

Key Takeaway*

- Global fixed income markets were challenged by inflationary pressures, equity market volatility, and geopolitical concerns
- In the US, duration-sensitive credit in particular contended with Treasury rates which increased on the back of Federal Reserve (Fed) commentary and inflationary fears. Loans, which are floating rate in nature, generated positive returns as investors favored this duration hedge
- While the European Central Bank (ECB) seemingly altered its rhetoric around internal forecasts that have so far driven rates policy, we had not yet seen a change to the timetable for reducing asset purchases
- Emerging Market (EM) also declined in January, but outperformed US counterparts. Performance was buoyed by commodities with industrial metals, aluminum, and energy products outperforming

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

\$6.8 billion in high yield outflows, \$6.6 billion in leveraged loan retail inflows MTD (through 01.31)

HY New Issuance**	US	EUROPE	Main Market Driver*
YTD	\$24.2 bn	\$5.5 bn	Macro: Rates and inflation
MTD	\$24.2 bn	\$5.5 bn	Micro: Mixed flows
Loan New Issuance**	US	EUROPE	Default Rates***
YTD	\$50.9 bn		LTM US 1.2%
MTD	\$50.9 bn		LTM EUR 1.2%

US & European figures through January 31

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

Athenahealth, Community Health, Fertitta Entertainment, CCO Holdings, Vista Global, Bausch Health Cos Inc, Cerdia, Eco Material Tech Inc, Range Resources Corp, MIWD Holdco, Jacobs Entertainment, Embecta

US New Issuance Pipeline MTD (Announced*)

McAfee, Scientific Games, Prince International

Source: Muzinich

Market Performance % and Statistics as of 2022-01-31

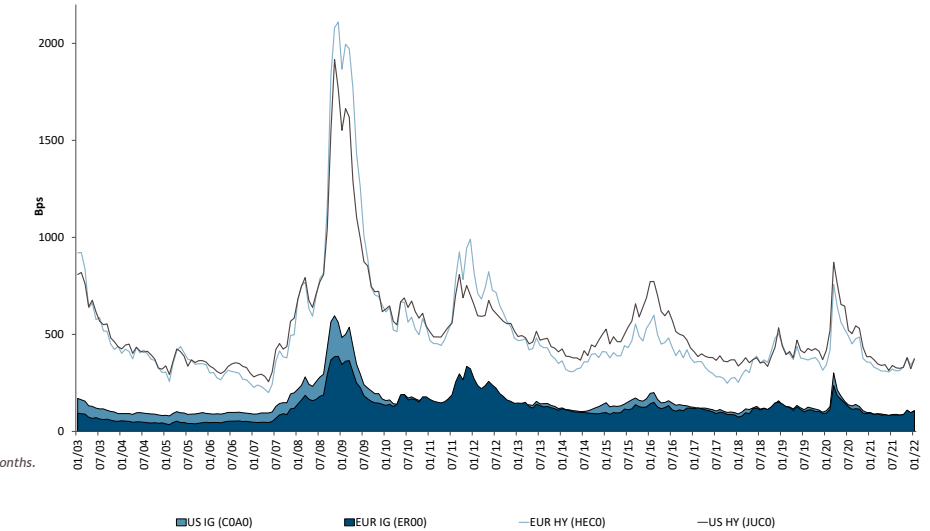
		Performance				Characteristics		
		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
High Yield								
JUC0	US HY Cash Pay Constr.	-2.74	1.92	-2.74	-2.74	4.40	5.23	374
JC4N	US HY BB/B Non-Fncl. Constr.	-2.85	1.94	-2.85	-2.85	4.53	4.90	340
HEC0	Euro HY Constr.	-1.53	0.88	-1.53	-1.53	3.67	3.40	374
HEC5	Euro HY BB/B Non-Fncl. Constr.	-1.54	0.91	-1.54	-1.54	3.75	3.25	357
Investment Grade								
COA0	US Corp Master	-3.13	-0.17	-3.13	-3.13	7.99	2.80	107
C4NF	US Corporate BBB Non-Financial	-3.38	-0.06	-3.38	-3.38	8.28	3.10	134
ER00	EMU Corp	-1.32	-0.14	-1.32	-1.32	5.20	0.76	106
EN40	EMU Corp BBB Non-Financial	-1.42	-0.12	-1.42	-1.42	5.36	0.90	119
Governments (7-10 Yr Indices)								
G402	U.S. Treasuries 7-10 Yrs	-2.30	-0.31	-2.30	-2.30	7.94	1.76	0
G4L0	UK Gilts 7-10 Yrs	-2.62	-1.14	-2.62	-2.62	7.99	1.24	-2
G4D0	German Fed Govt 7-10 Yrs	-1.36	-1.40	-1.36	-1.36	8.13	-0.12	-1
Equities								
S&P	S&P 500 incl. Dividends	-5.17	4.47	-5.17	-5.17			
DAX	DAX Index	-2.60	5.20	-2.60	-2.60			
Loans								
CS Leveraged Loan Index		0.36	0.63	0.36	0.36	(3yr life) 4.18%	bps (3yr life) 432	
CS Western European Leveraged Loan Index		0.29	0.42	0.29	0.29	3.85%	412	

