Muzinich & Co. Corporate Credit Snapshot

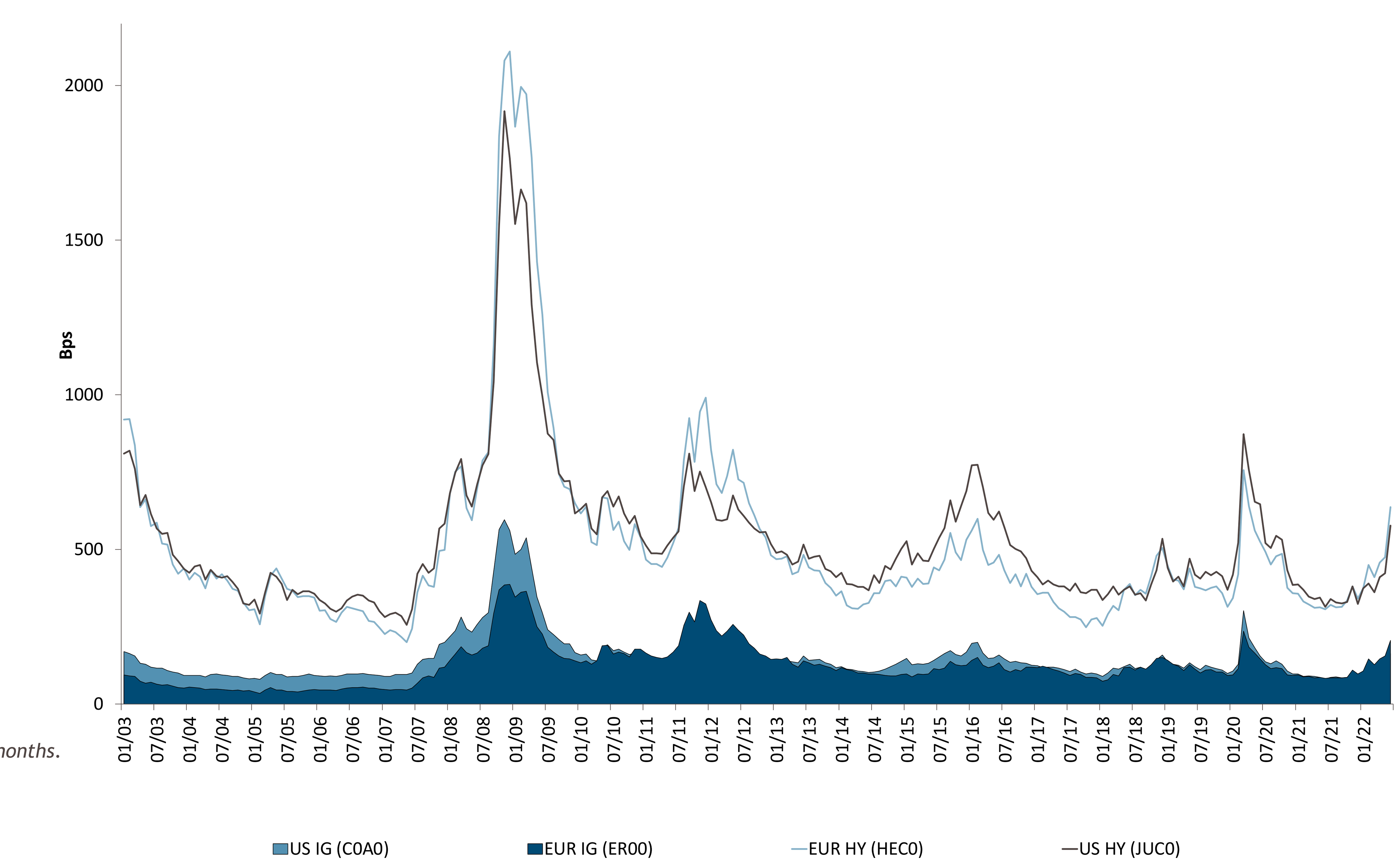
Muzinich & Co

30 June 2022

Key Takeaway*

- Global credit markets weathered a particularly challenging month, with negative returns across the asset classes as spreads widened and the market anticipated slower growth and possible recession
- In the US, economic indicators (including consumer confidence, personal spending, etc.) came in worse than expected, sending investors to speculate on when the Federal Reserve (Fed) might have to stop increasing rates (if not cut them) to support the economy
- In Europe, assets also re-priced on the back of inflation and gas shortage fears
- In EM, as we look for some return of confidence in the market, we look to Asia where regional growth engines may benefit from policy stimulus in China and Japan, combined with domestic spending from pent-up savings following the COVID-19 Omicron wave. Rising activity in Asia could also help to unblock supply chain bottlenecks, one of the causes of excessive inflation

