For Professional Clients/Qualified/Institutional & Accredited Investors Only

Muzinich & Co. Corporate Credit Snapshot | September 2023

Muzinich & Co

KEY TAKEAWAYS

-Global credit delivered mixed returns. US credit delivered negative returns in September driven by a large increase in Treasury yields. European credit markets generated mixed returns with high yield eking out a positive return despite the recent trend of higher rates and the pervasive “higher for longer” central bank narrative. Emerging Market debt delivered negative returns this month on the back of rising US yields

-Towards the end of the month, the FOMC (Federal Open Market Committee) signaled that the Federal Reserve viewed rates as insufficiently restrictive, prompting a further jump in Treasury yields which led to higher implied interest rate volatility, lower stock prices, and, eventually, wider spreads

-While we believe that rates may continue to go slightly higher in Europe, inflation has started to trend lower, and PMI (Purchasing Managers’ Index) data show some signs of stabilization this month

-China’s PMI (Purchasing Managers’ Index) showed a pickup heading into October, indicating a shift from recent weakness in global tech spending and reflecting the constructive impact of China’s targeted policy supports

HIGH YIELD AND LEVERAGED LOAN TECHNICALS

US Retail Fund Flows

US$2.5 billion in high yield outflows, US$0.6bn billion in leveraged loan retail inflows
MTD (through 09.30)

HY New Issuance*	US	EUROPE
YTD	US$136.6 bn	US$38.7 bn
MTD	US$24.6 bn	US$4.0 bn
Loan New Issuance*	US	
YTD	US$257.9 bn	
MTD	US$58.1 bn	

Main Market Driver		
Macro: Rates		
Micro: Weaker technicals		
Default Rates**	US	EUR
LTM	4.7%	3.0%

US New Issuance Names (500 mn and above) MTD

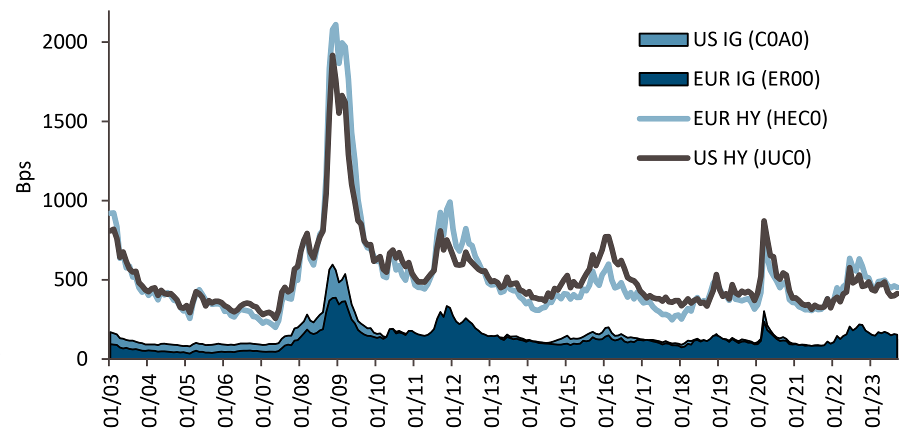
Permian Resources, Williams Scotsman, Macquarie Airfinance, US Foods Inc, B&G Foods Inc, Vistra Operations, Diamond Fin, Sunoco, Citgo Petroleum Corp, Bausch + Lomb Corp, Freedom Mortgage, Vital Energy Inc, Syneos, Worldpay, Viasat Inc, Forward Air Corp, NCR Atleos, Sitio Royal Op, WE Soda, Shelf Drilling, Mineral Resources, AmeriTex, Lifepoint Health Inc.

US New Issuance Pipeline (Announced)

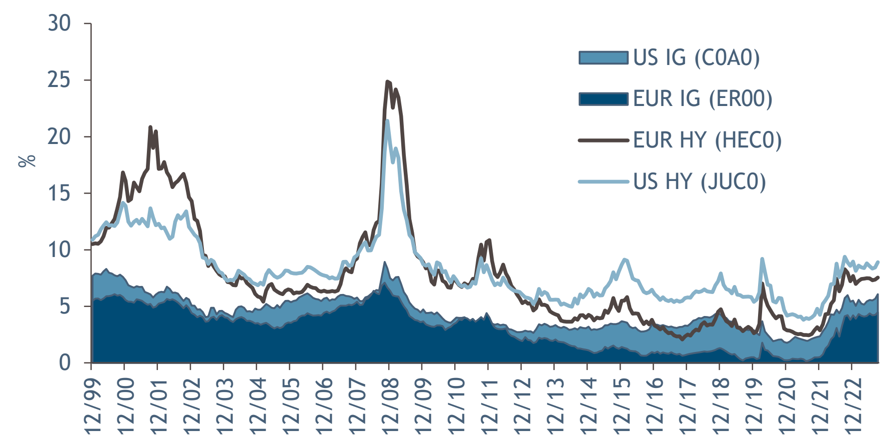
N/A

Note: Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy and should not be construed as investment advice or investment recommendation of those companies.

