T.RowePrice®
INVEST WITH CONFIDENCE

AFTER THE VOTE: TAKING STOCK OF THE EUROPEAN HIGH YIELD LANDSCAPE

JULY 2016

Mike Della Vedova
Portfolio Manager, European High Yield Bond Strategy

The UK's vote to leave the European Union ('Brexit') led to an immediate spike in volatility in the European high yield market. However, we believe it has also created some interesting opportunities to invest in very good companies at cheap valuations – for investors who know where to look for them.

In the period following the vote, high yield markets sold off before recovering. US high yield outperformed European high yield, and within Europe, non-UK credit outperformed UK credit. This has led to an opportunity to invest in strong non-UK companies whose sterling-denominated debt is trading very cheaply. We've seen examples of good quality businesses that issue both sterling- and euro-denominated debt, where the former is priced below the latter – despite being from the same company. In the portfolio we have focused on reducing the overall number of credits and positions to reduce the "noise" of smaller positions, and instead focus on core names.

The Bank of England now has the challenge of responding to Brexit. One possibility is that, in August, it may extend its quantitative easing programme and potentially follow the European Central Bank by purchasing corporate bonds. While any bonds it buys are likely to be investment grade or crossover names, the high yield market would be likely to benefit as investors squeezed out of the investment grade market come looking for bargains.

Another important factor is the current combination of dislocated capital markets and low bond issuance. Although issuance rose slightly before the UK referendum, it has since fallen back again, and with the post-Brexit uncertainty we believe that capital markets will be effectively closed for the rest of the quarter. The delay in the refinancing of short-dated yield-to-call (YTC) paper will allow very high coupons to be clipped for longer than originally thought. Based on this, we will continue to maintain tight control on the number of names in the portfolio and increase our allocation to core positions.

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

Important Information

This material, including any statements, information, data and content contained within it and any materials, information, images, links, graphics or recording provided in conjunction with this material are being furnished by T. Rowe Price for general informational purposes only. The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price. The material does not constitute a distribution, an offer, an invitation, recommendation or solicitation to sell or buy any securities in any jurisdiction. The material has not been reviewed by any regulatory authority in any jurisdiction. The material does not constitute advice of any nature and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. Past performance is not a reliable indicator of future performance. The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The views contained herein are as of the date of publication and may have changed since that time. Unless indicated otherwise the source of all market data is BofA Merrill Lynch.

DIFC – Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This document is communicated on behalf of T. Rowe Price International Ltd by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA – Unless indicated otherwise this material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Switzerland – Issued in Switzerland by T. Rowe Price (Switzerland) GmbH ("TRPSWISS"), Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich is Representative in Switzerland. Neue Helvetische Bank AG, Seefeldstrasse 215, CH-8002 Zurich is the Paying Agent in Switzerland. For Qualified Investors only.

T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc. in the United States, European Union, and other countries. This material is intended for use only in select countries.