Corporate Bond Spreads (STW) by Index



High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

$7.4 billion in high yield outflows, $4.1 billion in leveraged loan retail outflows MTD (through 06.30)

	US	EUROPE
HY New Issuance**		
YTD	$71.0 bn	$19.6 bn
MTD	$9.7 bn	$1.2 bn
Loan New Issuance**	US	
YTD	$181.0 bn	
MTD	$16.3 bn	

US & European figures through June 30

Main Market Driver*

Macro: Slower Growth and Recession Concerns

Micro: Outflows

Default Rates***	US	EUR
LTM	1.4%	1.9%

Default rates are dollar weighted. Through 05.31.22.Trailing 12 months.

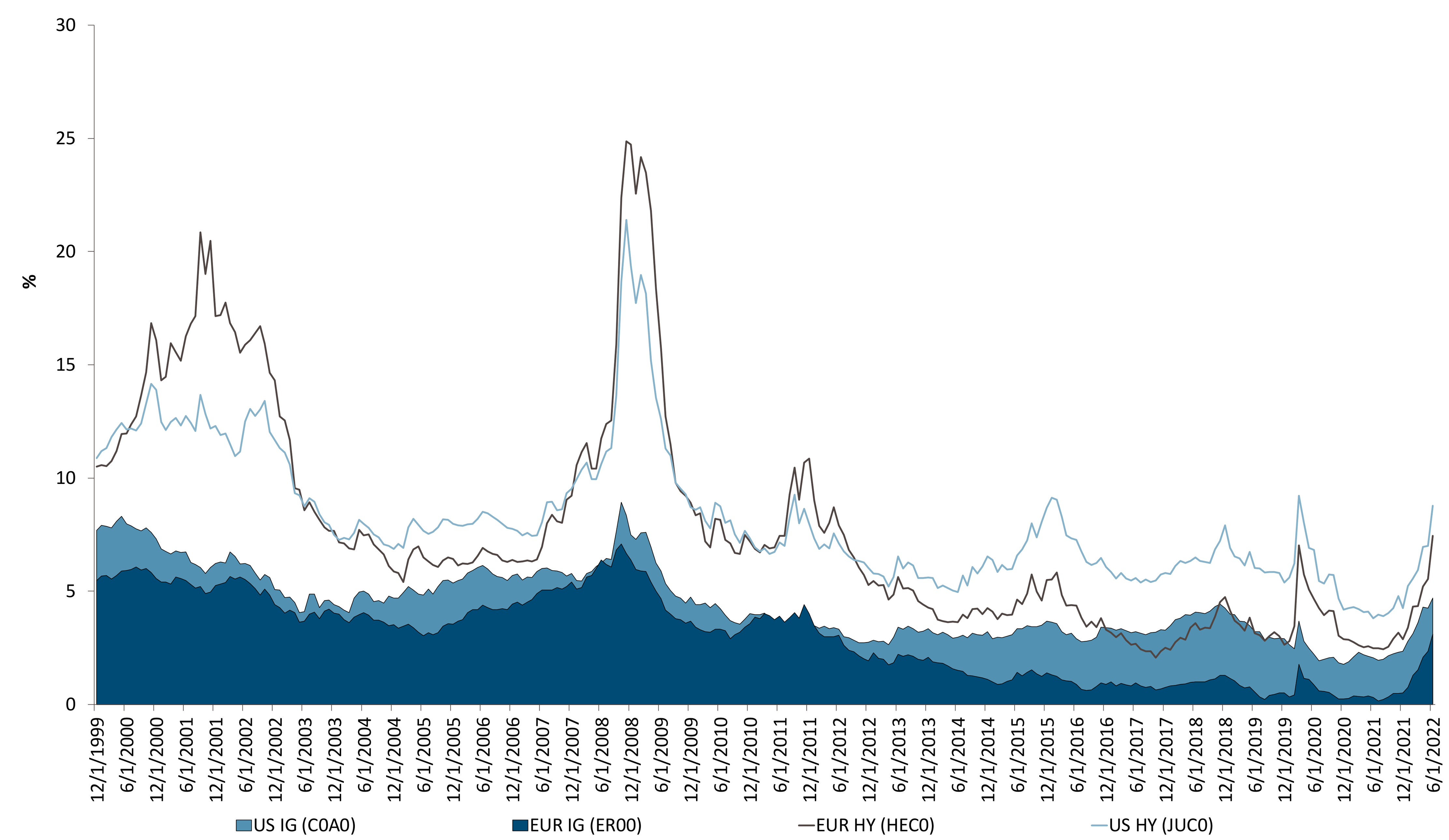
US New Issuance Names (500 mn and above) MTD*

