

Key Takeaway*

- In a healthy reversal from June, global credit markets ended the month of July with positive returns across the asset classes. Spreads tightened significantly in HY and less so in investment grade (IG)
- Although economic data showed generally softening trends, the market seemed to shrug off weaker data points, responding instead to the Federal Reserve's (Fed's) rate hike in-line with expectations, and rallying on the seeming willingness of the Fed to pivot on incoming data
- In Europe, the European Central Bank (ECB) increased key interest rates by 50 bps (basis points) on 21 July and dropped the use of forward guidance for now. The shift to a meeting-by-meeting approach reflects ongoing challenges such as inflationary pressure, energy supply insecurity, political instability in various countries, and a weakening currency
- In EM, risk sentiment improved as central banks toned down their hawkish commentary, Russian gas flowed to Europe, and China looked to open a property development fund

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

\$4.0 billion in high yield inflows, \$3.7 billion in leveraged loan retail outflows MTD (through 07.31)

HY New Issuance**	US	EUROPE	Main Market Driver*
YTD	\$72.9 bn	\$21.4 bn	Macro: Risk-on
MTD	\$1.8 bn	\$1.4 bn	Micro: Mixed flows
Loan New Issuance**	US		Default Rates***
YTD	\$184.5 bn		US 1.4%
MTD	\$3.5 bn		EUR 1.7%

US & European figures through July 31

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

Avient Corp, Cornerstone

US New Issuance Pipeline MTD (Announced*)

Source: Muzinich

Market Performance % and Statistics as of 2022-07-31

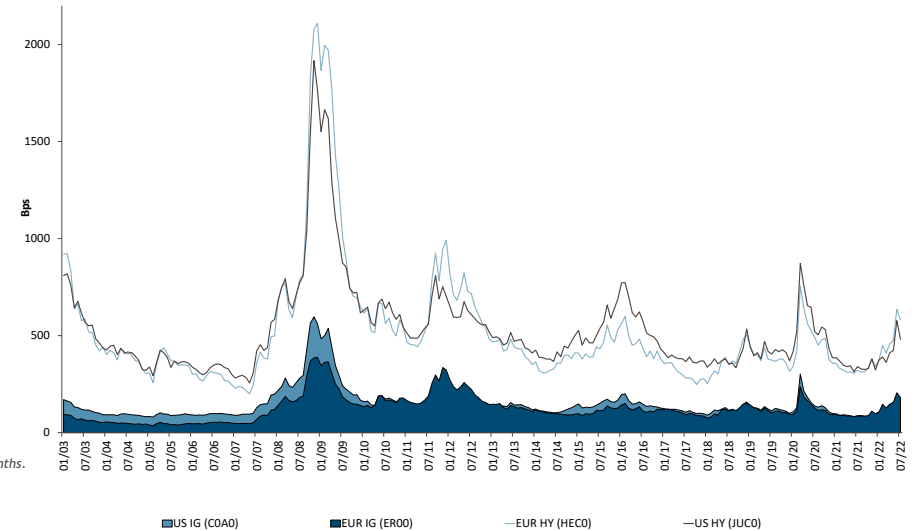
		Performance				Characteristics		
		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
High Yield								
JUC0	US HY Cash Pay Constr.	6.03	-6.80	6.03	-8.80	4.51	7.58	481
JC4N	US HY BB/B Non-Fncl. Constr.	6.24	-6.72	6.24	-8.13	4.62	6.94	420
HEC0	Euro HY Constr.	5.07	-7.01	5.07	-10.81	3.50	6.34	580
HEC5	Euro HY BB/B Non-Fncl. Constr.	5.73	-7.40	5.73	-10.58	3.60	5.98	544
Investment Grade								
COA0	US Corp Master	2.95	-2.35	2.95	-11.39	7.39	4.39	154
C4NF	US Corporate BBB Non-Financial	3.26	-2.79	3.26	-12.75	7.67	4.73	188
ER00	EMU Corp	4.65	-3.43	4.65	-8.10	4.92	2.33	181
EN40	EMU Corp BBB Non-Financial	4.86	-3.96	4.86	-9.70	4.98	2.65	212
Governments (7-10 Yr Indices)								
G402	U.S. Treasuries 7-10 Yrs	2.96	-0.83	2.96	-7.76	7.83	2.63	5
G4L0	UK Gilts 7-10 Yrs	3.19	-0.99	3.19	-5.52	7.82	1.77	-4
G4D0	German Fed Govt 7-10 Yrs	4.85	-1.67	4.85	-7.09	7.94	0.67	0
Equities								
S&P	S&P 500 incl. Dividends	9.22	-8.26	9.22	-12.59			
DAX	DAX Index	5.48	-11.15	5.48	-15.11			
Loans						Yield (%)	Discount Margin	
CS Leveraged Loan Index		1.87	-2.06	1.87	-2.66	(3yr life)	bps (3yr life)	
CS Western European Leveraged Loan Index		2.37	-3.80	2.37	-4.57	6.06%	602	
						4.76%	651	

