10TH AUGUST, 2020

FOCUS ON FIXED INCOME

Europe Fixed Income

Cantor's global Fixed Income business offers clients an extensive distribution network, with 250+ salespeople, traders, and research analysts in over 35 offices across 6 countries.

In Europe, we broker high-yield corporate bonds and also offer distressed and loan agency trades between clients. These services are enhanced by our ability to leverage our US presence, as well as our cross-border strength. The group also generates revenue, while putting little or no capital at risk, through trading new issues when the price breaks out to move decisively higher or lower.

2H Outlook

The global economic uncertainty in Q2 and Q3 has given the European Fixed Income desk the opportunity to serve clients during a period of weakening credit quality and illiquidity.

On the one hand, central banks have pumped substantial liquidity into the monetary system, returning the high-yield market to a degree of normalcy. On the other hand, the bid-ask spread offered even by the larger dealers remains much wider than in the past. In these circumstances, the desk has been able to capture more spread per trade.

Current credit valuations look very rich. This suggests a substantial widening at some point. Even if that doesn't materialize, we certainly see many downgrades on the horizon. The resulting volatility will give Cantor Fixed Income opportunities to demonstrate its expertise and market reach.

The European market has €1.3 trillion of BBB corporate debt according to Bloomberg – one notch above junk. Given this, the European High-Yield desk expects substantial trading opportunities even as markets stabilize, as more names drop into the high-yield territory.

2H Opportunities

We expect downgrades to continue throughout 2020 as the negative impact of COVID-19 on companies' leverage, cash flow, and ability to pay down debt continues. Businesses that were already highly levered will be particularly susceptible. Opportunities could emerge in the second half as companies are forced to restructure.

We predict further openings for our business in distressed debt when banks eventually seek to remove bad loans from their balance sheets.