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Why Synthetic Credit ?

1. **Positive Basis**

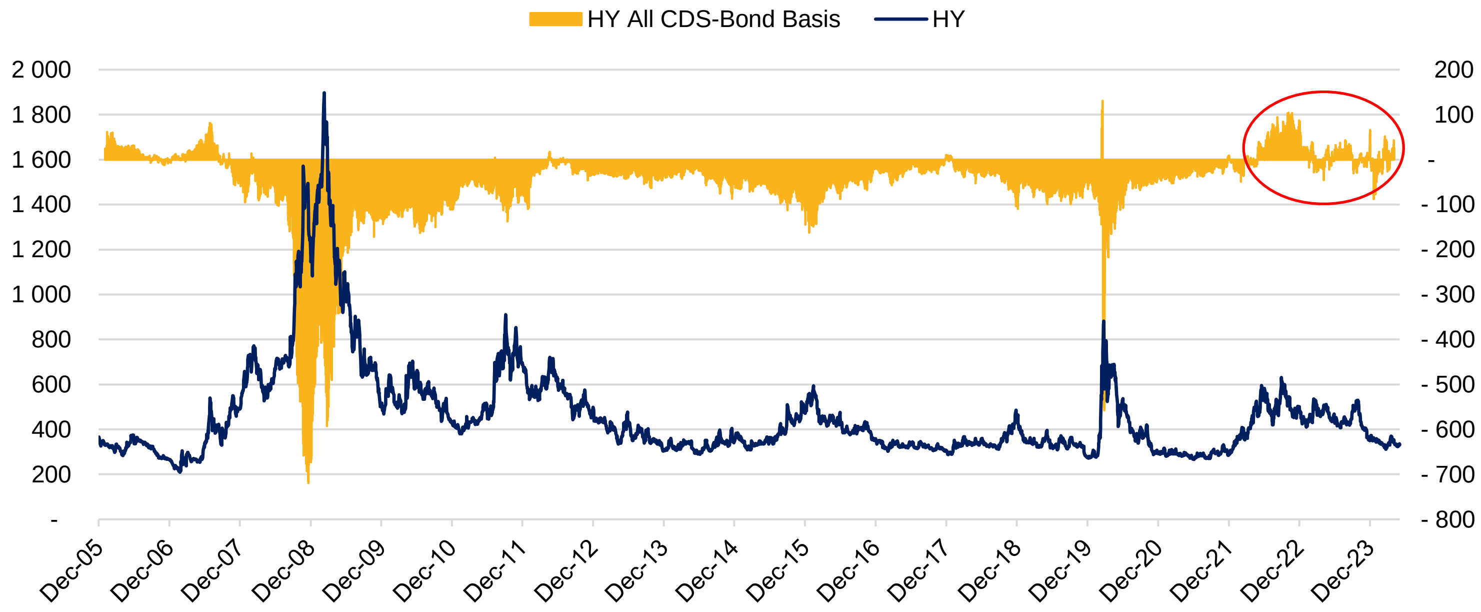
2. **High Market Liquidity:**
    - **Volumes vs. Cash**
    - **Volumes during Stressed Periods**

3. **Enhanced Return Potential:** **Carry & Roll-down of a Synthetic Instrument**

ILLUSTRATIONS OF SYNTHETIC CREDIT ADVANTAGES

POSITIVE BASIS

- **Synthetic currently trades with a positive basis:**
  - No upside to go cash vs. synthetic



