For Professional Clients/Qualified/Institutional & Accredited Investors Only

Muzinich & Co. Corporate Credit Snapshot | October 2022

Muzinich & Co

KEY TAKEAWAYS

-September was another challenging month for global markets. The US credit market was driven by a hawkish Federal Reserve (Fed) talking a tough inflation-fighting game and causing huge spikes in volatility across all markets

-No fixed income market was immune to market pressures this month, with negative returns from all fixed income asset classes

-In Europe, interest rates continued to move significantly higher across the curve. Inflation continued to tick up in both Europe and the US, with the European Consumer Price Index (CPI) breaking 10%

-This was a challenging month for Emerging Markets (EM) due to the combined effects of hawkish central banks, political tensions, China's zero-COVID policy, and the increased likelihood of a global recession

HIGH YIELD AND LEVERAGED LOAN TECHNICALS

US Retail Fund Flows

US$6.2 billion in high yield outflows, US$4.8 billion in leveraged loan retail outflows MTD (through 09.30)

HY New Issuance*	US	EUROPE
YTD	US$90.0 bn	US$22.6 bn
MTD	US$9.0 bn	US$1.2 bn
Loan New Issuance*	**US**	
YTD	US$205.0 bn	
MTD	US$8.4 bn	

Main Market Driver		
Macro: Inflation and Recession Concerns		
Micro: Muted high yield bond technicals		
Default Rates**	**US**	**EUR**
LTM	1.5%	1.8%

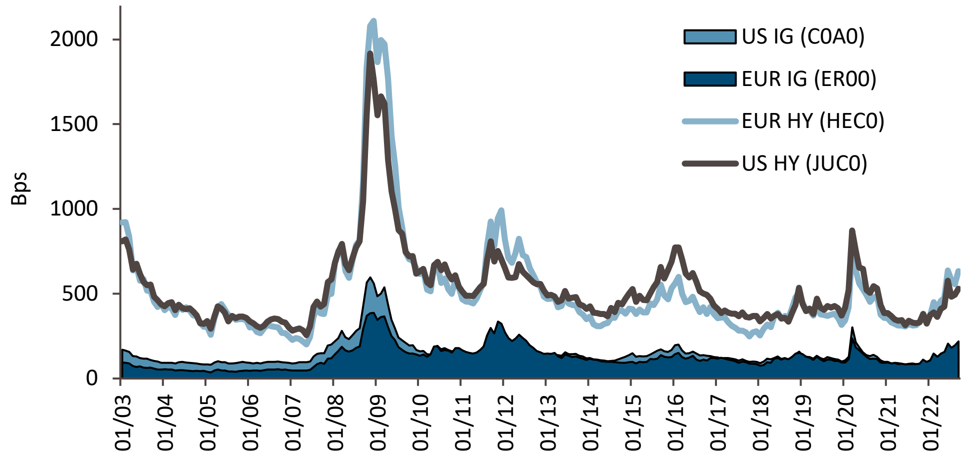
US New Issuance Names (500 mn and above) MTD
Nortonlifelock Inc., Newell Brands, CNX Resources Corp, Citrix, Royal Caribbean Cruises

US New Issuance Pipeline MTD (Announced)
Latam Airlines, Enerflex Ltd.

