

JAKE SIEWERT

This is *Exchanges at Goldman Sachs* where we discuss developments currently shaping markets, industries and the global economy. I'm Jake Siewert, corporate head of global head of Corporate Communications here at the firm.

Today we'll be talking about the post-Brexit business environment in Europe with Denis Coleman who's the co-head of the Global Financing Group in our Investment Banking Division Denis is based in our London office but is here at our New York headquarters this week. Denis, welcome to the program.

DENIS COLEMAN

Thanks for having me.

JAKE SIEWERT

So let's start with Brexit. It finally happened after years of waiting. What's been the reaction in the business community across Europe so far?

DENIS COLEMAN

I'd say the biggest reaction at this point in the developments of the Brexit situation is really relief. We've been living with multiple years of significant uncertainty, not knowing whether it would happen or not, on what basis and when, and a lot of work and preparation has gone into this ultimate decision. Now we know that Brexit will occur, but exactly how it will occur and what will unfold from here remains actually a bit of uncertainty for our clients.

JAKE SIEWERT

So as clients are thinking about the future, give me an example of how a client might be thinking about financing differently in the wake of Brexit.

DENIS COLEMAN

Sure. So, you know, leading up to Brexit, obviously an environment of uncertainty, you had people perhaps pausing or reconsidering how aggressively they were interested in making a

particular investment that would have an exposure to the U.K. economy or to certain types of businesses which have a supply chain linkage. You can think of big industries like autos where there's a structural relationship between the countries in the continental Europe and the U.K., and depending on what the result is in terms of the trade agreement, there remains some uncertainty in the sort of efficiency of supply chain and pricing mechanisms. It's still something that people have to think long and hard about.

JAKE SIEWERT

So away from Brexit, the ECB has been on pause for a bit this year, and rates have been at historical lows, negative in many instances. Are you seeing an up-tick in financing given, you know, the low rates? How's that playing out?

DENIS COLEMAN

Sure. Listen. Year to date, new issue volumes have exploded in Europe. We had the biggest day

ever for IG issuance in Europe. We had the biggest week ever for IG issuance this year at nearly \$100 billion equivalent which is an absolutely staggering amount of issuance in Europe for one week.

If you move to non-investment grade credit markets, the loan market in non-IG space is up tenfold on a comparable year-to-date period, and the high-yield bond market is up almost fivefold, so explosive levels of new issuance across the entire credit spectrum coming out of Europe year to date.

JAKE SIEWERT

So Denis, to the uninformed it obviously makes sense why corporates are out issuing debt at these levels. Money's cheap, and why not put some debt on if the costs of financing are pretty low. But who are the buyers? Give us a sense of why the yields are so low, why the spreads are so tight. What's

going on in the market that's bringing investors in?

DENIS COLEMAN

Sure. So look. I think across the board almost all of our investing clients are buying. A notable buyer is the CSPP program of the ECB. They're probably up to something like 200 billion. We think they own sort of call it five percent of the entire investment grade market in Europe. They've been a pretty savvy buyer. We observe they're sort of a better buyer on weaker or down days, but they've been putting substantial amounts of money to work, buying up a relatively substantial portion of the new issue supply and then participating in those transactions alongside all of our other investing clients. So they are one big buyer, but lots of our clients are active.

JAKE SIEWERT

So obviously it's not just Europe that has low rates. We've got easy monetary policy across the globe,

in the U.S., Japan. The U.S. looks high, but it's historically low. Is there anything that stands out particularly different about the LevFin market in Europe compared to some of those other countries?

DENIS COLEMAN

Sure. So I mean draw the comparison when I cite the non IG stats for Europe up five and tenfold for high-yield and loans. The U.S. market is up twofold, so also, you know, substantial year-over-year increase but much more pronounced in Europe. I guess the most sort of staggering reality of the non-investment grade European credit markets right now is just the all-in yields.

So you have the tightest ever high-yield bond deals pricing now in Europe at sub one percent. That's the all-in yield you earn for investing in non-investment grade European corporate credit. Even if you move down to single B territory in non-IG, we

have deals pricing less than two percent. We had a sovereign just recently price a ten-year transaction at a negative yield. So the story on yields remains very much front and center for people, but it's the all-in levels particularly when you move into the leveraged finance space are a bit eye-popping.

JAKE SIEWERT

And do you attribute some of the explosion in this lending obviously partly to low rates but also to the weakness of the European banking sector?

DENIS COLEMAN

Well, look. I think the driver for the all-in yields is a function of underlying rates which is being drive by the ECB policy, and I think the weakness and the relative weakness in the European economy is a big contributor to the rates picture, but also credit spreads remain very tight as well. Technicals are very strong. There remains a global search for yield, and liquidity is pouring into

yield asset classes globally and definitely in Europe as well.

JAKE SIEWERT

So Denis, you mentioned the sluggish economy in Europe, which is a perennial, but how would you describe the fundamentals for European corporates that are operating in that environment? How are they feeling?