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

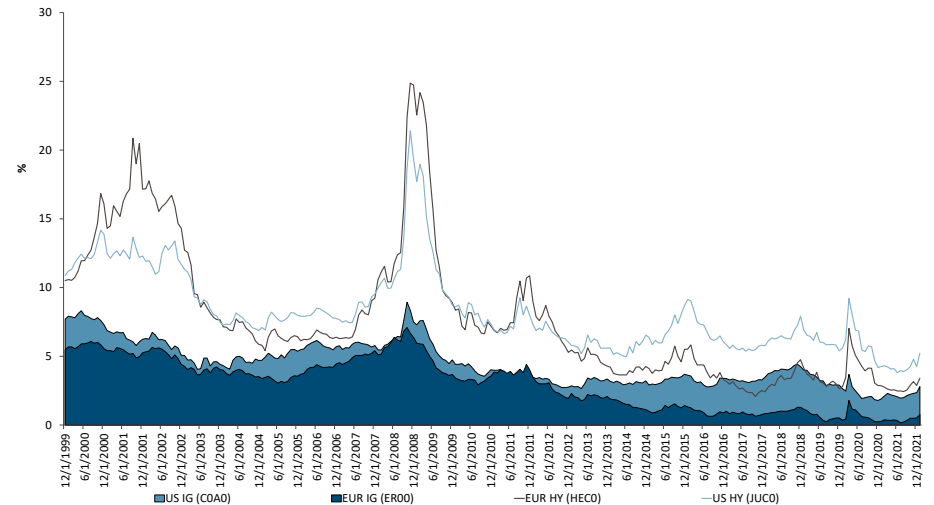
Past performance is not indicative of future results.

