

Key Takeaway*

- In August, global credit posted mixed returns, led by Emerging Markets (EM) and followed by US and European high yield and loans, while investment grade and governments declined
- Global markets contended with rising COVID cases due to the Delta variant this month
- The Federal Reserve (Fed) signaled an intent to reduce their stimulus measures as economic numbers demonstrated continued strength toward Fed targets. This strength is translating into strong earnings for US corporates
- Emerging Markets (EM) benefitted this month from constructive asset prices, robust company earnings, rates, and the weakening of the US dollar

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

\$344.1 million in high yield inflows, \$1.5 billion in leveraged loan retail inflows MTD (through 8.31)

HY New Issuance**	US	EUROPE	Main Market Driver*
YTD	\$364.3 bn	\$102 bn	Macro: Central Banks and Rising COVID cases
MTD	\$34.4 bn	\$1.6 bn	Micro: Positive inflows
Loan New Issuance**	US		Default Rates***
YTD	\$601.1 bn		US 3.1%
MTD	\$41.5 bn		EUR 3.7%

US & European figures through August 31

US New Issuance Names (500 mn and above) MTD*

Altice, Uber, Sirius XM Radio, Charter Communications, CommScope, NRG Energy, Stagwell Media LP, Royal Caribbean Group, Southwest Energy Company, W.R. Grace, Seaworld Entertainment, Multiplan, Hess Midstream, Bombardier Inc., Carvana Co., Pilgrim's Pride Corp, MSCI, Chemours, American Axle & Manufacturing, AdaptHealth, Wolverine World Wide, Onemain Holdings, Kennedy Wilson, Sylvamo Corp, Eldorado Gold Corp, Tallgrass Energy

US New Issuance Pipeline MTD (Announced*)

Ford Motor Credit Co, Cheniere Energy Inc, Howmet Aerospace Inc, Cooke Omega

Source: Muzinich

Market Performance % and Statistics as of 2021-08-31

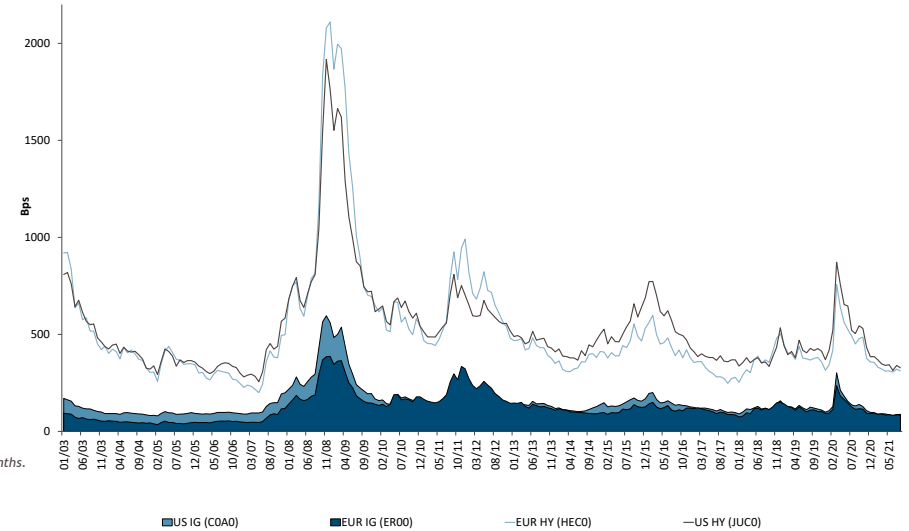
		Performance				Characteristics		
		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
High Yield								
JUC0	US HY Cash Pay Constr.	0.55	0.36	0.92	4.53	3.68	3.89	328
JC4N	US HY BB/B Non-Fncl. Constr.	0.55	0.42	0.97	3.87	3.78	3.54	292
HEC0	Euro HY Constr.	0.34	0.41	0.74	3.78	3.39	2.44	312
HEC5	Euro HY BB/B Non-Fncl. Constr.	0.29	0.44	0.73	3.29	3.42	2.24	291
Investment Grade								
COA0	US Corp Master	-0.20	1.21	1.01	-0.06	8.25	2.00	88
C4NF	US Corporate BBB Non-Financial	-0.22	1.28	1.06	0.60	8.52	2.29	111
ER00	EMU Corp	-0.41	1.16	0.75	0.31	5.30	0.22	85
EN40	EMU Corp BBB Non-Financial	-0.44	1.26	0.81	0.70	5.43	0.34	96
Governments (7-10 Yr Indices)								
G402	U.S. Treasuries 7-10 Yrs	-0.29	1.82	1.52	-1.86	7.97	1.20	0
G4L0	UK Gilts 7-10 Yrs	-0.38	1.20	0.82	-2.93	7.88	0.59	-2
G4D0	German Fed Govt 7-10 Yrs	-0.64	1.85	1.21	-0.99	8.28	-0.51	-1
Equities								
S&P	S&P 500 incl. Dividends	3.04	2.38	5.49	21.57			
DAX	DAX Index	1.87	0.09	1.96	15.43			
Loans						Yield (%)	Discount Margin	
CS Leveraged Loan Index		0.49	0.00	0.48	3.98	(3yr life) 4.13%	(3yr life) 447	
CS Western European Leveraged Loan Index		0.48	0.04	0.52	3.45	3.72%	405	

All performance, duration, yield and spread data downloaded from Bloomberg.

