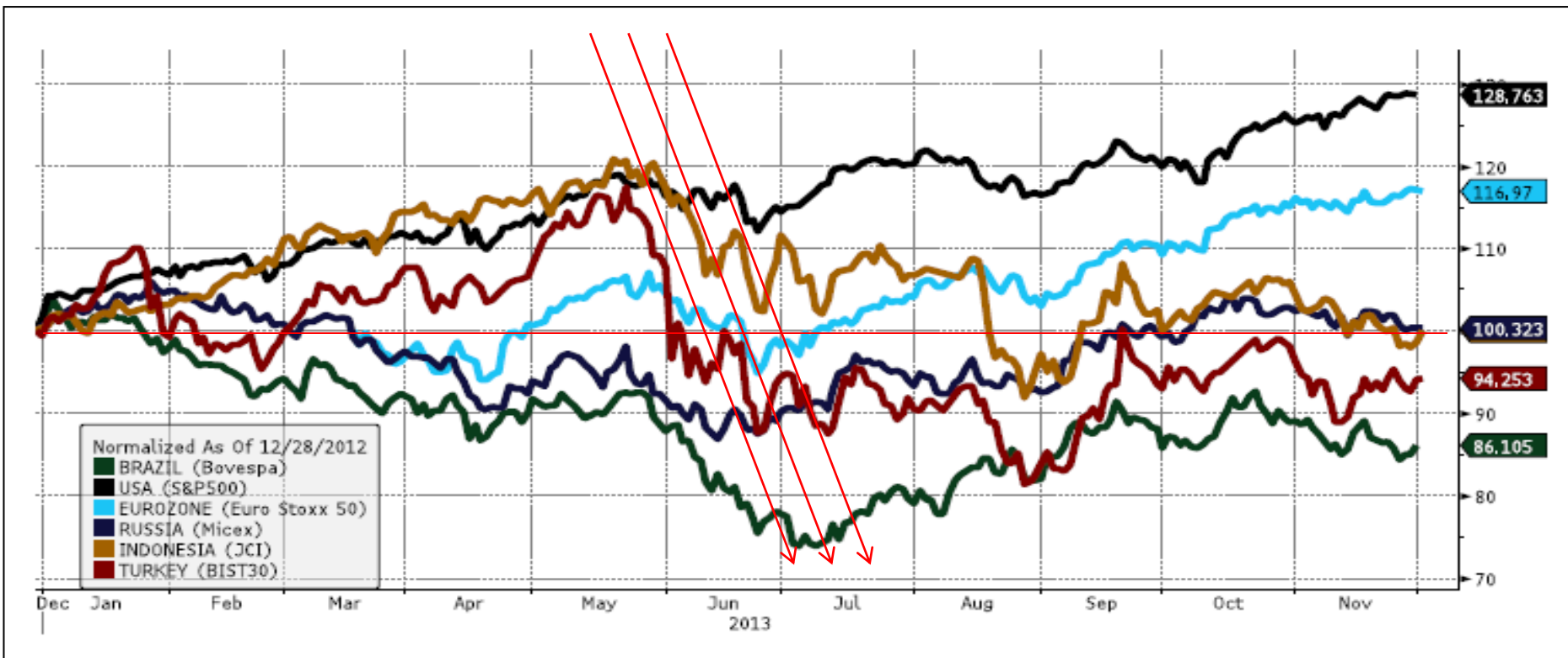




# Global Cooling mechanism

- 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*



# Market Expectations – Is a Tapering Storm coming ?

- Global core yields to shoot up

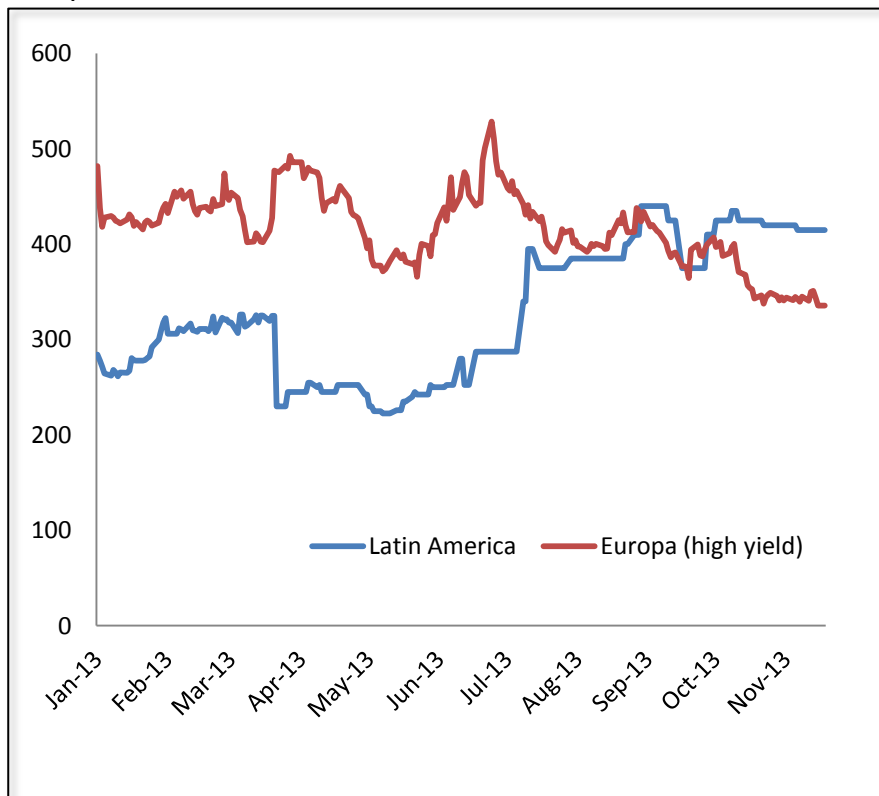
- Emerging markets to underperform