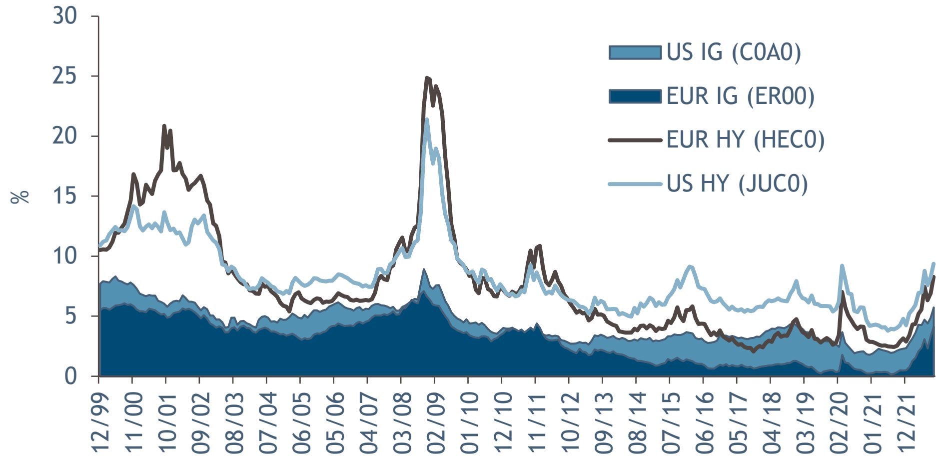
Note: Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy and should not be construed as investment advice or investment recommendation of those companies.

CAPITAL AT RISK.
The value of investments and the income from them may fall as well as rise, and is not guaranteed. Investors may not get back the full amount invested.

CORPORATE BOND SPREADS (STW) BY INDEX



CORPORATE BOND YIELDS (YTW) BY INDEX



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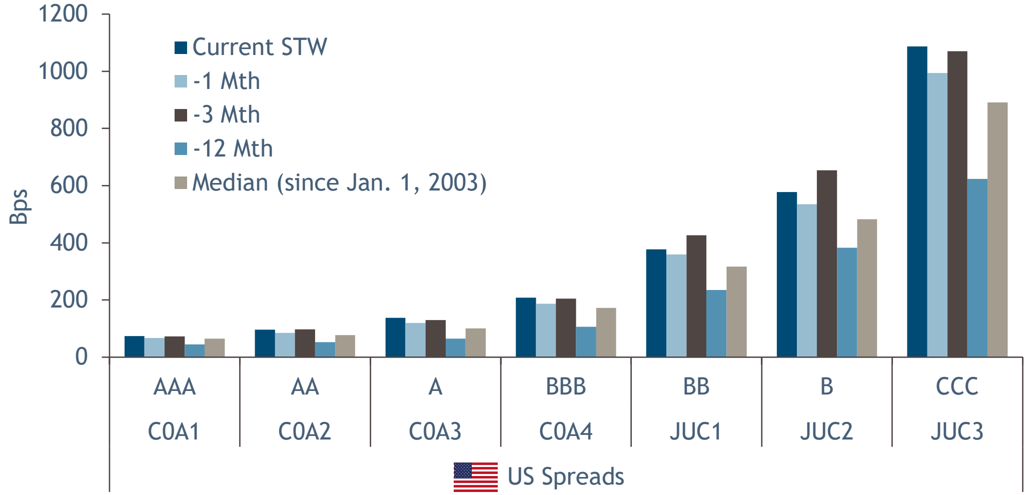
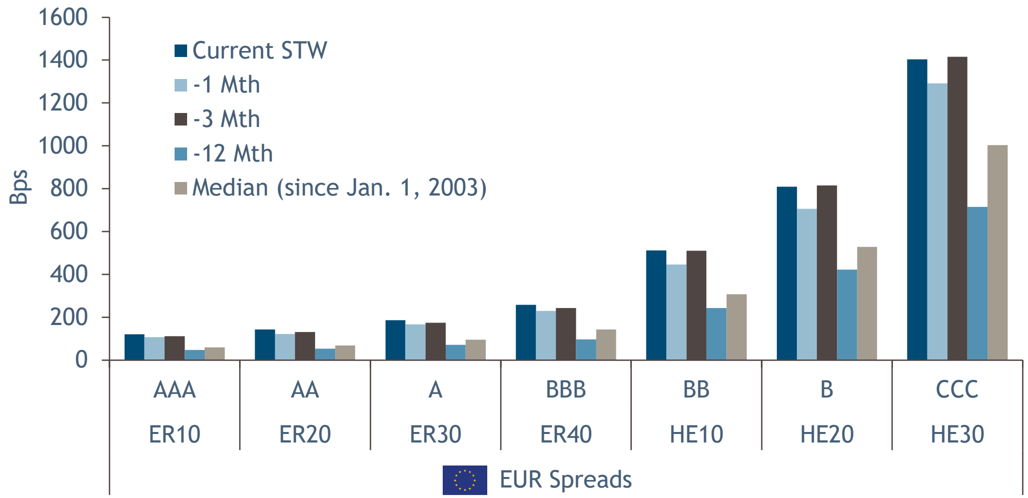
CORPORATE BOND SPREADS (STW) - SEPTEMBER 30, 2022

