

Fitch: Credit Asset Managers Increase Focus on Political/Regulatory Risks

Link to Fitch Ratings' Report: [Credit Asset Management Quarterly - Q210 - June 2010](#)

Fitch Ratings-London/Paris/New York-08 June 2010: Fitch Ratings has today published the second issue of its Credit Asset Management quarterly newsletter, highlighting the extent to which sovereign risk and related political and regulatory risks have become critical considerations for credit asset managers.

In addition to a wider market analysis this issue presents articles discussing the management of distressed debt and the impact of regulatory changes (Basel III and Solvency II) on managing credit portfolios.

The rally seen across global credit markets in 2009 came to an end in the first quarter of 2010, replaced by a sell-off across risk assets in May 2010, as market participants became concerned that sovereign troubles could create another systemic crisis. Over the medium term there is significant uncertainty related to the eventual impact of the sovereign-initiated fiscal consolidation measures that are being stepped up. As they anticipate sovereign risks and the impact of austerity measures to continue maintaining pressure on macro conditions, credit managers expect the credit markets to evolve in a volatile, spread range environment where divergences between and within asset classes favour relative-value strategies.

"The sources of credit risk are changing," says Manuel Arrive, Senior Director in Fitch's Fund and Asset Manager Rating Group, "Political analysis within credit asset managers may become as important in 2010 as macro-analysis has been since 2008."

Prior to the escalation of market concerns relating to Greece, Fitch noted an increased interest among credit managers and investors in high yield and emerging market debt as managers sought yield beyond the major developed market and investment grade corporate sectors. The recent flight to safety may have temporarily halted or slowed down this trend, however, notwithstanding recent market volatility, the economic recovery in various regions of the world continues to be supportive of credit markets, with increasing selectivity.

"Even credit market segments supported by improving fundamentals have become increasingly sensitive to newsflow," says Alastair Sewell, Associate Director in Fitch's Fund and Asset Manager Rating Group. "Adverse developments in other sensitive risk areas, such as commercial real estate and Chinese property, could also have disproportionate impacts on credit markets in the near-term."

In the industry issue section of the newsletter, Fitch presents an introductory article on the potential impact of regulatory changes on the credit management industry. The agency notes that regulatory initiatives, such as 'Basel III' for banks and 'Solvency II' for insurance companies, may produce some opportunities for some credit asset managers to provide tailored funds or strategies in response to the likely de-risking of portfolios and corresponding changes in investment processes.

In another segment on distressed debt management, Fitch notes that despite an increase in the amount of distressed assets available in the past two years and the 30% returns in 2009, inflows into distressed debt funds have yet to catch up with the availability of distressed assets. The agency highlights multi-cycle distressed experience and a specific ability in distressed debt risk-management as differentiating factors among distressed debt managers.

Applicable criteria available at www.fitchratings.com: 'Reviewing and Rating Asset Managers', dated 18 June, 2009; 'Reviewing and Rating Credit Asset Managers', dated 27 July, 2009, 'Global Bond fund Rating Criteria', dated 10 February 2010.

The full newsletter, entitled 'Credit Asset Management Quarterly - Q210' is available at www.fitchratings.com.

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