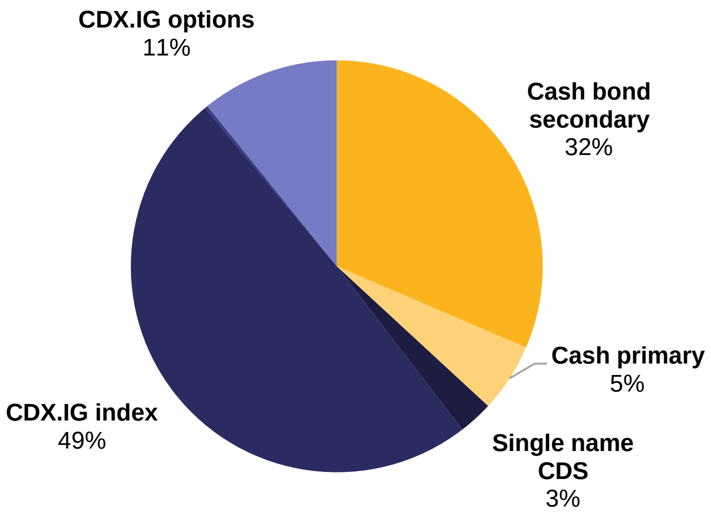
Source: J.P. Morgan, Bloomberg, LFIS

ILLUSTRATIONS OF SYNTHETIC CREDIT ADVANTAGES

VOLUMES OF SYNTHETIC INSTRUMENTS VS CASH EQUIVALENTS

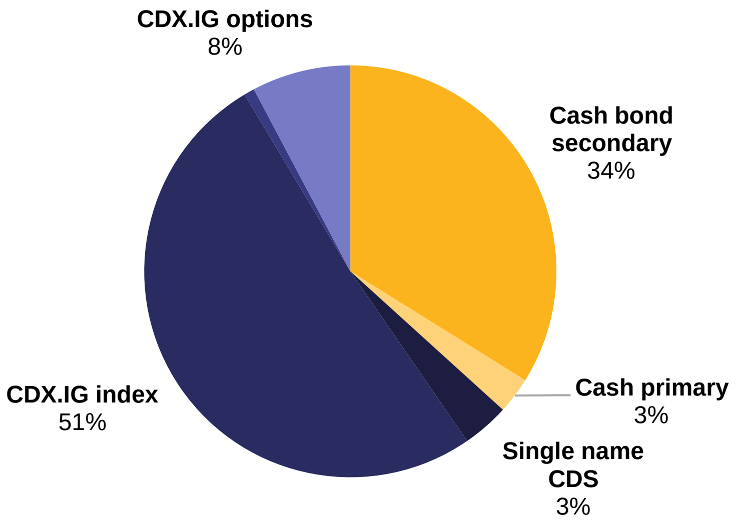
- **Superior trading volumes for synthetic instruments**

