#SaxoStrats
Corporate bonds

Market developments and portfolio opportunities

July 2016

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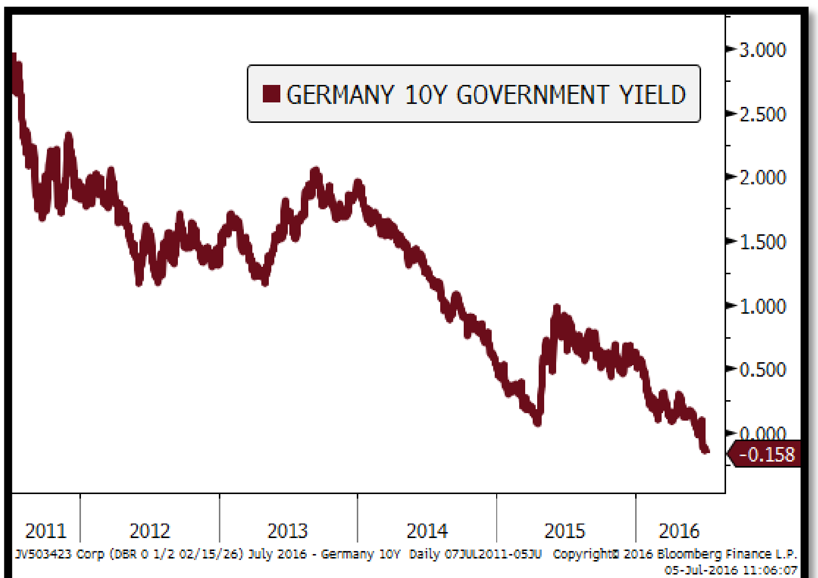
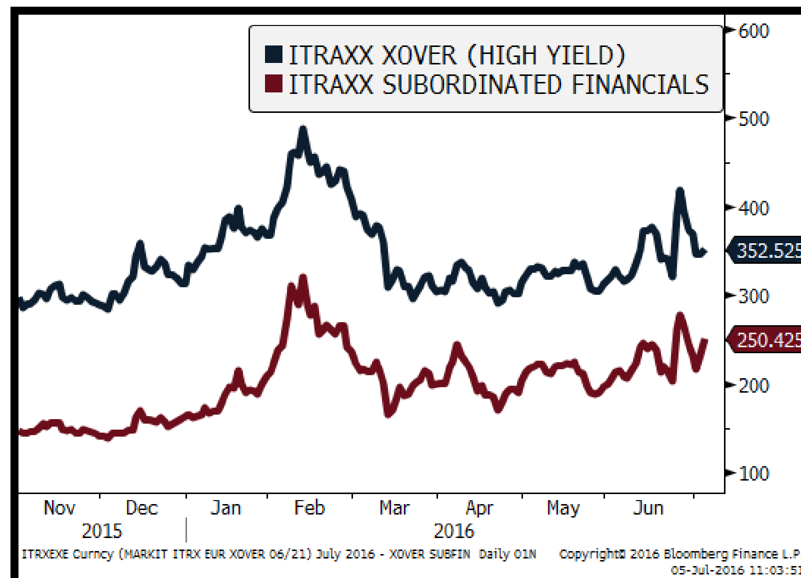
Dramatic Brexit decision rattles European financial markets

The Brexit vote took the markets by surprise, but German yields have remained low while the periphery is now stronger on renewed confidence of central bank support. Corporate bonds are almost back to pre-Brexit levels, all though some weakness in UK bonds and the financial sector remains. This makes these market segments the most obvious short-term rebound candidates in our view, all though a looming banking crisis in Italy could dampen sentiment for the latter.

