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Opalesque Exclusive: Coherence Capital sees central bank actions underpinning credit markets


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Understanding the macro view has rarely been as important as it is today. Several macro and geo-political events await us this spring, with the Fed, the ECB and China all taking turns with meetings and releases along with a key vote in Great Britain around "Brexit".

The Fed left rates unchanged at the March meeting, setting the table for one to two rate hikes in 2016. The ECB has drastically expanded the scope of its bond buying program which contributed to a significant rally in spreads beginning in the second week of February.

Energy prices were a major driver of markets in 2015 and will continue to be in 2016. Over the course of March, oil seems to have found a floor in the 30s which has led to drastically higher bond prices in the energy sector and contributed to positive fund inflows.

After being bearish for the last seven months, we have turned positive on the credit markets. Our favored sectors include autos/auto parts and auto retailers. We like healthcare, home improvement, high yield (HY) media and investment grade (IG) technology.

In addition, we believe that financial AT1s offer significant opportunity for returns based on two factors. First, the ECB has softened its position around dividend suspension, a major change in stance. Second, banks have made significant strides toward improving their balance sheets and reducing their costs in response to changes in revenue opportunities and capital costs. This behavior continues to favor investments in securities lower in the capital structure.

We are currently neutral on energy; however we see opportunities both long and short, being very name specific. There is a potential for significant restructuring in the E&P sector in the second half of 2016, in addition to tighter regulation for the banking sector with respect to reserved based lending. This has the potential to reshape the highly levered energy names in the U.S.

On the short side, we continue to like high grade pharma, heavy equipment and fixed wireline businesses, along with container board suppliers, shipping and metals and mining.

The recent backdrop of central bank actions has set the stage for stability and improvement in risk assets broadly. The majority of spread compression and/or price improvements could occur before the ECB actually buys much in the way of "non-financial" assets which we expect in the third quarter. With credit curves extremely steep, especially given recent history and global interest rates still historically low, the backdrop for meaningful credit performance exists for the next few months. This should continue until the Fed meeting in June. In addition, the stability in equity markets will afford greater M&A activity and eventually spur capital formation and healthy primary issuance.

Coherence Capital Partners is fixed income alternative asset manager established in 2012 and based in New York. Its Spectrum Fund is a credit long/short product focused on IG and HY corporate debt primarily in North America and Europe. Its investment process begins with a macro view and is then further refined by a combination of fundamental analysis, proprietary technology and a deep understanding of market technicals.

Monday, March 21, 2016

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