2023 US trading volumes on IG (in $B)



Source: J.P. Morgan, Bloomberg Finance L.P, DTCC, FINRA

2023 US trading volumes on HY (in $B)

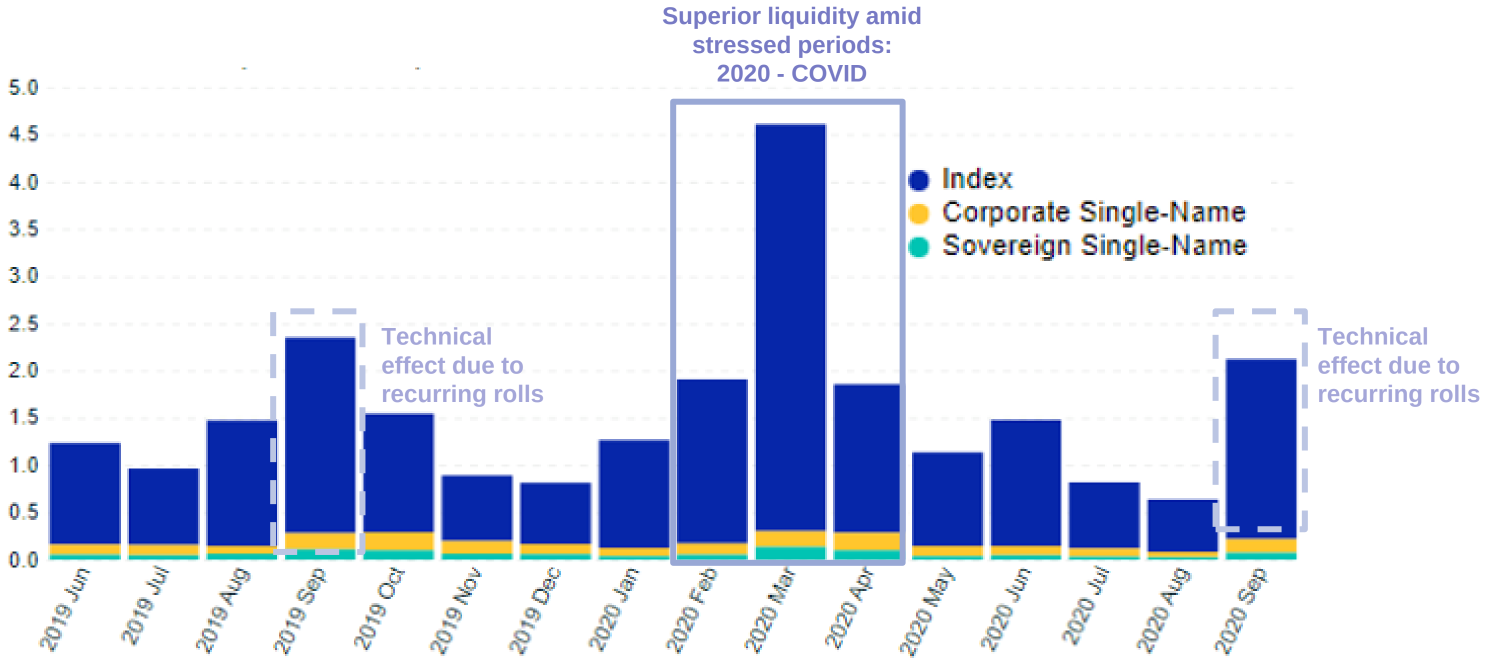


Source: J.P. Morgan, Bloomberg Finance L.P, DTCC, SDR, FINRA

ILLUSTRATIONS OF SYNTHETIC CREDIT ADVANTAGES

VOLUMES DURING STRESS PERIODS

- **Strong liquidity in stressed periods**

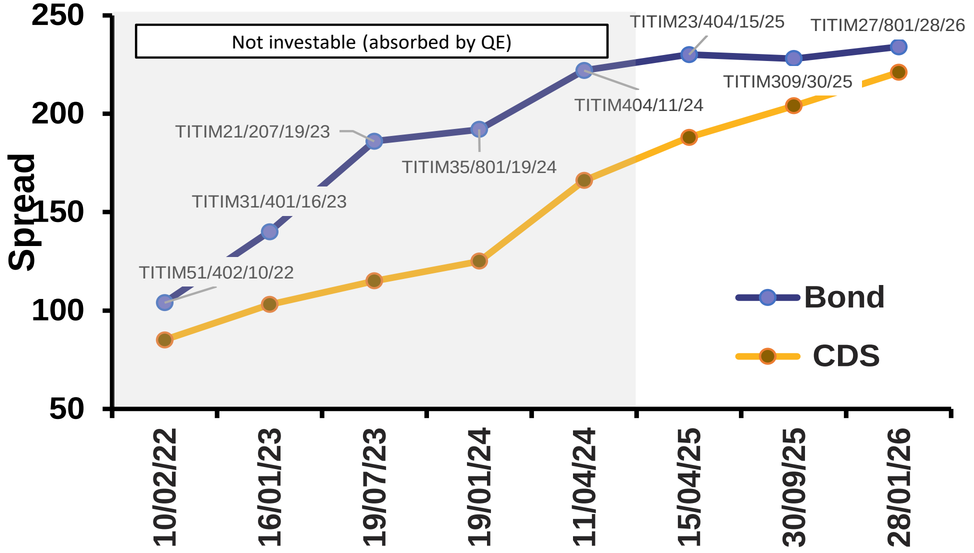


Notional amounts traded on synthetic instruments in USD trillion
(Jan. 2019 – Sep. 2020)

Source: Bloomberg, LFIS

ENHANCED RETURN POTENTIAL: CARRY AND ROLL-DOWN OF A SYNTHETIC INSTRUMENT

- **Synthetic instruments: Drivers for a greater rolldown vs. cash bonds:**
  - Similar spread at issuance but flatter yield curve and carry only realizing for the first 2-3 years regarding cash bonds
  - CDS instruments immediately roll down on their curve, maximising PnL per unit of risk.



Illustrative exemple of Telecom Italia: Bond Z Spread vs. CDS Curve
As of January 2022

Source: Bloomberg, LFIS

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Get in touch with our Credit Team to discuss further

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