# Muzinich & Co. Corporate Credit Snapshot

Muzinich & Co

31 May 2022

## Key Takeaway*

- Global credit markets delivered mixed returns. Following a sharp rally during the last week of the month, HY locked in its first positive week of the last seven weeks, and more importantly unwound all of the month's prior losses to deliver its first positive month of the year
- US Interest rates declined modestly (primarily in the 2-10 year duration timeframe) given the expectation that the Federal Reserve (Fed) might not be able to meaningfully raise interest rates due to a potential slowdown in growth. This stabilization/rally in rates also contributed to positive credit performances
- Continued concerns about rising inflation and hawkish communication by the European Central Bank (ECB) demonstrated an intent to play catch-up on interest rate normalizations
- In China, signs of economic weakness have led to a loosening of policy aimed at countering the negative effects of the region's COVID lockdowns and inflationary bottlenecks

## High Yield and Leveraged Loan Technicals

**US Retail Fund Flows****

$3.6 billion in high yield outflows, $2.8 billion in leveraged loan retail outflows MTD (through 05.31)

| | US | EUROPE | |
|---|---|---|---|
| **HY New Issuance**** | US | EUROPE | **Main Market Driver*** |
| YTD | $61.3 bn | $15.3 bn | Macro: Rates |
| MTD | $4.0 bn | $1.0 bn | Micro: Low new issuance |
| **Loan New Issuance**** | US | | **Default Rates***** US EUR |
| YTD | $164.7 bn | | LTM 1.3% 1.7% |
| MTD | $17.3 bn | | |

