

When Spreads Had a Blackout

Spread performance during blackout periods

Theory: All else equal, spreads will exhibit a tightening bias during blackout periods because of a lack of new issue supply.

To better understand if reality is consistent with this theory, we looked at spread performance of 100 benchmark issuers during blackout periods starting '11. Since there is no hard and fast definition, we assume that blackout periods begin two weeks before earnings announcements. Two key findings:

- **Little relationship for the typical company:** Of the 13 quarterly observations since Q1 '11, the typical credit beat the market 6 times during the blackout period and underperformed 7 times – essentially a coin flip (Figure 1).
- **But a huge variation around typical:** For each issuer we calculated “expected” spread performance during a blackout period (refer to the appendix for the exact equation used).

Figure 2 shows that there is a very wide range around the typical result. For example, financials like PRU, MS comprise 31% of the names that exhibit a bias to tighten more than the market, followed by TMT and Energy. Note that PRU and SPG had a tightening bias in 11-of-13 instances, the highest in our sample set.

Among laggards during blackout periods, consumer names such as KO, MDLZ, PEP and healthcare names like NOVX and MRK tended to be underperformers. Please refer to the appendix for details.

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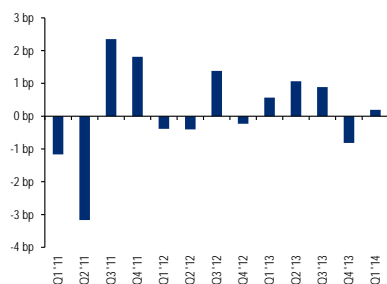
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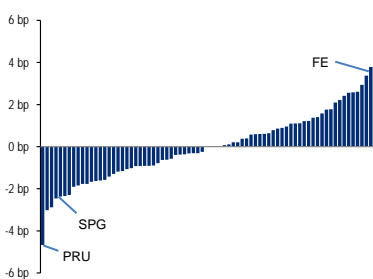
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Figure 1. Performance of typical company during blackout periods



Source: Citi Research

Figure 2. Distribution of spread performance during blackout periods for single-names



Source: Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Addendum

Figure 3. Issuer-specific performance (vs. market) during blackout periods, 2011-current

Ticker	Sector	Domicile	$\left(\left(\text{Count Outperform} * \text{Spread Outperform (bp)} \right) + \left(\text{Count Underperform} * \text{Spread Underperform (bp)} \right) \right) \div \text{Count Total} = \text{Expected Spread Perf. (bp)}$			
Prudential Financial	Financial	US	12	-5.1	1	-4.7
Altria Group	Consumer	US	7	-8.2	6	-3.0
Anadarko	Energy	US	10	-4.2	3	-2.5
Morgan Stanley	Financial	US	10	-7.5	3	-2.4
Simon Property	Financial	US	12	-3.3	1	-2.3
Enterprise Product Partners	Energy	US	9	-3.6	4	-2.3
Walmart	Consumer	US	9	-4.0	4	-1.9
Metlife	Financial	US	10	-2.8	3	-1.8
Barclays	Financial	GB	10	-2.6	3	-1.8
Bank of America	Financial	US	8	-3.7	5	-1.7
America Movil	TMT	MX	10	-2.8	3	-1.6
DirecTV	TMT	US	5	-7.3	8	-1.4
Hewlett-Packard	TMT	US	9	-7.1	4	-1.3
Goldman Sachs	Financial	US	8	-4.0	5	-1.2
PG&E Corp.	Utilities	US	8	-3.4	5	-1.2
BNP Paribas	Financial	FR	9	-3.2	4	-1.1
Capital One	Financial	US	6	-4.3	7	-1.0
Amgen	Healthcare	US	6	-3.0	7	-0.9
Kinder Morgan	Energy	US	6	-4.7	7	-0.9
Target	Consumer	US	7	-6.3	6	-0.9
RBS	Financial	GB	8	-4.1	5	-0.9
ConocoPhillips	Energy	US	6	-3.5	7	-0.9
Deere & Co.	Industrial	US	9	-3.5	4	-0.6
Verizon	TMT	US	6	-4.2	7	-0.6
BP PLC	Energy	GB	8	-1.8	5	-0.6
Berkshire Hathaway Energy	Utilities	US	8	-2.2	5	-0.4
Express Scripts	Healthcare	US	8	-2.9	5	-0.4
CVS Corp.	Consumer	US	5	-3.1	8	-0.3
Exelon	Utilities	US	9	-3.0	4	-0.3
Duke Energy	Utilities	US	8	-2.0	5	-0.2
Dow Chemical	Basic Materials	US	8	-2.5	5	0.0
TransCanada Corp.	Energy	CA	5	-3.3	8	0.0
Shell	Energy	NL	7	-3.1	6	0.0
Bank of Nova Scotia	Financial	CA	9	-2.3	4	0.0
Oracle	TMT	US	5	-6.5	8	0.1
Wellpoint	Healthcare	US	6	-2.7	7	0.1
Dominion Resources	Utilities	US	9	-3.0	4	0.2
Bank of New York Mellon	Financial	US	5	-6.1	8	0.4
The Southern Co.	Utilities	US	7	-1.0	6	0.4
Philip Morris	Consumer	US	8	-2.4	5	0.6
US Bankcorp	Financial	US	5	-4.4	8	0.6
Toyota	Consumer	JP	4	-3.2	9	0.6
American Express	Financial	US	9	-3.3	4	0.6
AT&T	TMT	US	5	-2.4	8	0.8
Walt Disney	TMT	US	6	-3.0	7	0.9
IBM	TMT	US	2	-8.0	11	1.0
PNC Financial	Financial	US	3	-4.6	10	1.1
JP Morgan	Financial	US	2	-4.7	11	1.1
Petrobras	Energy	BR	6	-9.0	7	1.1
Pfizer	Healthcare	US	3	-3.3	10	1.2
UnitedHealth	Healthcare	US	7	-1.0	6	1.2
Statoil	Energy	NO	5	-1.5	8	1.4
Procter & Gamble	Consumer	US	4	-4.3	9	1.4
Pepsi	Consumer	US	3	-1.2	10	1.6
Merck	Healthcare	US	5	-0.5	8	1.8
Wells Fargo	Financial	US	4	-2.6	9	1.8
Caterpillar	Industrial	US	5	-2.5	8	2.1
Mondelez	Consumer	US	2	-0.9	11	2.2
Cisco	TMT	US	3	-3.1	10	2.4
DuPont	Basic Materials	US	5	-5.0	8	2.6
The Coca-Cola Co.	Consumer	US	4	-3.6	9	2.6
Novartis	Healthcare	CH	4	-1.6	9	2.6
United Technologies	Industrial	US	5	-0.4	8	2.9
Vale	Basic Materials	BR	7	-5.2	6	3.4
FirstEnergy	Utilities	US	1	-0.2	12	3.8
Microsoft	TMT	US	4	-2.3	9	3.9
Telefonica	TMT	ES	7	-4.1	6	5.2

Source: Citi Research

Appendix A-1

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