

Enhancing diversification with structured credit exposure



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- Our recent commentary has focussed on the relative value opportunities in structured credit, highlighting the yield pick-up for a lower-risk and shorter spread-duration asset versus traditional corporates and sovereigns. Another key benefit is diversification, as asset-backed securities (ABS) typically have a lower correlation versus traditional fixed income and equity instruments.
- Investing in structured credit provides exposure to real assets with underlying collateral types ranging from autos to residential mortgages to corporate loans. With differing collateral types for each instrument, the risk factors that drive asset prices also vary. As such, a range of potential opportunities exists within this USD4 trillion market.
- In the current market environment, supply chain disruptions and wage inflation pressures have driven recent volatility in corporate assets but have less of an impact in the ABS space; in some cases the impact in ABS is positive, for example, consumers can benefit from higher wages.
- Analysis below shows the correlation of the Bloomberg Pan European Floating ABS Index versus a range of asset classes, including US and European equities, global aggregate and US and European corporates. We ran the analysis over a seven-year period to capture a range of market environments.
- The low correlation between the ABS index and other asset classes highlights the potential benefits of investing in structured credit alongside a core allocation to global bonds and equities.

Correlation of the Bloomberg Pan European Floating ABS Index versus a range of asset classes

	Bloomberg Pan European Floating ABS Index	S&P 500 Total Return Index	EURO STOXX 50 Net Return EUR	Global Aggregate	iBoxx EUR Corporates	ICE BofA US Corporate Index
Bloomberg Pan European Floating ABS Index	100%					
S&P 500 Total Return Index	7%	100%				
EURO STOXX 50 Net Return EUR	5%	73%	100%			
Global Aggregate	14%	11%	-8%	100%		
iBoxx EUR Corporates	27%	44%	35%	48%	100%	
ICE BofA US Corporate Index	12%	35%	18%	73%	75%	100%

Source: BlueBay Asset Management, Bloomberg, BAML as at 1 October 2021. Correlation based on weekly returns data over a seven year period to 1 October 2021.

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