*US & European figures through May 31*

*Default rates are dollar weighted. Through 04.30.22. Trailing 12 months.*

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

Frontier Communications, Carnival Corp

**US New Issuance Pipeline MTD (Announced*)**

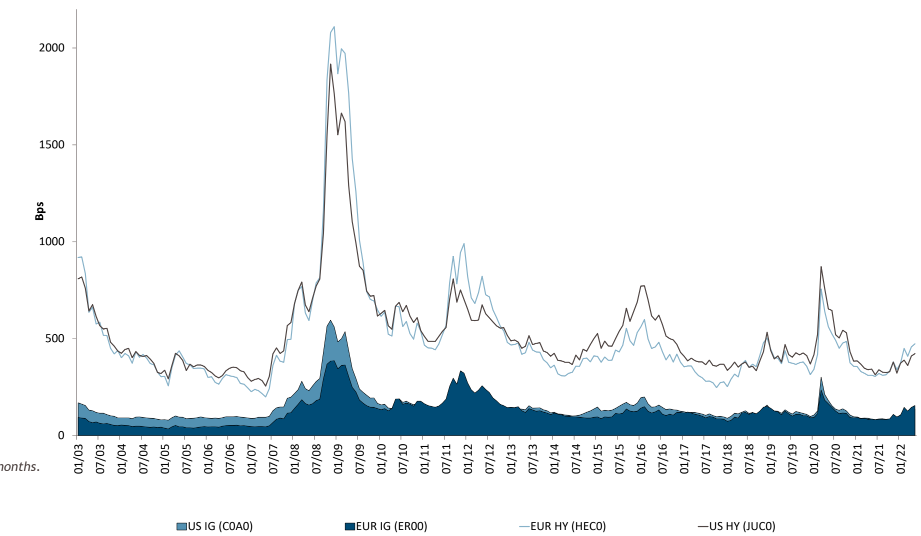
*Source: Muzinich*

## Market Performance % and Statistics as of 2022-05-31

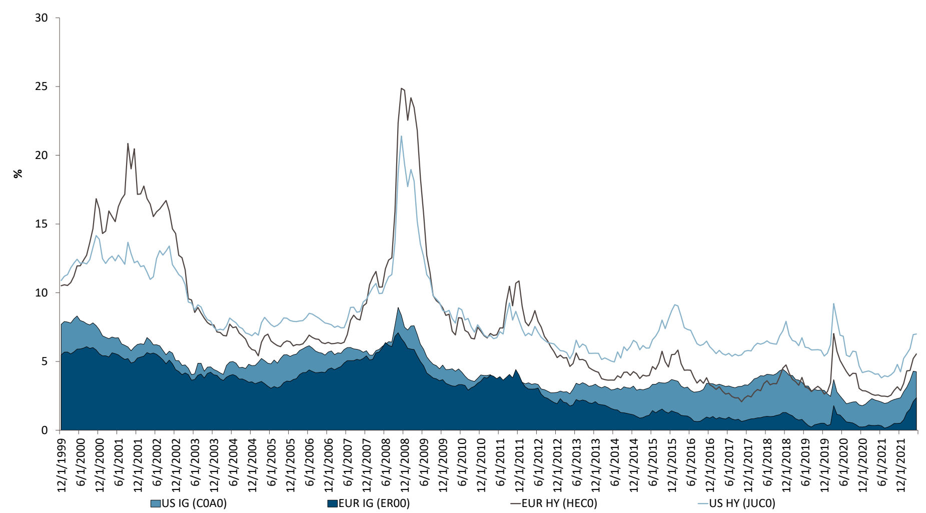
| | | Performance | | | | Characteristics | | |
|---|---|---|---|---|---|---|---|---|
| **High Yield** | | **MTD** | **Pr.Mth** | **QTD** | **YTD** | **DTW** | **YTW** | **STW** |
| JUC0 | US HY Cash Pay Constr. | 0.29 | -3.64 | -3.36 | -7.71 | 4.56 | 7.00 | 423 |
| JC4N | US HY BB/B Non-Fncl. Constr. | 0.66 | -3.57 | -2.93 | -7.29 | 4.66 | 6.45 | 368 |
| HEC0 | Euro HY Constr. | -1.25 | -2.87 | -4.09 | -8.72 | 3.61 | 5.55 | 474 |
| HEC5 | Euro HY BB/B Non-Fncl. Constr. | -1.25 | -3.11 | -4.32 | -8.68 | 3.70 | 5.22 | 441 |
| **Investment Grade** | | | | | | | | |
| C0A0 | US Corp Master | 0.54 | -4.97 | -4.46 | -11.86 | 7.42 | 4.26 | 138 |
| C4NF | US Corporate BBB Non-Financial | 0.45 | -5.44 | -5.01 | -13.08 | 7.74 | 4.61 | 172 |
| ER00 | EMU Corp | -1.29 | -2.77 | -4.02 | -9.07 | 4.93 | 2.36 | 156 |
| EN40 | EMU Corp BBB Non-Financial | -1.60 | -2.90 | -4.45 | -10.33 | 5.05 | 2.63 | 181 |
| **Governments (7-10 Yr Indices)** | | | | | | | | |
| G4O2 | U.S. Treasuries 7-10 Yrs | 0.67 | -4.04 | -3.40 | -9.66 | 7.89 | 2.84 | 5 |
| G4L0 | UK Gilts 7-10 Yrs | -1.02 | -2.11 | -3.11 | -7.53 | 7.81 | 1.97 | -3 |
| G4D0 | German Fed Govt 7-10 Yrs | -1.40 | -2.99 | -4.35 | -9.88 | 8.04 | 1.03 | 0 |
| **Equities** | | | | | | | | |
| S&P | S&P 500 incl. Dividends | 0.18 | -8.72 | -8.55 | -12.76 | | | |
| DAX | DAX Index | 2.06 | -2.20 | -0.18 | -9.42 | **Yield (%)** | **Discount Margin** | |
| **Loans** | | | | | | (3yr life) | bps (3yr life) | |
| CS Leveraged Loan Index | | -2.51 | 0.17 | -2.34 | -2.44 | 5.10% | 563 | |
| CS Western European Leveraged Loan Index | | -2.44 | -0.13 | -2.57 | -3.09 | 4.32% | 574 | |

*All performance, duration, yield and spread data downloaded from Bloomberg.*
*Past performance is not indicative of future results.*

## Corporate Bond Spreads (STW) by Index




## Corporate Bond Yields (YTW) by Index




**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*

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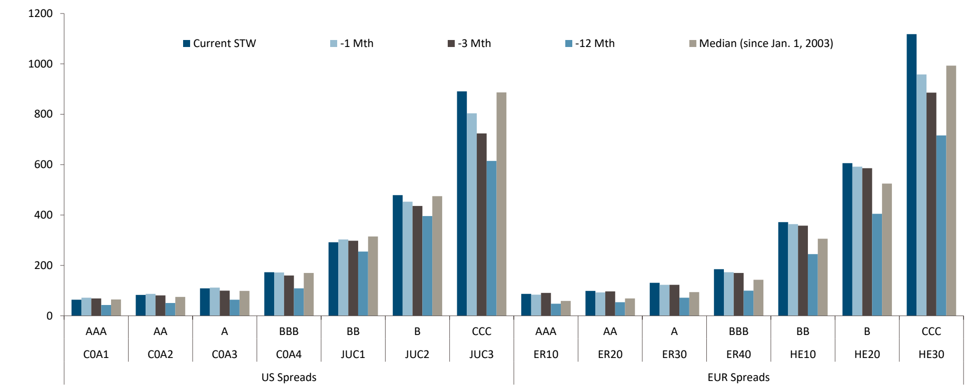
## Corporate Bond Spreads (STW) as of 2022-05-31

