

TAKING STOCK OF THE HIGH YIELD BOND MARKETS

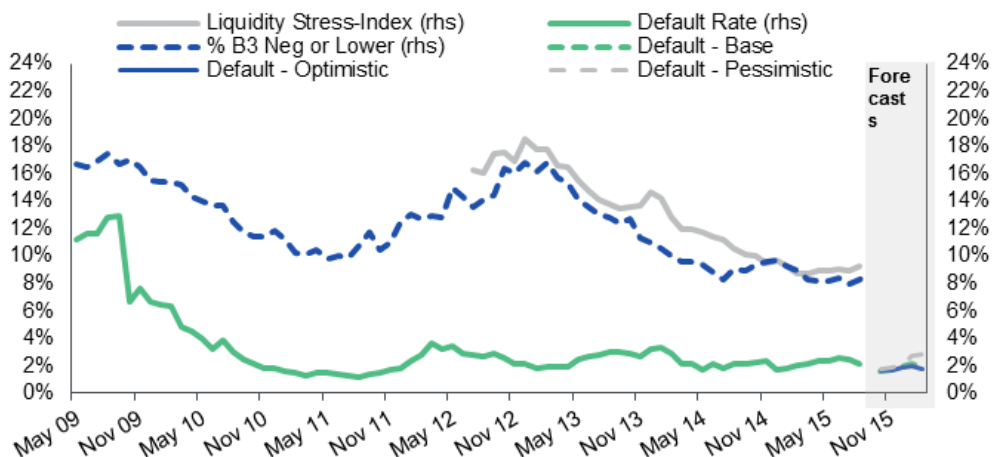
The start of a new year raises questions about the risk and the potential return of the EUR high yield market. This short update sheds some light on the recent developments and the PM's view on it.

EUR HIGH YIELD DEBT MARKET IN GOOD SHAPE...

From a fundamental viewpoint, the EUR high yield debt market looks in decent shape:

The European economy is improving and Europe's latest manufacturing PMI data remain at a high level. These figures should provide a positive backdrop for the earnings development of European high yield corporates.

- Default rates are expected to remain low. The 12-month trailing default rate stood at 2.1% in December and rating agencies are expecting the default rate to stay close to that level next year.



Source: JP Morgan, Bloomberg

- Balance sheets remain defensively managed. The re-leveraging cycle has been slow to start in Europe. We believe that due to the lack of GDP growth above 2%, corporates have refrained from re-leveraging massively.

...BUT MORE VOLATILITY AHEAD

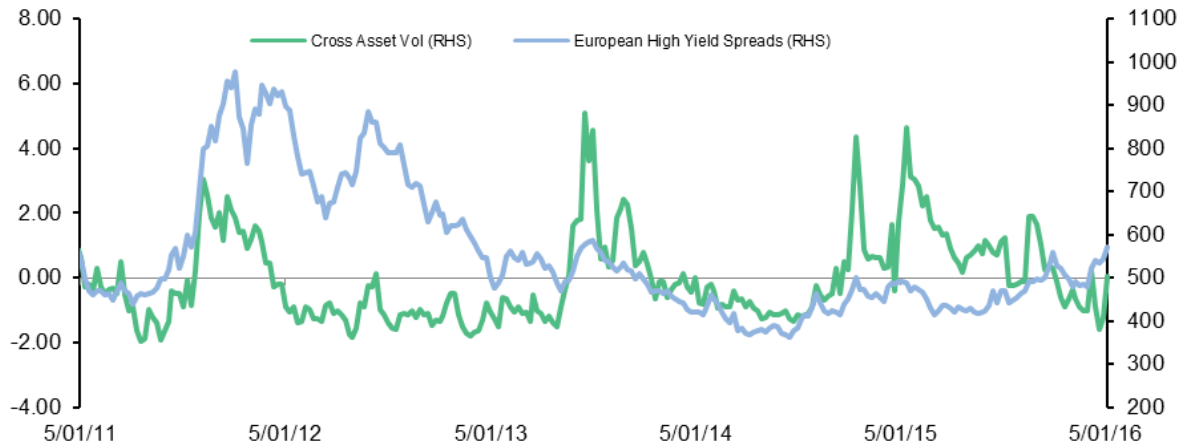
However, we believe that in 2016, markets will be more volatile and increasingly dominated by market technicals such as fund flows and volatility on the stock exchange.

Currently, some investors are reluctant to take additional exposure to the high yield market due to uncertainty about China and commodity prices.

We believe that while concerns are mounting in the US high yield market, this should not be the case in the European high yield market. The US high yield market has a much greater exposure to the energy sector (roughly 13% of the Index vs. only 1.8% in Europe) and, on average, lower ratings than the European high yield market. Thus, it is inherently riskier than the European market.

TAKE-AWAY

In our opinion, credit risk premiums have reached a new equilibrium that will stabilize around current levels. High yield securities offer value and current credit risk premiums are discounting a decent default risk and market risk.



Source: Bloomberg & Degroof Petercam

We also believe that 2016 will be more difficult than 2015 due to an increase of idiosyncratic risks. Credit-picking and portfolio construction will remain key. In our Petercam L Bonds EUR Corporate High Yield portfolio we are currently overweighting B exposure and avoiding certain sector like metals and mining. We tend to be invested in the 4-7 years maturity bucket.

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