Builders Firstsource, Tenet Healthcare Corp, Kinetik Holdings, Ardagh Metal Packaging, Advanced Drainage Systems, Univision Communications, Maxar Technologies Inc., Callon Petroleum, CDK Global, Entegris Inc

US New Issuance Pipeline MTD (Announced*)

Source: Muzinich

Corporate Bond Yields (YTW) by Index



Market Performance % and Statistics as of 2022-06-30

		Performance				Characteristics		
High Yield		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
JUC0	US HY Cash Pay Constr.	-6.80	0.29	-9.93	-13.99	4.57	8.78	577
JC4N	US HY BB/B Non-Fncl. Constr.	-6.72	0.66	-9.46	-13.52	4.69	8.16	515
HEC0	Euro HY Constr.	-7.01	-1.25	-10.81	-15.11	3.49	7.46	636
HEC5	Euro HY BB/B Non-Fncl. Constr.	-7.40	-1.25	-11.40	-15.43	3.58	7.18	609
Investment Grade								
C0A0	US Corp Master	-2.35	0.54	-6.71	-13.93	7.29	4.71	163
C4NF	US Corporate BBB Non-Financial	-2.79	0.45	-7.67	-15.51	7.57	5.10	202
ER00	EMU Corp	-3.43	-1.29	-7.31	-12.19	4.81	3.10	205
EN40	EMU Corp BBB Non-Financial	-3.96	-1.60	-8.24	-13.89	4.90	3.47	240
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	-0.83	0.67	-4.19	-10.41	7.87	2.98	4
G4L0	UK Gilts 7-10 Yrs	-0.99	-1.02	-4.07	-8.45	7.85	2.15	-4
G4D0	German Fed Govt 7-10 Yrs	-1.67	-1.40	-5.94	-11.39	7.96	1.25	0
Equities								
S&P	S&P 500 incl. Dividends	-8.26	0.18	-16.11	-19.97			
DAX	DAX Index	-11.15	2.06	-11.31	-19.52	Yield (%)	Discount Margin	
Loans						(3yr life)	bps (3yr life)	
CS Leveraged Loan Index		-2.06	-2.51	-4.35	-4.45	5.53%	658	
CS Western European Leveraged Loan Index		-3.80	-2.44	-6.28	-6.78	4.60%	725	