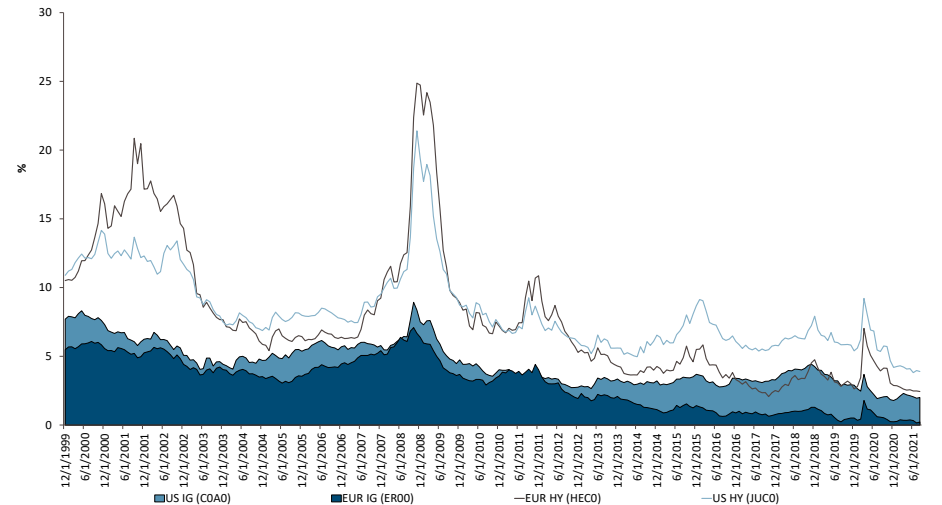
Past performance is not indicative of future results.

*Muzinich & Co. views and opinions, not to be construed as investment advice. **JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. ***Moody's Default Report

Corporate Bond Spreads (STW) by Index



Corporate Bond Yields (YTW) by Index



Corporate Bond Spreads (STW) as of 2021-08-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US/EM	COA0	IG	88	87	86	131	130
	JUC0	HY Constrained	328	340	344	504	467
	JUC4	BB/B	291	305	309	418	397
	COA1	AAA	46	46	43	69	65
US Spreads	COA2	AA	55	55	51	75	77
	COA3	A	68	68	64	95	101
	COA4	BBB	110	109	109	170	172
	JUC1	BB	235	248	255	355	320
	JUC2	B	387	403	396	532	487
	JUC3	CCC	630	620	615	1172	898
	JUC4	CCC	630	620	615	1172	898
EM Spreads	EMCL	Emerging Markets	252	269	254	356	313
	EUR						
EUR	ER00	IG	85	85	86	114	113
	HEC0	HY Constrained	312	321	312	451	421
	ER10	AAA	52	53	48	44	59
	ER20	AA	55	55	54	62	69
	ER30	A	73	72	72	92	94
	ER40	BBB	99	99	100	142	143
	HE10	BB	240	251	245	330	307
	HE20	B	418	432	405	582	527
	HE30	CCC	729	732	716	1249	1012

Credit Market Update*

US:

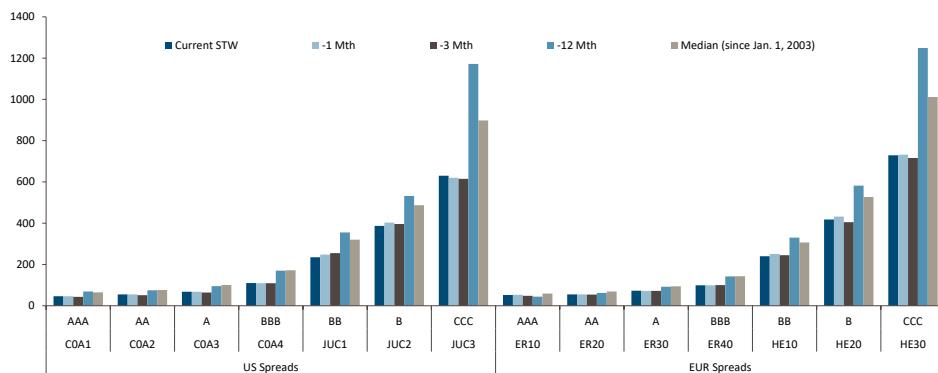
The COVID Delta variant swept through large parts of the US, with the unvaccinated bearing the bulk of the health issues and many low vaccination areas experiencing extremely high infection and hospitalization rates. Nevertheless, risk assets generally rose over the course of the month while Treasuries lagged. US fixed income returns were mixed for August with high yield and loans generating coupon-plus returns after rebounding strongly in the second half of the month and Treasuries and investment grade corporates declining. CCCs regained the rating tier lead, although overall rating dispersion was relatively tight in August. Earnings were strong and the Federal Reserve (Fed) therefore signaled an intent to reduce their stimulus measures. To a lesser degree than in prior months, reopening areas still generally beat the broader market as investors regained optimism that we will move beyond COVID Delta variant organically and through increased vaccination rates. High yield new issuance was exceptionally strong with this August being the highest August on record. There were no defaults during August, as in July, and the trailing twelve-month default rate (as a percent of par) is now 1.14%, a rate that we expect to move below 1% in the second half of 2021. The declining default rate is bullish for spread stability/tightening over an extended period.

