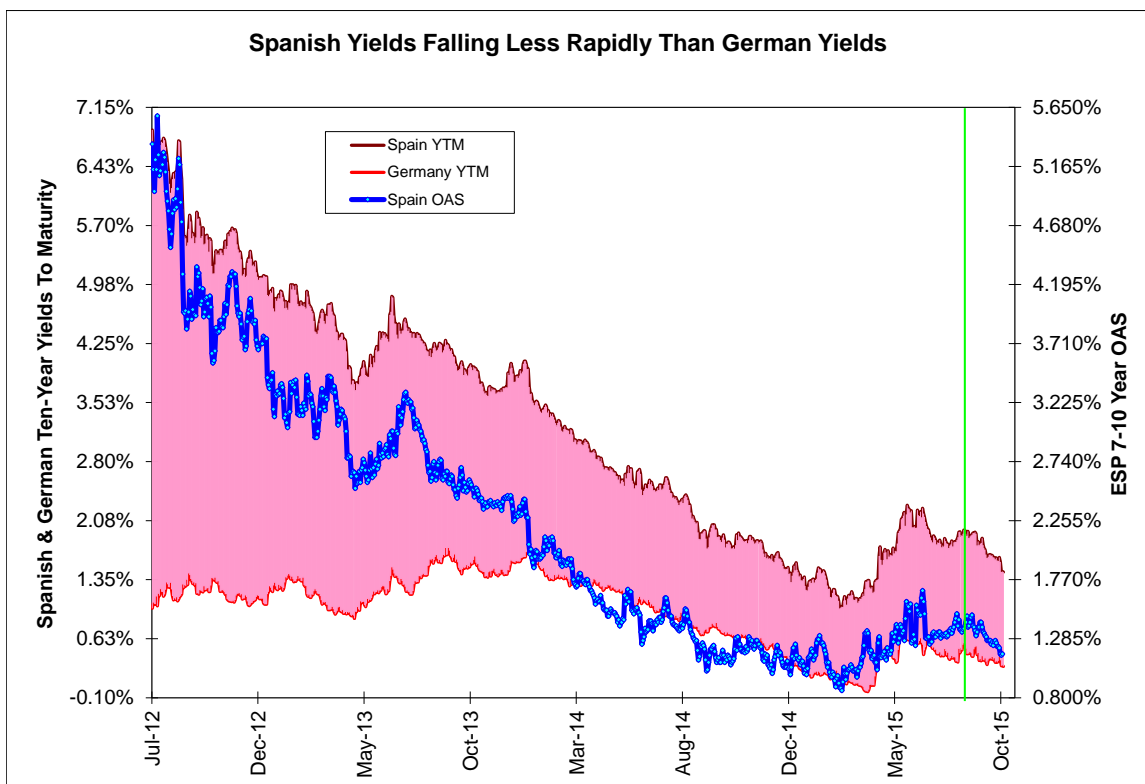




Spanish/Italian-German Yield Spreads After The August Global Equity Selloff

Bund yields have declined more rapidly than have Spanish or Italian 7-10 year yields since August 24, 2015 (vertical lines). The daily loglinear rates of declension for 7-10 year Spanish and Italian bonds have been 0.617% and 0.587%, both of which have been less than 7-10 Bunds' daily rate of decline of 0.997%. However, 7-10 year Italian and Spanish bonds have outperformed 7-10 Bunds over this period, 3.509% and 3.512% versus 0.799%.

As we should expect, OAS levels for Spanish and Italian bonds have declined since the depth of the August selloff by 33.0 and 34.0 basis points, respectively. Whether this represents an actual improvement in credit quality or is simply an artifact of yield compression during a period of rising risk acceptance is subject to debate. It is worth noting, however, Spanish and Italian OAS levels have narrowed by 5.0 and 0.4 basis points, respectively, since last week's hint of a Eurozone QE expansion. Both measures are poised to test their mid-March lows.



Italian Yields Falling Less Rapidly Than German Yields