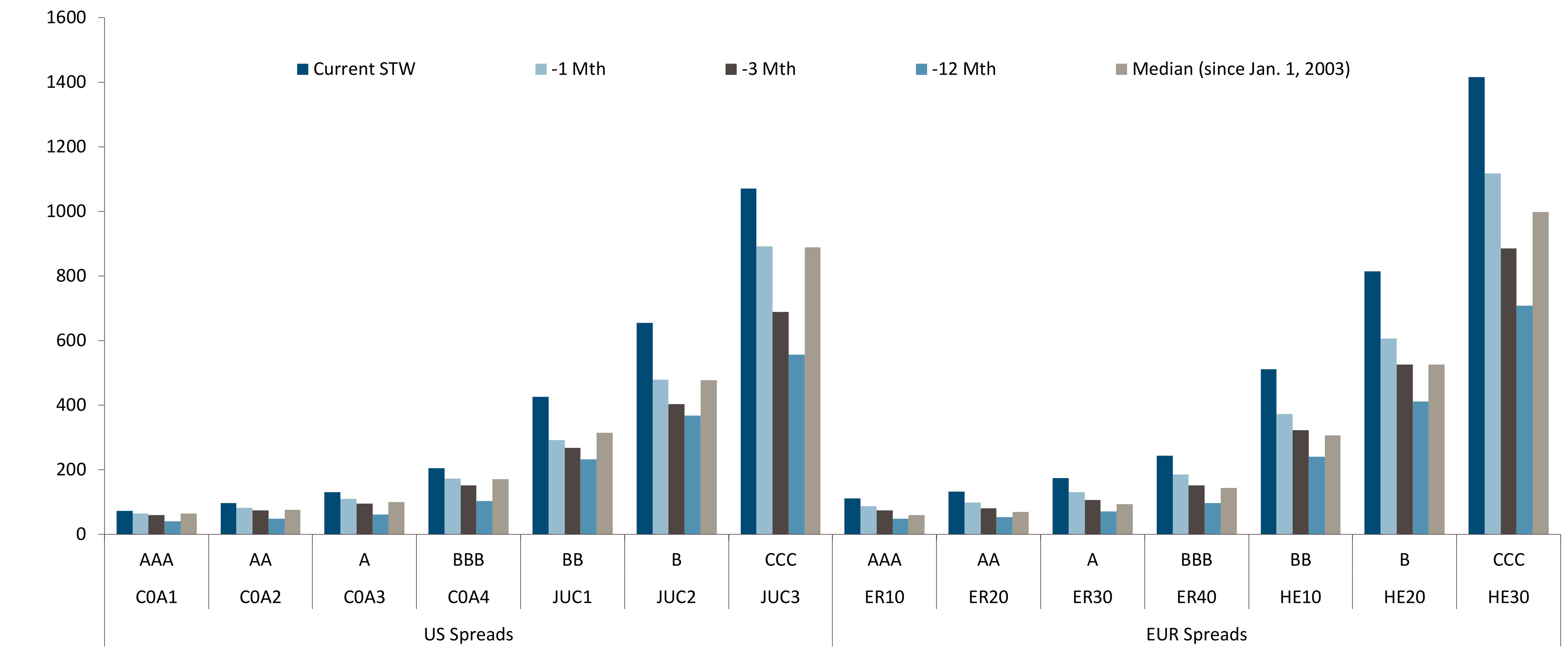
All performance, duration, yield and spread data downloaded from Bloomberg.
Past performance is not indicative of future results.

**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*

2022-07-07-8946

Corporate Bond Spreads (STW) as of 2022-06-30

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
	C0A0	IG	163	138	121	82	129
	JUC0	HY Constrained	577	423	362	314	457
	JUC4	BB/B	518	369	324	283	388
US Spreads	C0A1	AAA	72	64	60	41	65
	C0A2	AA	97	83	75	49	76
	C0A3	A	130	109	96	62	100
	C0A4	BBB	205	173	151	104	171
	JUC1	BB	426	292	267	233	315
	JUC2	B	654	479	404	368	477
	JUC3	CCC	1070	891	688	556	889
EM Spreads	EMCL	Emerging Markets	369	312	288	249	309
EUR							
	ER00	IG	205	156	127	83	113
	HEC0	HY Constrained	636	474	410	306	420
EUR Spreads	ER10	AAA	112	87	74	49	59
	ER20	AA	132	99	80	53	69
	ER30	A	174	131	107	71	94
	ER40	BBB	244	185	151	97	143
	HE10	BB	511	372	323	240	307
	HE20	B	815	606	525	411	526
	HE30	CCC	1416	1118	885	708	998



Credit Market Update*

US:

US fixed income weathered a particularly challenging month, with negative returns across the asset classes as spreads widened and the market anticipated slower growth and possible recession. US markets ended the month in risk-off mode as liquidity dried up heading into a holiday weekend and economic signals and earnings revisions pointed more definitively toward a slowdown. Economic indicators (including consumer confidence, personal spending, etc.) came in worse than expected, sending investors to speculate on when the Federal Reserve (Fed) might have to stop increasing rates (if not cut them) to support the economy. Treasuries rallied at the close of the month (prices up; yields down), ending June nearly where they started. Critically, the current dampened economic sentiment should keep a lid on rates which are generally flat (other than at the short end) over the last couple of months. Commodities are well off their highs and inflation expectations have subsided dramatically.