| US/EM | Index | Rating | Current STW | -1 Mth | -3 Mth | -12 Mth | Median (since Jan. 1, 2003) |
|---|---|---|---|---|---|---|---|
| | C0A0 | IG | 138 | 139 | 128 | 86 | 129 |
| | JUC0 | HY Constrained | 423 | 411 | 390 | 344 | 453 |
| | JUC4 | BB/B | 369 | 365 | 352 | 309 | 386 |
| US Spreads | C0A1 | AAA | 64 | 72 | 69 | 43 | 65 |
| | C0A2 | AA | 83 | 87 | 81 | 51 | 75 |
| | C0A3 | A | 109 | 112 | 100 | 64 | 99 |
| | C0A4 | BBB | 173 | 172 | 160 | 109 | 170 |
| | JUC1 | BB | 292 | 303 | 298 | 255 | 315 |
| | JUC2 | B | 479 | 453 | 436 | 396 | 475 |
| | JUC3 | CCC | 891 | 804 | 724 | 615 | 887 |
| EM Spreads | EMCL | Emerging Markets | 312 | 292 | 354 | 254 | 308 |
| **EUR** | | | | | | | |
| | ER00 | IG | 156 | 146 | 146 | 86 | 112 |
| | HEC0 | HY Constrained | 474 | 458 | 450 | 312 | 419 |
| EUR Spreads | ER10 | AAA | 87 | 84 | 91 | 48 | 59 |
| | ER20 | AA | 99 | 93 | 97 | 54 | 69 |
| | ER30 | A | 131 | 123 | 123 | 72 | 94 |
| | ER40 | BBB | 185 | 173 | 170 | 100 | 143 |
| | HE10 | BB | 372 | 364 | 358 | 245 | 306 |
| | HE20 | B | 606 | 592 | 586 | 405 | 525 |
| | HE30 | CCC | 1118 | 958 | 886 | 716 | 993 |




## Credit Market Update*

US:

US fixed income ended the month with positive returns in high yield (HY), investment grade (IG), and Treasuries. Loans declined reflecting reduced demand for floating rate product as rates moved lower. Following a sharp rally during the last week of the month, HY locked in its first positive week of the last seven weeks, and more importantly unwound all of the month's prior losses to deliver its first positive month of the year. Interest rates declined modestly (primarily in the 2-10 year duration timeframe) given the expectation that the Federal Reserve (Fed) might not be able to meaningfully raise interest rates due to a potential slowdown in growth. This stabilization/rally in rates also contributed to positive credit performance. Economic data from home sales to durable goods to consumer sentiment all pointed to a slowdown, driving Treasury rates lower. With rates seemingly capped for the month, we have seen some renewed interest in US investment grade. However, liquidity in the market remained low through month-end, which exacerbated spread moves. Similarly, more stable Treasuries led HY investors to assess that spread and yield levels presented an attractive level for capital deployment — or perhaps to cover HY shorts. This is consistent with points we have made recently concerning what we believe to be attractive, low dollar price, higher quality issues, and the potential for positive future returns given absolute yields and still low default expectations. Within HY there was a clear shift to higher quality, with BBs outperforming. Moreover, at the sector level, non-cyclicals led performance (e.g., utilities, telecommunications, and food retail), while cyclicals lagged (e.g., super retail, media, and leisure).

Europe:

For European fixed income it was a month of two narratives; spreads in high yield (HY) and investment grade (IG) widened for the first three weeks of the month only to rapidly rally in the final week of May. Returns for the month were slightly negative across HY and IG, with government bonds and European loans also declining. Spreads tightened at the end of the month driven by rate stabilization, re-tracing much of the widening earlier in May despite some weak economic data (including PMIs), that the market ignored. However, continued concerns about rising inflation and hawkish communication by the European Central Bank (ECB) demonstrated an intent to play catch-up on interest rate normalization. ECB President Lagarde stated that the eurozone "will be out of negative rates before the end of Q3" (May 2022). This was further supported by several ECB members who have said that a half point rate hike remains on the table. A major contributor to the ECB's fight to anchor inflation expectations has been the Euro which continues to depreciate against the US dollar. As the end of the ECB's bond buying program comes into focus, investors continue to speculate on what further actions the central bank might take to curb inflation and prevent the funding costs across Eurozone sovereigns from drifting too far apart as economic conditions vary in individual countries.

EM:

Emerging Markets (EM) weathered a challenging first three weeks of the month before generating positive performance in the final week of May. Returns were slightly negative for the month for corporate credit. Spreads tightened at month-end driven by a rally in the US in which rates re-traced much of their early May widening. In China, signs of economic weakness have led to a loosening of policy aimed at countering the negative effects of the region's COVID lockdowns and inflationary bottlenecks. Shanghai re-opened at the end of the month after some of the most extensive lockdown measures in China were loosened; an uptick in consumer spending is anticipated although the country's zero-COVID policy remains in effect.

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