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

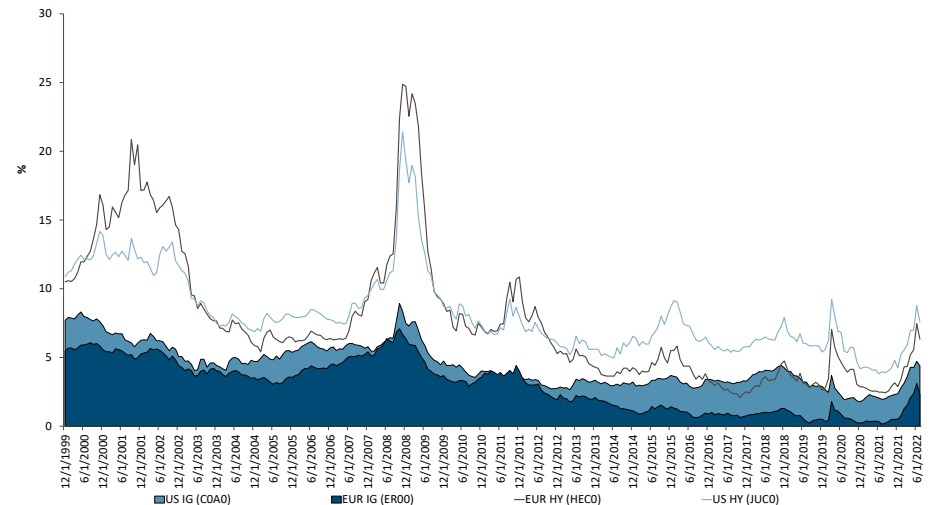
Past performance is not indicative of future results.

