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In light of this thesis and a more uncertain tone to the market this week, we took profits on some of our risk positions. For example, we sold down our position in a short dated CCC-rated issuer's bonds in the hedge funds after they rallied over 6 points on the back of a successful IPO.

Have a great long weekend.

It was another week dominated by mixed headlines out of the Eurozone regarding Greece, solid economic data in the U.S., and relatively benign corporate earnings. Risk markets wobbled as the news out of Europe moved back and forth between a lengthy delay and an imminent agreement on the parameters of a Greek bailout. Ultimately, the headlines ended positively for risk with the ECB finding a way around taking a big write-down on their Greek bond holdings and the PSI now expected to begin as early as next Monday.

Meanwhile, U.S. Jobless claims continue to improve, and there appears to be momentum building in the much maligned U.S. housing market as housing starts improved in January and were also revised upwards for December. We also saw continued strong inflows into the riskier areas of the credit markets such as High Yield and Emerging Markets. As a result, the week ended on a very strong note for risk and credit.

Credit has had an extraordinary run since the middle of December and this has been particularly true for the riskiest segments of the market. However, over the last two weeks we have started to see that sentiment change. While the U.S. high yield market has continued to rally, CCC spreads have been flat since Feb. 3. The spread differential between the Bank of America Merrill Lynch B index and CCC index has widened over the last two weeks from 507 bps to 531 bps, but this is still far below the 15 year average differential of 644 bps. CCC's were clearly overextended at the beginning of the month and we believe the segment's relative underperformance will continue, given concerns around the longer term sustainability of U.S. economic growth and the potential for negative event risks out of Europe and/or other parts of the world.



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