	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US	C0A0	IG	168	149	163	84	129
	JUC0	HY	530	494	577	325	462
	JUC4	BB/B	460	430	518	290	391
	C0A1	AAA	74	67	72	44	65
	C0A2	AA	96	85	97	52	77
	C0A3	A	138	119	130	65	100
	C0A4	BBB	208	187	205	106	172
	JUC1	BB	377	359	426	235	317
	JUC2	B	578	535	654	383	482
	JUC3	CCC	1087	994	1070	623	891
EM	EMCL	All	362	329	369	262	311
EUR	ER00	IG	218	195	205	84	113
	HEC0	HY	632	556	636	314	421
	ER10	AAA	121	108	112	48	60
	ER20	AA	143	123	132	54	69
	ER30	A	187	167	174	72	95
	ER40	BBB	258	230	244	97	144
	HE10	BB	512	447	511	243	307
	HE20	B	809	707	815	422	528
	HE30	CCC	1403	1291	1416	716	1004

CORPORATE BOND SPREADS (STW)





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MARKET PERFORMANCE % AND STATISTICS – SEPTEMBER 30, 2022

		Performance Summary (%)				Characteristics			Performance History (%, annualised)				
High Yield		**MTD**	**Pr. Mth**	**QTD**	**YTD**	**DTW (yrs)**	**YTW (%)**	**STW (bps)**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**
JUC0	US HY	-4.00	-2.42	-0.68	-14.57	4.41	9.38	530	-13.99	-2.16	-0.71	1.01	1.38
JC4N	US HY BB-B	-3.88	-2.78	-0.72	-14.14	4.53	8.63	456	-13.52	-2.61	-0.77	1.24	1.46
HEC0	Euro HY	-3.99	-1.25	-0.38	-15.43	3.30	8.29	632	-15.71	-3.99	-2.89	-0.94	-0.61
HEC5	Euro HY BB-B	-4.19	-1.42	-0.14	-15.55	3.39	7.96	600	-15.75	-4.37	-3.47	-1.58	-1.08
Investment Grade													
C0A0	US IG	-5.31	-2.66	-5.11	-18.33	6.86	5.74	168	-18.19	-8.72	-3.50	0.35	0.06
C4NF	US BBB Corporates	-5.55	-2.70	-5.10	-19.81	7.15	6.07	203	-19.63	-8.78	-3.71	0.28	0.06
ER00	Europe IG	-3.47	-4.25	-3.28	-15.07	4.64	4.13	218	-15.63	-7.42	-4.94	-2.29	-1.82
EN40	Europe BBB	-3.63	-4.01	-3.01	-16.47	4.72	4.43	247	-17.04	-8.92	-6.04	-4.56	-3.67
Governments (7-10 Year Indices)													
G4O2	US Treasuries 7-10 Yrs	-4.92	-3.72	-5.75	-15.56	7.76	3.83	1	-15.21	-10.14	-3.86	0.29	-0.38
G4L0	UK Gilts 7-10 Yrs	-9.68	-7.12	-13.44	-20.75	7.50	4.14	-6	-20.39	-12.97	-8.10	-3.81	-3.02
G4D0	German Fed Govt 7-10 Yrs	-4.59	-5.58	-5.55	-16.30	7.86	2.04	0	-16.52	-9.68	-6.75	-3.15	-2.37
Equities													
S&P	S&P 500 incl. Dividends	-9.22	-4.08	-4.89	-23.88				-15.50	4.81	8.14	7.14	9.22
DAX	DAX Index	-5.61	-4.81	-5.24	-23.74	**Yield (%)**	**Discount Margin**		-20.62	-2.57	-0.85	-0.27	-1.14
Loans						(3yr life)	bps (3yr life)						
CS Leveraged Loan Index		-2.17	1.53	1.19	-3.31	7.24	668		-2.62	-2.69	2.12	-2.31	3.00
CS Western European Leveraged Loan Index		-3.39	1.91	0.79	-6.04	5.49	728		-5.38	-0.89	0.49	-0.94	1.31

