

2012 credit - fasten your seatbelts

Slaves to the Euro crisis

We would expect a small rally at the start of 2012 as risk appetite rises, asset allocation into credits occurs and the probability grows of a greater policymaker response. We would start the year with an overweight-30% on high-grade credit, but we would not be wedded to this view for long if the sovereign prognosis remains bleak. We see a trading market rather than a directional market for 2012 as the sovereign crisis continues to determine much of the direction of credit.

Know your benchmark in 2012

“Rich” or “cheap” is more than just about spread to Bunds now. We urge investors to keep an eye on credit spreads vs domestic government bond spreads next year. French names have repriced significantly wider lately because of poor relative value vs. French sovereigns. In our view, German credits look good value versus their sovereigns, as do UK and Dutch credits. Spanish and Italian non-financials look tight. French non-financials look fair rather than great value.

Non-financials fairly safe for another year

We still see “core” non-financials faring relatively well next year, even if recession hits. Maturing corporate debt isn't demanding, cash holdings are strong and spreads already discount a further earnings drop of about 25%. Defensiveness and capital preservation remain paramount for credit selection, in our view.

The great opportunities as well as risks

Loan refinancings are a lot more demanding next year (€500bn) and banks are preoccupied with deleveraging. We don't think this means the end of loan financing for large-cap, “relationship” non-financials, but funding could become trickier for mid-tier companies. We expect companies to term-out some of their loan financing into bonds next year, even if for precautionary purposes.

More corps, less fins

We expect fixed-rate senior unsecured issuance to fall 35% in 2012 vs 2011. Conversely, we think non-financial supply could rise 20%.

Sectors - go for global

We have made some changes at the sector level. We upgrade consumers to ow-30% given their global sales profile. We still remain uw-30% on retail however given austerity. Senior banks is still an ow-30% as the market shrinks, but sub debt is now uw-30%. Insurance fundamentals still justify an ow-30%. We have reduced steel to uw-30% given waning steel demand.

Crossover Credit
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European Credit Rsch Grp
MLI (UK)

Asia Pacific Credit & CB Rsch Grp +852 2536
3750

Merrill Lynch (Hong Kong)
michele.barlow@baml.com

Barnaby Martin +44 20 7995 0458

Credit Strategist
MLI (UK)
barnaby.martin@baml.com

[See Team Page for Full List of Contributors](#)



Click the image above to watch the video.

The full report 'Credit Convictions in 2012' can be accessed at the following link: [Credit Convictions in 2012, 01 December 2011](#)

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Link to Definitions

Credit

Click [here](#) for definitions of commonly used terms.

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Overweight-100%	Up to 100% Overweight of investor's guidelines	Compelling spread tightening potential
Overweight-70%	Up to 70% Overweight of investor's guidelines	Carry, plus some spread tightening expected
Overweight-30%	Up to 30% Overweight of investor's guidelines	Good carry, but little spread tightening expected
Underweight-30%	Down to 30% Underweight of investor's guidelines	Unattractive carry, but spreads unlikely to widen
Underweight-70%	Down to 70% Underweight of investor's guidelines	Expected spread underperformance
Underweight-100%	Down to 100% Underweight of investor's guidelines	Material spread widening expected

Time horizon – our recommendations have a 3 month trade horizon

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Team Page

European Credit Research

Christian Dinesen Research Analyst MLI (UK) christian.dinesen@baml.com	+44 20 7996 3280
Bradshaw Crombie Research Analyst MLI (UK) brad.crombie@baml.com	+44 20 7996 0037
Richard Thomas Research Analyst MLI (UK) richard2.thomas@baml.com	+44 20 7996 0128
Patrick Kersting Research Analyst MLI (UK) patrick.kersting@baml.com	+44 20 7995 8276
Terry Nguyen, CFA Research Analyst MLI (UK) terry.nguyentuong@baml.com	+44 20 7995 7086
Jeroen Julius Research Analyst MLI (UK) jeroen.julius@baml.com	+44 20 7995 2283
Davide Chiesa Research Analyst MLI (UK) davide.chiesa@baml.com	+44 20 7996 0117
Julien Martin Research Analyst MLI (UK) julien.martin@baml.com	
Navann Ty, CFA Research Analyst MLI (UK) navann.ty@baml.com	+44 20 7995 7522
Yulia Mitryaeva Research Analyst MLI (UK) yulia.mitryaeva@baml.com	+44 20 7996 9109
Maciej Pisarek Research Analyst MLI (UK) maciej.pisarek@baml.com	+44 20 7996 2539

European Credit Strategy

Barnaby Martin Credit Strategist MLI (UK) barnaby.martin@baml.com	+44 20 7995 0458
Teo Lasarte Credit Strategist MLI (UK) teo.lasarte@baml.com	+44 20 7996 0969

Credit Derivatives Strategy

Ioannis Angelakis Credit Derivatives Strategist MLI (UK) ioannis.angelakis@baml.com	+44 20 7996 0059
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Emerging Markets Credit

Tolu Alamutu, CFA Research Analyst MLI (UK) tolu.alamutu@baml.com	+44 20 7995 0167
Kay Hope Research Analyst MLI (UK) kay.hope@baml.com	+44 20 7995 9301
Ali Dhaloomal Research Analyst MLI (UK) ali.dhaloomal@baml.com	+44 20 7996 9107

Asia Pacific (ex-Japan) Credit Research

Michele Barlow Research Analyst Merrill Lynch (Hong Kong) michele.barlow@baml.com	+852 2536 3750
Aniruddha Deshmukh Research Analyst Merrill Lynch (Hong Kong) aniruddha.deshmukh@baml.com	+852 2536 3141
Alwyn Pang, CFA Research Analyst Merrill Lynch (Hong Kong) alwyn.pang@baml.com	+852 2536 3485
Joyce Liang Research Analyst Merrill Lynch (Hong Kong) joyce.liang@baml.com	+852 2536 3817
Vishal Mahtani, CFA Research Analyst Merrill Lynch (Hong Kong) vishal.mahtani@baml.com	+852 2536 3134

Japan Credit Research

Yusuke Ikeda Research Analyst Merrill Lynch (Japan) yusuke.ikeda@baml.com	+81 3 6225 7712
Yusuke Ueda Research Analyst Merrill Lynch (Japan) yusuke.ueda@baml.com	+81 3 6225 6257

Contributors

David K. Peterson, CFA Research Analyst MLPF&S david.k.peterson@baml.com	+1 646 855 9654
Todd Duvick, CFA Research Analyst MLPF&S todd.duvick@baml.com	+1 646 855 6321
Greg Hessler Research Analyst MLPF&S gregory.hessler@baml.com	+1 646 855 6830
Mark Nichol Research Analyst MLI (UK) mark.nichol@baml.com	+44 20 7996 0965