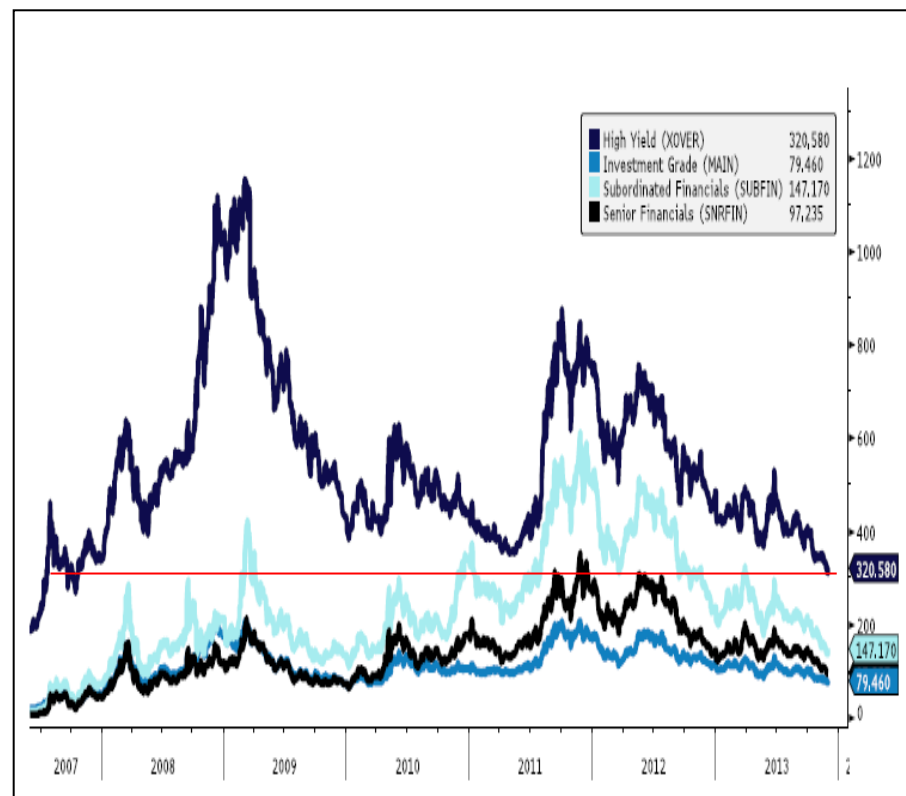
# Emerging markets to underperform ?

- 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 riskpremiums 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



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





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