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future performance and should not be the sole factor of consideration when selecting a product or strategy.

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CREDIT MARKET UPDATE

US

This was another challenging month for US credit, driven by a hawkish Federal Reserve (Fed) talking a tough inflation-fighting game and causing huge spikes in volatility across all markets. No fixed income market was immune to market pressures this month, with negative returns from all fixed income asset classes. The issuance for US investment grade and US high yield was extremely low this month; during the last week of the month the US high yield market was effectively closed. Inflation fighting is one thing, market closures are another. Risk assets, including even US loans whose floating rate nature can benefit from rising rates, reported outflows across the board. At month-end, credit appears cheap, but investors are concerned with increasing global recession risks and policy missteps that could lead to contagion. In our view, the silver lining is that credit is outperforming equities and that both yields and carry are attractive over 12+ month horizons. Looking ahead, we believe volatility is likely to continue until the Fed provides investors with some direction to an offramp from this arduous journey.

EUROPE

September was another difficult month for European fixed income, with interest rates continuing to move significantly higher across the curve. Inflation continued to tick up in both Europe and the US, with the European Consumer Price Index (CPI) breaking 10%. We are, however, starting to see some anecdotal signs of inflation cooling, including official data from specific European countries. Consumer behaviour seems to be changing, and key commodity prices and trade metrics, such as freight rates, indicate a fall in prices. We are seeing significant fiscal support packages in Europe and the first signs of energy market reform that could ease the pressure on the energy component of inflation. The impact of higher mortgage rates is also being felt, particularly in countries where borrowers tend to lock in mortgage rates for shorter periods of time. Looking ahead, an easing in inflationary data would be positive for the market, encouraging the European Central Bank (ECB) to slow the tightening of financial conditions.

EM

This was a challenging month for Emerging Markets (EM) due to the combined effects of hawkish central banks, political tensions, China's zero-COVID policy, and the increased likelihood of a global recession. Central bank activity was mostly dominated by rate hikes globally. However, unorthodox policy adopters also didn't disappoint; in Japan an unscheduled bond purchasing operation was announced in addition to the current policy of unlimited buying of 10-year duration Japanese Government Bonds (JGBs) at 25bps. This was followed by currency intervention for the first time in 24 years. The central bank of Turkey further cut rates in a continuation of its unconventional approach to the current market environment. Another outlier, Brazil's "central bank," left its benchmark lending rate unchanged this month. We note that Brazil's central bank was one of the first to cite inflationary problems and to address them by increasing interest rates and adopting an aggressive hiking cycle policy. This is now the policy solution that most global central banks are following. We expect Brazil's central bank to stay on hold until the new year, giving it time to assess the lagged effects of the hiking cycle and the results of the election in October.

