

The search for income goes on

The search for income and yield continues. A Financial Times report in August noted that negative-yielding bonds grew to **US\$ 13,400 billion** – primarily sovereign debt in Europe and Japan but also a growing number of highly rated corporate entities. In a recent Friday Night 'Lights we touched on the pace of US and UK yields too. Pausing for a second to take that in, there are Corporates able to issue bonds where investors receive nothing but their initial capital back (hopefully) - is that not the definition of free money? Last week Sanofi and Henkel issued Euro 1.5 Billion at negative yields, so hold them to maturity and you can lock in that loss! Why? – well one reason may be relative returns - **the ECB deposit rate is -0.40%**, so these corporate bonds still pay more than cash deposit returns or government bonds.

Sterling six-year swap rates; a reasonable, more liquid proxy for gilts currently **yield 0.66%**. Six year HSBC and Vodafone senior unsecured corporate bonds yield 2.22% and 2.49% respectively. Or you could lock your money away with Skipton Building Society in a five-year fixed term ISA and receive 1.60% p.a. Investors continue to move down the credit curve in the search for income. The iShares IBOXX High Yield Bond Fund has swelled to some **\$15.41 billion in AUM**, with nearly 50% of the fund being allocated to **single B or worse**. The sterling hedged share class has yielded **5.08%** over the last year, before fees of 50bps running and exhibited nearly a **50% beta to the S&P**. Debate and commentary from industry 'experts' to regulators continues to speculate on the effect of a corporate bond run and the inevitable liquidity crunch.

The FTSE currently yields you a tad more than **4%** with the associated capital risk and whilst commercial property has historically offered stable yields north of **5%**, with steady capital growth, post Brexit we expect significant re-evaluation of property valuations and gated commercial property funds.

So you may ask yourself where income and yield can now be gleaned from. Well here you are... we've put together four relatively conservative defined return income paying investments, offered from investment grade bank issuers. We believe they are well worth considering on a risk / reward basis when you look at the alternatives available.

Phoenix Autocall

| | |
|-----------------------------------|----------------------|
| 6 year max maturity | Coupon: 5.60% |
| FTSE underlying | |
| 60% European Knock-In Put | |
| 60% Phoenix coupon barrier | |
| Autocall from year three annually | |

Reverse Convertible

| | |
|---------------------------|----------------------|
| 6 year maturity | Coupon: 5.20% |
| FTSE / S&P underlying | |
| 65% European Knock-In Put | |

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16th September 2016

| | Rates (bps) | |
|---------|-------------|-----------|
| | Current | Week Chge |
| GBP 1yr | 47.40 | -0.90 |
| GBP 3yr | 46.20 | -2.20 |
| GBP 5yr | 55.70 | -3.00 |

| Equity Indices (%) | | |
|--------------------|----------|--------|
| FTSE 100 | 6713.17 | -0.94% |
| S&P 500 | 2134.49 | 0.31% |
| Nikkei 225 | 16519.29 | -2.63% |
| Eurostoxx 50 | 2935.70 | -3.85% |

| Currencies (%) | | |
|----------------|--------|--------|
| GBPUSD | 1.3103 | -1.24% |

| 5yr Credit Spreads (bps) | | |
|--------------------------|--------|-------|
| Citigroup | 80.59 | 7.42 |
| Credit Suisse | 127.54 | 5.08 |
| Deutsche | 210.06 | 14.89 |
| GS | 96.49 | 3.43 |
| HSBC | 72.11 | 7.94 |
| JPM | 62.62 | 3.25 |
| MS | 94.21 | 3.84 |

| Commodities (%) | | |
|-----------------|---------|--------|
| Gold | 1308.65 | -1.44% |
| Oil | 42.83 | -6.65% |

| 3m Implied (vol pts) | | |
|----------------------|--------|-------|
| FTSE 100 | 15.37% | 1.83% |
| S&P 500 | 14.74% | 2.41% |
| Nikkei 225 | 22.03% | 0.94% |
| Eurostoxx 50 | 21.44% | 2.50% |

| 5yr Implied (vol pts) | | |
|-----------------------|--------|--------|
| FTSE 100 | 20.12% | 0.75% |
| S&P 500 | 23.20% | 2.04% |
| Nikkei 225 | 20.02% | -0.15% |
| Eurostoxx 50 | 20.15% | 0.07% |

Source Bloomberg / Partner Banks
 Data as at 16th Sep, 3.00pm

| Upcoming events | | |
|----------------------|--|--|
| 21 st Sep | Fed Funds | |
| 23 rd Sep | Manufacturing/ Services PMI - Eurozone | |

FRIDAY NIGHT 'LIGHTS

Digital Income

| | |
|----------------------------|----------------------|
| 6 year maturity | Coupon: 6.10% |
| FTSE / S&P underlying | |
| 60% European Knock-In Put | |
| 60% Digital coupon barrier | |

FTSE Dividends

| | |
|---------------------------|------------------------------------|
| 6 year maturity | Coupon: 142% FTSE dividends |
| FTSE underlying | |
| 65% European Knock-In Put | |
| 1% coupon Dec 2016 | |

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FRIDAY NIGHT 'LIGHTS

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