*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

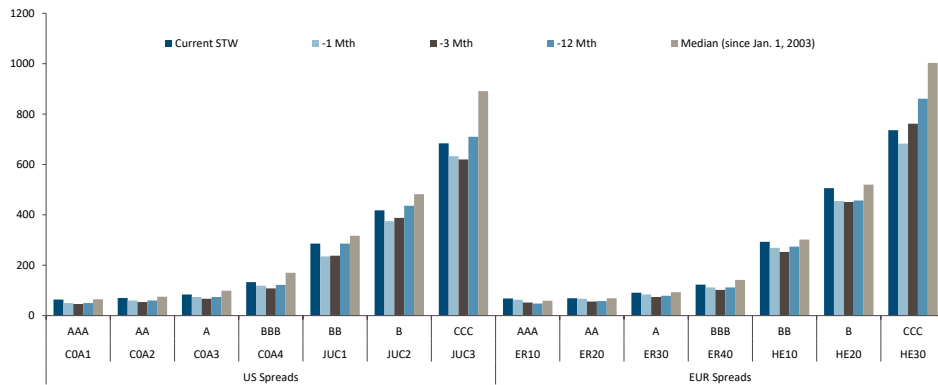


Corporate Bond Yields (YTW) by Index



Corporate Bond Spreads (STW) as of 2022-01-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US Spreads	COA0	IG	107	95	86	97	129
	JUC0	HY Constrained	374	323	330	386	462
	JUC4	BB/B	339	289	296	341	391
	COA1	AAA	64	50	46	50	65
EM Spreads	COA2	AA	70	60	54	60	75
	COA3	A	84	74	67	74	99
	COA4	BBB	133	119	108	122	170
	JUC1	BB	286	235	238	286	317
	JUC2	B	418	375	388	436	482
	JUC3	CCC	684	633	620	710	891
	EMCL	Emerging Markets	283	270	270	271	308
EUR							
EUR Spreads	ER00	IG	106	97	87	94	111
	HEC0	HY Constrained	374	341	334	356	419
	ER10	AAA	68	63	52	48	59
	ER20	AA	69	67	56	58	69
	ER30	A	91	84	74	79	93
	ER40	BBB	123	112	102	112	142
	HE10	BB	293	269	253	274	302
	HE20	B	506	455	451	457	520
	HE30	CCC	736	683	762	861	1003



Credit Market Update*

US:

It was a challenging January for duration-sensitive US fixed income as Treasury rates increased on the back of Federal Reserve (Fed) commentary and inflationary fears. Loans, which are floating rate in nature, generated positive returns as investors favored this duration hedge. In this environment, investment grade (IG) declined, as did high yield (HY), though to a far lesser degree. US IG and HY spreads were relatively unchanged in the lead-up to Chairman Powell's remarks but moved after the market learned of the Fed's openness to more aggressive types of action. Even though this was the worst January performance for the US HY market since the inception of the index in 1985 and the worst single month since March 2020 (Source: ICE BofA ML US Cash Pay High Yield Index - JOA0), trading was very orderly, with investors able to readily buy and sell on the way down (Source: J.P. Morgan High Yield and Leveraged Loan Market Monitor, February 1, 2022). Despite a challenging few weeks, spreads have only widened to levels last seen at the end of November 2021. From a technical perspective, new issuance slowed in both the IG and HY market because of the move in rates and because credit investors appear more discerning.

Europe:

Rising inflation, equity market volatility, and geopolitical concerns weighed on European credit markets in January. Investment grade (IG) and high yield (HY) spreads widened and yields rose, sending prices down. IG outperformed HY, which is more highly correlated with equity volatility and was therefore more impacted. Inflationary pressures continued to build, with eurozone inflation rising to 5.1% annualized despite expectations of a slowdown, well above the European Central Bank's (ECB) 2% target. However, while the ECB seemingly altered its rhetoric around internal forecasts that have so far driven rates policy, we had not yet seen a change to the timetable for reducing asset purchases. With inflation moving higher, a heavy new issue pipeline, and outflows, the technical backdrop for credit has weakened somewhat, although we believe corporate fundamentals remain sound.

EM:

Emerging Markets (EM) were challenged this month as US Treasury rates increased on the back of Federal Reserve (Fed) commentary and inflationary fears. While EM declined in January, performance was in-line with Developed Markets (DM) and, in fact, both EM high yield and investment grade markets outperformed their US counterparts. Performance was buoyed by commodities with industrial metals, aluminum, and energy products outperforming. Consequently, in an unusual risk-off pattern, while spreads widened globally and equities moved lower, EM was not hit as hard as might have been expected. While we see capital markets adjusted currently for the end of "free money," we believe EM is well placed to absorb this shift. Today, EM sovereigns in aggregate are at a surplus, driven by high commodity prices and strong trade. Economic growth continues with fiscal deficits falling in comparison with the last two years. Foreign exchange reserves are at record highs and EM central banks have mostly normalized monetary policy ahead of the US. Looking ahead, Latin America has a heavy election calendar in H2 which will likely slow supply down, and we are keeping an eye on deleveraging in Asian markets.

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; JCN4 - 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; 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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