Europe:

European fixed income delivered negative returns for the month as spreads widened and the market anticipated slower growth and possible recession. Assets also re-priced on the back of inflation and gas shortage fears. With concerns about a lack of gas from Russia in the second half of the year, investor sentiment remains muted and the question of “what will central banks be able to do?” remains. It seems likely the market will continue to wait through the summer. Investment grade bonds did get a slight lift during the month as rates started to fall, with investors doubting that the ECB can deliver on the previously anticipated hikes. Some news about the proposed anti-fragmentation tool (AFT) to support peripheral sovereign spreads will likely be needed for the market to refocus on significantly higher rates in Europe.

EM:

Emerging Markets (EM) delivered negative returns as spreads widened and economic signals and earnings revisions pointed towards slowing growth and possible global recession. In the US, economic indicators (including consumer confidence, personal spending, etc.) came in worse than expected, sending investors to speculate on when the Federal Reserve (Fed) might have to stop increasing rates (if not cut them) to support the economy. Industrial commodities moved lower in price, towards a more stable level. Oil prices peaked in March and closed lower in price for June compared to May with global authorities prioritizing energy price stability at the consumer level. As we look for some return of confidence in the market, we look to Asia where regional growth engines may benefit from policy stimulus in China and Japan, combined with domestic spending from pent-up savings following the COVID-19 Omicron wave. The preliminary Chinese home sales data for June rose significantly as a positive indicator of economic rebound. Reduced quarantine restrictions and the prohibition against use of the national social medical insurance to fund testing suggests that mass lockdowns in China are less likely looking ahead. Rising activity in Asia could also help to unblock supply chain bottlenecks, one of the causes of excessive inflation.

*Muzinich & Co. views and opinions, not to be construed as investment advice.

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; JC4N – 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; C0A0 – BofA ML U.S. Corporate Master; C0A1 - BofA ML U.S. Corporates, AAA Rated; C0A2 - BofA ML U.S. Corporates, AA Rated; C0A3 - BofA ML U.S. Corporates, A Rated; C0A4 - 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.

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. The content of this document is for information purposes and is directed at institutional, professional and sophisticated investors able to understand and accept the risks involved. It has been prepared using publicly available information, internally developed data and other sources believed to be reliable. It does not constitute an offer or solicitation to any person in any jurisdiction to purchase or sell any investment, nor does it constitute investment advice. The material in this document is directed only at entities or persons in jurisdictions or countries where access to and use of this information is not contrary to local laws or regulations. The views expressed and the information contained in this document may be subject to change at any time without notice. Opinions and statements of financial market trends that are based on market conditions constitute our judgment and are subject to change without notice. Historic market trends are not reliable indicators of actual future market behavior. This document is intended for the sole use of the intended recipients and its content may not be copied, published or otherwise distributed. Muzinich does not warranty this information, and does not accept liability of any type for actions taken or not taken as a result of this information. Past performance is not indicative of future performance. Investments are impacted by market conditions. Historic market trends are not reliable indicators of actual future market behavior. You cannot invest directly into an index. Issued in the European Union by Muzinich & Co. (Ireland) Limited, which is authorized and regulated by the Central Bank of Ireland. Company registration No. 307511. Registered address: 32 Molesworth Street, Dublin 2, D02 Y512, Ireland. Issued in Switzerland by Muzinich & Co. (Switzerland) AG. Registered in Switzerland No. CHE-389.422.108. Registered address: Tödistrasse 5, 8002 Zurich, Switzerland. Issued in Singapore and Hong Kong by Muzinich & Co. (Singapore) Pte. Limited, which is licensed and regulated by the Monetary Authority of Singapore. Registered in Singapore No. 201624477K. Registered address: 6 Battery Road, #26-05, Singapore, 049909. Issued in all other jurisdictions (excluding the U.S.) by Muzinich & Co. Limited. which is authorized and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ, United Kingdom.. All Muzinich entities referred to above are subsidiaries of Muzinich & Co., Inc. Muzinich & Co., Inc. is a registered investment adviser with the Securities and Exchange Commission. Muzinich & Co., Inc.’s being a registered investment adviser with the Securities Exchange Commission (SEC) in no way shall imply a certain level of skill or training or any authorization or approval by the SEC.