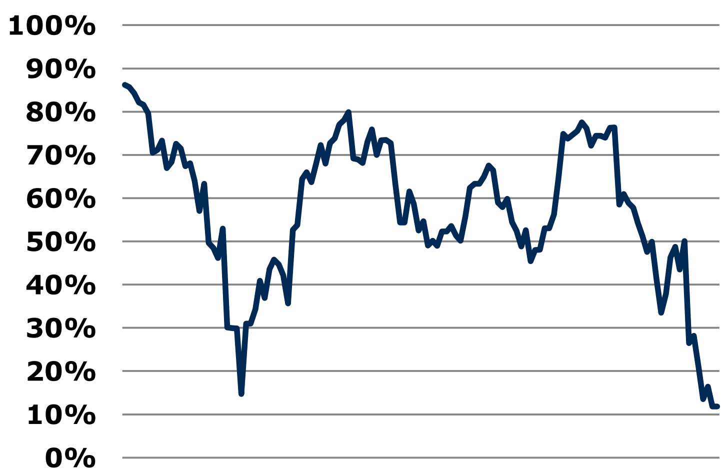


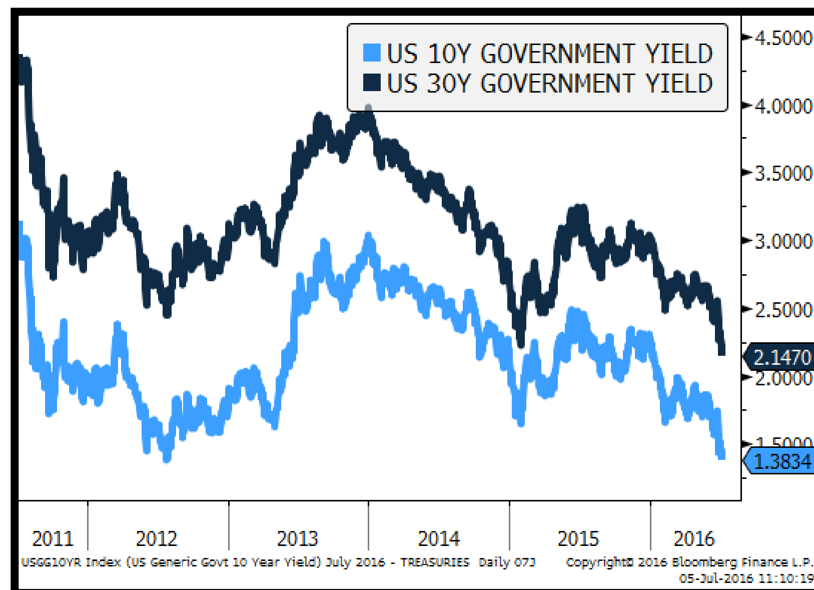


Further rate hikes off the table for 2016 – and 2017!

Following the Brexit vote, financial markets are no longer pricing in any rate moves by the Federal Reserve in 2016 nor in 2017. A single rate hike by December 2017 is thus priced at just 45%, while both 10 year and 30 year Treasury yields have seen all-time lows recently. While this could very well be an over-reaction in the short-term, we continue to think there will be downwards pressure on US yields.

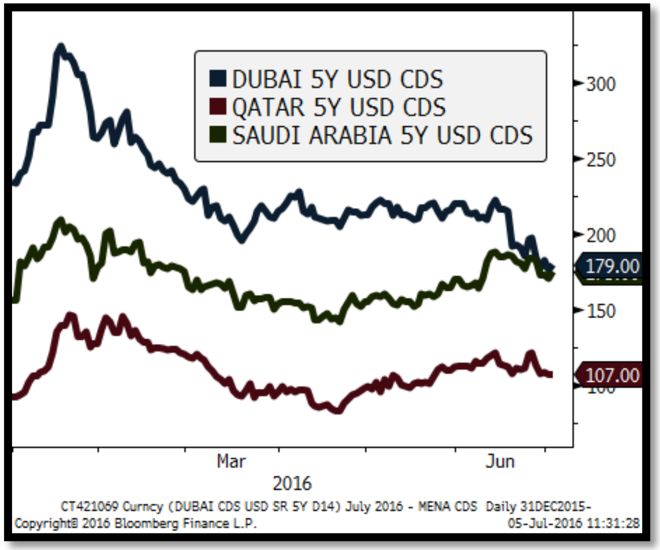
Chance priced of a rate hike by December 2016 this year





Saudi Arabia on the verge of its inaugural bond issuance

A combination of financial reform and capital need following the oil price plunge, together with the aforementioned withdrawal of interest rate hikes in the US, has seen a surge in issuance of new Middle Eastern foreign debt. The upcoming and much anticipated blockbuster deal from Saudi Arabia, is seen as the culmination and potential catalyst for a financial breakthrough for the region, and a host of bond issuers could be set to take advantage of the appetite it may draw.



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Summary of Fixed Income trading views

- ✓ **UK financial bonds still underperforming after Brexit, while many other assets are now stronger, making it the most likely rebound candidates in the short run**
- ✓ **The melt-down of the Italian banking sector is a reason for concern – we would prefer to be short Italian government debt and other risk assets in the country and be reluctant to buy into the weakness in European financials overall**
- ✓ **The European Central Bank is the main upside trigger as it could be likely to implement further policy easing to spur growth in the Eurozone and help the periphery**
- ✓ **The Federal Reserve is on the retreat and will not be hiking rates this year**
- ✓ **The lower risk of US interest rate hikes is further supportive for Emerging Markets**
- ✓ **Saudi Arabia's inaugural bond issuance will likely be the main event in the segment this month, and could see a host of new bond issuers coming to the market as investors look in this direction.**