OUTLOOK

Recession risks have been rising since the onset of the Russian invasion of Ukraine and the resulting rise in energy prices. Recession risk has been further exacerbated by rapidly increasing sovereign rates and by the British tax policy misstep. It is difficult for us to assess the exact probability of a recession and we are generally in-line with consensus thoughts. That being said, we have a view due to the bottom-up work of our analysts. The net result of this research is that while there are storm clouds brewing, we do not see a large and rapid rise in corporate defaults in the near future. We are repositioning into more defensive sectors, rating tiers, and maturity bands. We have also reduced cyclical sector exposure, higher quality longer duration bonds (due to their interest rate sensitivity), and lower rated issuers to reduce downgrade and credit risk. Looking ahead, we are focused on underlying credit metrics—we believe USD issuers have improved their credit metrics over the past two years, with leverage and interest coverage at their most persuasive levels in 10 years. The US consumer remains powerful. We believe a significant part of the rate moves are behind us, and we are close to reaching some stabilization. We believe that while credit spreads could move wider over the short-term and volatility is likely to remain elevated, we are also at historically attractive yields with above average spread levels, especially if we look over a longer time horizon. As we navigate this balancing act, we believe this is an attractive starting point for credit as we head into Q4 2022.

Important Information

The following indices referenced in the snapshot are ICE BofA indices:
JUC0 – ICE BofA US Cash Pay High Yield Constrained Index
JUC1 – ICE BofA BB US Cash Pay High Yield Constrained Index;
JUC2 - ICE BofA Single-B US Cash Pay High Yield Constrained Index;
JUC3 - ICE BofA CCC and Lower US Cash Pay High Yield Constrained Index;
JUC4 – ICE BofA BB-B US Cash Pay High Yield Constrained Index;
JC4N – ICE BofA BB-B US Non-Financial Cash Pay High Yield Constrained Index;
HEC0 – ICE BofA Euro High Yield Constrained Index;
HE10 – ICE BofA BB Euro High Yield Index;
HE20 – ICE BofA Single-B Euro High Yield Index;
HE30 – ICE BofA CCC & Lower Euro High Yield Index;
HEC5 – ICE BofA BB-B Euro Non-Financial High Yield Constrained Index;
C0A0 – ICE BofA US Corporate Index;
C0A1 - ICE BofA AAA US Corporate Index;
C0A2 - ICE BofA AA US Corporate Index;
C0A3 - ICE BofA Single-A US Corporate Index;
C0A4 - ICE BofA BBB US Corporate Index;
C4NF – ICE BofA BBB US Non-Financial Corporate Index;
ER00 – ICE BofA Euro Corporate Index;
ER10 – ICE BofA AAA Euro Corporate Index;
ER20 – ICE BofA AA Euro Corporate Index;
ER30 – ICE BofA Single-A Euro Corporate Index;
ER40 – ICE BofA BBB Euro Corporate Index;
EN40 - ICE BofA BBB Euro Non-Financial Index;
G4O2 – ICE BofA 7-10 Year US Treasury Index
G4L0 – ICE BofA 7-10 Year UK Gilt Index
G4D0 – ICE BofA 7-10 Year German Government Index;
EMCL – ICE BofA US Emerging Markets Liquid Corporate Plus Index.

S&P 500 - The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. DAX - The German Stock Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The equities use free float shares in the index calculation.
CS Leveraged Loan Index – The CS Leveraged Loan Index is designed to mirror the investable universe of US dollar denominated leveraged loan market. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have a minimum outstanding balance of $100 million for all facilities except TL A facilities (TL A facilities need a minimum outstanding balance of US$1 billion), issuers domiciled in developed countries, at least one year long tenor, be rated “5B” or lower, fully funded and priced by a third party vendor at month-end.
CS Western European Leveraged Loan Index – The CS Western European Leveraged Loan Index is designed to mirror the investable universe of the Western European leveraged loan market. Loans denominated in US dollar or Western European Currencies are eligible for inclusion. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have minimum outstanding balance of $100 million (in local currency), issuers with assets located in or revenues derived from Western Europe, at least one year long tenor, be rated “5B” or lower, fully funded and priced by a third party vendor at month-end.

All performance, duration, yield and spread data downloaded from Bloomberg. Markit iBoxx USD Leveraged Loan (IBOXLTRI), S&P 500 incl. Dividends, and DAX figures from Bloomberg. You cannot invest directly into an index.

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