DENIS COLEMAN

Look. I think European corporates are muddling along. The general growth backdrop is marginally positive but, at the same time, reasonably stable, and our clients are sort of taking care of business. They're prudently refinancing and terming out their capital structures. They're looking at strategic growth opportunities. We see a number of clients thinking about M&A opportunities so they can drive some inorganic growth, and when you dovetail that with this sort of positive financing backdrop, it

makes some of those transactions more achievable. So I think they're reasonably stable and trying to figure out how they can drive growth either organically or inorganically.

JAKE SIEWERT

So I guess you partly answered this question, but how aggressive or conservative are CEOs and executives been about just putting on more debt?

DENIS COLEMAN

Look. There's a different perspective on debt tolerance I would say on either side of the Atlantic where U.S. equity investors in particular have evidenced a higher degree of comfort with levered balance sheets than necessarily European equity investors, and while those investors are themselves global in nature now, there are some differences between the two markets.

So a lot of the European corporates historically are slightly less levered than some of their U.S.

counterparts, but given really what the all-in level and cost of financing is, we're seeing more of our clients willing to take on debt, particularly if they see attractive opportunities to finance or grow their business.

JAKE SIEWERT

So rates are low, probably will stay that way for a while, at least it seems so now. Brexit's resolved.

U.S.-China seems to be on pause a little bit.

Economic fundamentals are decent if not super strong. So what other risks are weighing on the minds of our clients?

DENIS COLEMAN

I mean look. Right now today's spot is coronavirus.

That is obviously impacting sentiment. That is the sort of fear element. Markets gyrate between fear and greed. We've got some elements of fear creeping in the global capital markets right now, definitely some sort of pause inclination on behalf of some clients with respect to market access but

not across the board.

We've seen some good opportunities in the equity markets for clients to come to market and raise equity against this backdrop, and even today notwithstanding the tape, equity markets are sharply higher. So it feels like there's very, very good momentum in global assets, whether it be credit or equity notwithstanding the outlook which is, you know, I'd say reasonably uncertain particularly with respect to that health risk.

Away from that, geopolitical which has dominated headlines for the last number of months, there aren't a ton of looming issues. U.S. election will start to weigh on people as they start to figure out how to position based on which way the candidates on the Democratic side look to shake out and then what the sort of relative estimates of winning success is between the Republicans

and Democrats, but that I think is, you know, something for the future.

JAKE SIEWERT

If we can figure out how to hold an election properly. So you joined Goldman Sachs as an analyst almost 25 years ago in 1996. What were the twists and turns that led to your current role in London?

DENIS COLEMAN

Twists and turns. Like any career on Wall Street, luck and timing was an important factor. I signed up to join one group in 1995, and when I arrived at the firm in 1996, I was told that I was entering a different group, a group at the time called the Bank Loan group which was really the first place the firm ever tried to make a loan or become a lender. We didn't even have a leveraged finance group at the time, and so that was a very long time ago if you think about where the firm is now.

Ultimately the group I was part of merged with another group and renamed itself Leveraged Finance, and so that's where that business sort of began back in the mid to late '90s, and I bounced over to the Securities Division. I worked on a trading floor for a large number of years, understanding investors and the entire sales and trading framework. Worked on a syndicate desk and then bounced back to the Investment Banking Division to sort of run our leveraged finance and then credit finance businesses.

Sent over to London just over a decade ago to help build out the institutional debt capital markets there. So I've bounced around divisions. I bounced around regions, lots of different jobs but all of them extremely exciting.

JAKE SIEWERT

So if you're talking to an analyst starting today, other than warning them to have good luck, what

other advice would you give them?

DENIS COLEMAN

Look. I'd tell them that it's never too early to start building relationships, and that's not necessarily the job of "senior bankers" or senior sales people. If you start investing in that process early in your career, you can have a very robust set of relationships, you know, five, ten, 15, 20, 25 years later.

And so at the end of the day this is a client business. It's a relationship business. I'd urge even first-year analysts to start practicing their relationship-building skills. Get after it early.

JAKE SIEWERT

Yes, some of the ne'er-do-wells I knew when I was younger turned out to be pretty important these days. So I would echo that sentiment.

DENIS COLEMAN

You never know. Right?

JAKE SIEWERT

Yes, you never know. So Denis, thanks for joining us today.

DENIS COLEMAN

Thanks for having me. Great to be here.

JAKE SIEWERT

That concludes this episode of *Exchanges at Goldman Sachs*. Thanks for listening, and if you've enjoyed the show, we hope you subscribe on Apple Podcasts and leave a rating or a comment, and for more from Goldman Sachs experts as well as influential policymakers, academics and investors, be sure to check out our other podcast, *Top of Mind at Goldman Sachs* hosted by Allison Nathan, a senior strategist in the firm's Research division. Thank you for listening.