Europe:

European market fundamentals remained positive this month as companies reported earnings that outperformed analyst expectations. Eurozone economic activity was buoyant, boosted by consumer-led sectors. European credit markets saw bifurcation in performance this month. Despite rising COVID cases, high yield produced positive returns on the back of investor confidence in the economic recovery. Meanwhile investment grade lagged, brought lower by rising Bund yields. Supply chain disruptions impacted manufacturing activity, which we believe could have a more severe effect on broader economic performance as the year progresses. Perhaps of greater concern was the continued rise in inflation with the August Harmonized Index of Consumer Prices (HICP) surprising on the upside at 3% year-over-year. As a result, the European Central Bank's discussion increased on the timing of the reduction of the Pandemic Emergency Purchase Program (PEPP), which is likely to be communicated in more detail at the September meeting.

EM:

Emerging Markets (EM) benefitted this month from constructive asset prices, robust company earnings, lagging rates, and the weakening of the US dollar. EM fixed income returns were strongly positive across the board, with high yield leading investment grade returns. Central banks have emerged as slightly less dovish, with both the Federal Reserve (Fed) and the European Central Bank (ECB) indicating intent to reduce stimulus measures and EM central banks starting to normalize monetary policy. Chinese manufacturing activity slowed this month as the country struggled to contain a recent outbreak. The Turkish economy continued to see a credit-fueled rebound, prompting some fears of rising inflation. Brazil's annual growth estimate was downgraded on the heels of a drought and a looming election ahead; surging inflation and interest rates may threaten the country's post-pandemic recovery.



Disclaimer

The following indices referenced in the snapshot are BofA Merrill Lynch indices. BofA Merrill Lynch data downloaded from Bloomberg: JUC0 - BofA ML U.S. High Yield, Cash Pay, Constrained Index; JUC1 - BofA ML U.S. High Yield, Cash Pay, BB Rated, Constrained Index; JUC2 - BofA ML U.S. High Yield, Cash Pay, B Rated Constrained Index; JUC3 - BofA ML U.S. High Yield, Cash Pay, CCC and Lower Constrained Index; JUC4 - BofA ML U.S. High Yield, Cash Pay, BB/B Rated Constrained Index; JUC4N - BofA ML BB/B U.S. Non-Financial, Cash Pay, High Yield Constrained Index; HEC0 - BofA ML Euro High Yield Constrained Index; HE10 - BofA ML Euro High Yield, BB Rated; HE20 - BofA ML Euro High Yield, B Rated; HE30 - BofA ML Euro High Yield, CCC and Lower Rated; HEC5 - BofA ML BB/B Euro Non-Financial High Yield Constrained Index; COA0 - BofA ML U.S. Corporate Master; COA1 - BofA ML U.S. Corporates, AAA Rated; COA2 - BofA ML U.S. Corporates, AA Rated; COA3 - BofA ML U.S. Corporates, A Rated; COA4 - BofA ML U.S. Corporates, BBB Rated; C4NF - BofA ML BBB U.S. Corporate Non-Financial Index; ER00 - BofA ML EMU Corporate Index; ER10 - BofA ML EMU Corporates, AAA Rated; ER20 - BofA ML EMU Corporates, AA Rated; ER30 - BofA ML EMU Corporates, A Rated; ER40 - BofA ML EMU Corporates, BBB Rated; EN40 - BofA ML EMU Corporates, Non-Financial, BBB Rated; G4O2 - BofA ML U.S. Treasuries, 7 - 10 Yrs; G4L0 - BofA ML UK Gilts 7 - 10 Yrs; G4D0 - BofA ML German Federal Governments, 7 - 10 Yrs. 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. EMCL - The ICE BofA ML US Emerging Markets Liquid Corporate Plus Index tracks the performance of the U.S. dollar denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets. Qualifying issuers must have risk exposure to countries other than members of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. 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 \$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.

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