#SaxoStrats portfolios

- ✓ Adding corporate bonds to your investment portfolio **increases diversification** and **enhances your risk adjusted portfolio return!**
- ✓ Our **#SaxoStrats** portfolios includes all of our active **#SaxoStrats corporate bond** trade views and represents **our preferred picks** in the corporate bond space
- ✓ ***The core portfolio*** is a medium risk portfolio with a balanced focus between capital preservation and yield return
- ✓ ***The opportunistic portfolio*** is high risk portfolio with an increased focus on yield return through attractive risk / return cases
- ✓ Each of our **#SaxoStrats corporate bond** trade views are backed by an individual security analysis which is obtainable upon request
- ✓ You can invest directly in any one of the listed corporate bonds from your Saxo Bank account – contact your local office or account representative for more information

#SaxoStrats - Core Portfolio

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Portfolios of #SaxoStrats trade views. Pricing source is OTC market prices.

Last update: 05-Jul-16

*if perpetual maturity the next call date and yield to first call is shown ** return calculated as average of total return since inception on individual views

ID	Issuer	Price	Currency	Maturity*	Rating	Coupon	Yield*	Duration	Collateral	Minimum	Return**
CORE PORTFOLIO (MEDIUM RISK)											
XS1241053666	EUROPCAR GROUPE SA	105,21	EUR	15-06-2022	B-	5,750%	4,8%	5,0	2nd lien	100	4,9%
US780099CE50	ROYAL BK SCOTLND GRP PI	105,03	USD	15-12-2022	BB+	6,125%	5,2%	5,3	Subordinated	50	-0,4%
XS1094612378	LOCK AS	104,36	EUR	15-08-2021	B+	7,000%	6,2%	4,2	1st lien	100	4,1%
XS1172436211	THOMAS COOK FINANCE PLI	93,09	EUR	15-06-2021	B	6,750%	8,6%	4,1	Sr Unsecured	100	-8,6%
US988498AJ04	YUM! BRANDS INC	95,53	USD	01-11-2023	B	3,875%	4,6%	6,2	Sr Unsecured	50	10,0%
		100,65				**5,9%**	**5,9%**	**4,9**			**2,0%**

- ✓ **Portfolio credit risk (average B+ rating) and interest rate risk (average duration 4,9) is moderate**
- ✓ **Performance was slightly negative due to the market turmoil, however returns remain positive on average**
- ✓ **Thomas Cook suffered the most as UK travel agencies were hard hit after Brexit, looking like a clear over-reaction to us, as we fail to see a major long-term impact and find a market friendly exit-deal highly likely**
- ✓ **Volkswagen was closed after strong performance, which had seen perpetual bonds re-coup almost all of the emission scandal losses**
- ✓ **Royal Bank of Scotland has been added in its place, as we don't think Brexit will be a long-term threat to the solvency of UK banks and view the UK financials sector as the strongest rebound candidate**

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#SaxoStrats – Opportunistic Portfolio

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Portfolios of #SaxoStrats trade views. Pricing source is OTC market prices.

Last update: 05-Jul-16

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ID	Issuer	Price	Currency	Maturity*	Rating	Coupon	Yield*	Duration	Collateral	Minimum	Return**
OPPORTUNISTIC PORTFOLIO (HIGH RISK)											
USG07402DN01	BANCO DO BRASIL (CAYMAN	99,65	USD	26-01-2022	NR	5,875%	5,9%	4,6	Subordinated	200	4,7%
FR0012650281	AIR FRANCE-KLM	97,48	EUR	01-10-2020 (PERP)	NR	6,250%	6,9%	3,4	Jr Subordinated	100	4,4%
XS1244815111	CMA CGM SA	78,15	EUR	15-01-2021	CCC+	7,750%	14,8%	3,4	Sr Unsecured	100	-9,4%
USW8758PAK22	STENA AB	79,71	USD	01-02-2024	B+	7,000%	11,0%	5,3	Sr Unsecured	200	-6,2%
USG6542TAE13	NOBLE GROUP LTD	81,25	USD	29-01-2020	BB-	6,750%	13,6%	2,9	Sr Unsecured	100	-6,5%
		87,25				**6,7%**	**10,5%**	**3,9**			**-2,6%**

- ✓ **Portfolio credit risk (average B- rating) is high, while interest rate risk (average duration 3,9) is low**
- ✓ **Performance in June suffered, as Brexit led to notable weakness in especially CMA CGM and Stena**
- ✓ **Banco do Brasil is the sunshine story of the portfolio, as developments in Brazil continue to move in the right direction following the removal of President Dilma Rousseff from office**
- ✓ **Glencore was closed after very strong performance and almost full recovery, especially for the shorter end of the curve, and replaced with another mining bet – Hong Kong commodity trader Noble Group, which has been through a restructuring of its own. Its ambition to let shareholders carry the majority of the refinancing burden could pave the way for a similar recovery in its bonds in our view.**