*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

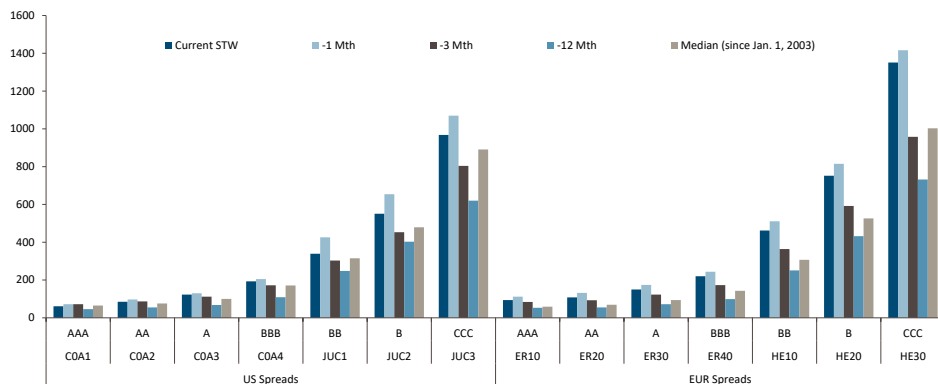


Corporate Bond Yields (YTW) by Index



Corporate Bond Spreads (STW) as of 2022-07-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US Spreads	COA0	IG	154	163	139	87	129
	JUC0	HY Constrained	481	577	411	340	461
	JUC4	BB/B	424	518	365	305	390
	COA1	AAA	61	72	72	46	65
EM Spreads	COA2	AA	85	97	87	55	76
	COA3	A	123	130	112	68	100
	COA4	BBB	193	205	172	109	171
	JUC1	BB	339	426	303	248	315
	JUC2	B	551	654	453	403	479
	JUC3	CCC	968	1070	804	620	891
	EMCL	Emerging Markets	366	369	292	269	310
EUR	ER00	IG	181	205	146	85	113
	HEC0	HY Constrained	580	636	458	321	420
	ER10	AAA	94	112	84	53	59
	ER20	AA	108	132	93	55	69
	ER30	A	150	174	123	72	94
	ER40	BBB	220	244	173	99	143
	HE10	BB	462	511	364	251	307
	HE20	B	752	815	592	432	526
	HE30	CCC	1351	1416	958	732	1003



Credit Market Update*

US:

In a healthy reversal from June, US fixed income ended the month of July with positive returns across the asset classes. High yield (HY) led the risk asset rally as all rating tiers moved higher led by the duration sensitive BB tier. Spreads tightened significantly in HY and less so in investment grade (IG). Although economic data showed generally softening trends, the market seemed to shrug off weaker data points, responding instead to the Federal Reserve's (Fed's) rate hike in-line with expectations, and rallying on the seeming willingness of the Fed to pivot on incoming data. The markets entered earnings season with very low expectations due to various macro considerations including inflation, Fed policy, recession fears, the Ukraine war, and a strong dollar. However, at the midpoint of earnings season, we have found many companies have reported better results than expected. Inflation continues to present an issue, but in our view, industries are learning to manage, and many still have the ability to pass along cost increases. Balance sheets appear in good shape with limited stress and capital allocation policies seem reasonable. While systemic and idiosyncratic factors can change industries, we are seeing that most consumers outside the lower end are in decent shape at this point due to the jobs situation, allowing us to end July with very strong performance across risk assets.

Europe:

In a healthy reversal from June, European fixed income ended the month of July with positive returns across the asset classes. The European Central Bank (ECB) increased key interest rates by 50 bps (basis points) and dropped the use of forward guidance for now. The shift to a meeting-by-meeting approach reflects ongoing challenges such as inflationary pressure, energy supply insecurity, political instability in various countries, and a weakening currency. Survey data throughout the Eurozone continue to confirm investors believe recession, not inflation, is now the larger risk. However, with recessionary risk already arguably priced in, and with rates heading lower, investor confidence has improved, and flows have stabilized. In our view current entry points remain historically attractive. Unsurprisingly, lower overall market liquidity, combined with significant headlines, contributed to volatility. This month the ECB also announced its new tool, the Transmission Protection Instrument (TPI). The first test may come sooner than expected, as Mario Draghi resigned as Italy's prime minister, throwing the country into political uncertainty, and putting it on course for an election in early October.

EM:

Emerging Markets (EM) generated positive performance in July, both in high yield (HY) and investment grade (IG). EM benefitted from spread tightening in the US as the market looked beyond generally softening economic trends and shrugged off weaker data points. Risk sentiment improved as central banks toned down their hawkish commentary, Russian gas flowed to Europe, and China looked to open a property development fund. This continued to be a challenging month for Chinese credit—press coverage centered around homebuyers threatening to stop mortgage payments to developers that had stopped or slowed construction. The Chinese regulators stated their intention to help deliver property projects, but confidence was further dampened by a rise in COVID cases in Shanghai. The consequences of the previous lockdown are obvious with Q2 Gross Domestic Product (GDP) reported below expectations. On the positive side, Shanghai avoided a lockdown and economic data reported from the previous month remained strong; credit growth, trade, and retail sales all came in above-consensus and point in the direction of economic-acceleration from Q2's low growth levels.

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, 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; G402 - 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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