CORPORATE BOND SPREADS (STW) BY INDEX



CORPORATE BOND YIELDS (YTW) BY INDEX



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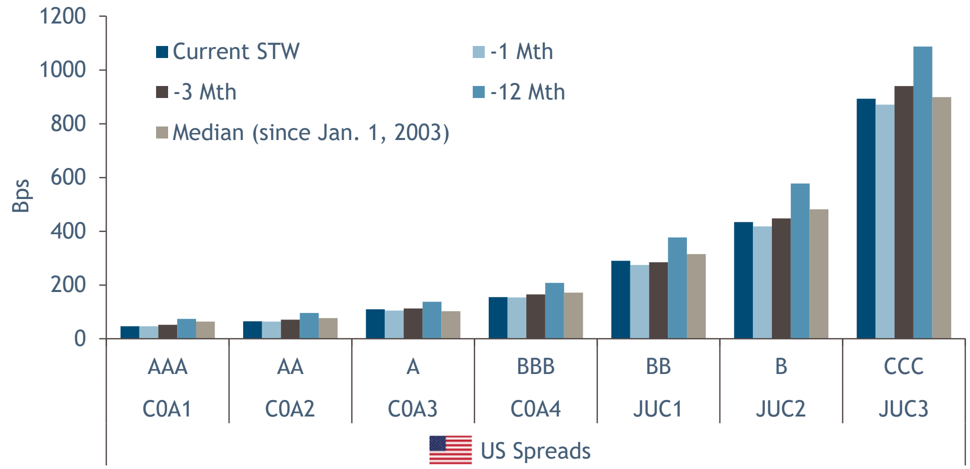
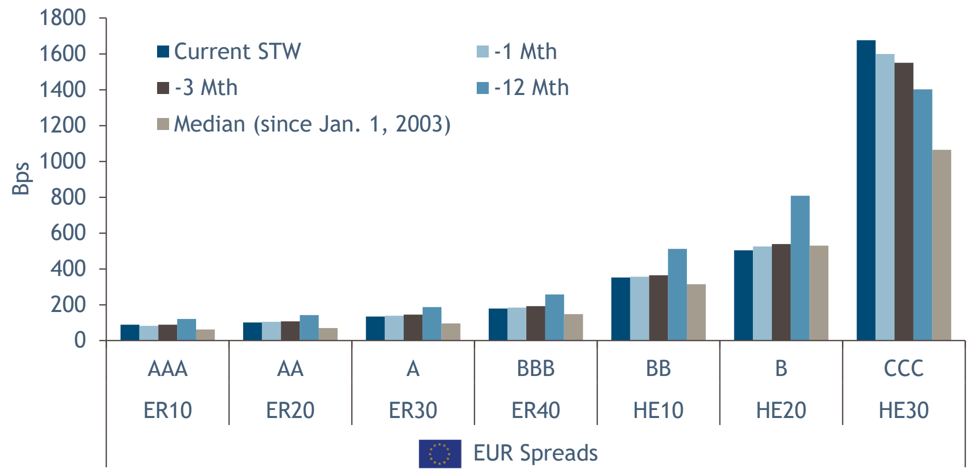
CORPORATE BOND SPREADS (STW) – SEPTEMBER 30, 2023

	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US	C0A0	IG	127	124	134	168	131
	JUC0	HY	413	400	424	530	461
	JUC4	BB/B	354	338	359	460	390
	C0A1	AAA	47	47	52	74	64
	C0A2	AA	65	64	71	96	77
	C0A3	A	110	105	113	138	103
	C0A4	BBB	155	154	165	208	172
	JUC1	BB	290	275	285	377	315
	JUC2	B	434	418	448	578	482
	JUC3	CCC	893	871	940	1087	899
EM	EMCL	All	253	259	274	362	308
EUR	ER00	IG	154	158	164	218	116
	HEC0	HY	453	462	464	632	432
	ER10	AAA	89	83	89	121	62
	ER20	AA	102	105	108	143	70
	ER30	A	135	139	145	187	96
	ER40	BBB	179	185	193	258	148
	HE10	BB	353	357	365	512	315
	HE20	B	504	526	539	809	530
	HE30	CCC	1677	1600	1551	1403	1065

CORPORATE BOND SPREADS (STW)





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MARKET PERFORMANCE % AND STATISTICS – SEPTEMBER 30, 2023

		Performance Summary (%)				Characteristics			Performance History (%, annualised)				
High Yield		**MTD**	**Pr. Mth**	**QTD**	**YTD**	**DTW (yrs)**	**YTW (%)**	**STW (bps)**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**
JUC0	US HY	-1.19	0.30	0.53	5.90	3.84	8.91	413	10.21	-2.64	1.80	1.92	2.78
JC4N	US HY BB-B	-1.29	0.19	0.12	5.00	3.92	8.30	353	9.49	-2.69	1.26	1.70	2.84
HEC0	Euro HY	0.32	0.26	1.67	6.11	3.03	7.55	453	11.07	-3.24	0.79	0.43	1.35
HEC5	Euro HY BB-B	0.09	0.13	1.36	6.10	3.14	6.98	398	11.33	-3.15	0.60	0.03	0.88
Investment Grade													
C0A0	US IG	-2.45	-0.68	-2.70	0.45	6.54	6.08	127	3.99	-7.76	-4.67	-1.68	1.07
C4NF	US BBB Corporates	-2.43	-0.74	-2.67	0.96	6.72	6.27	147	5.24	-8.03	-4.33	-1.54	1.25
ER00	Europe IG	-0.86	0.16	0.30	2.34	4.43	4.49	154	3.69	-6.47	-3.86	-2.85	-1.12
EN40	Europe BBB	-0.78	0.13	0.37	2.85	4.47	4.62	166	4.34	2.15	1.43	1.07	0.85
Governments (7-10 Year Indices)													
G4O2	US Treasuries 7-10 Yrs	-3.10	-0.74	-4.39	-2.84	7.36	4.59	0	-1.88	-8.79	-7.47	-3.37	-0.15
G4L0	UK Gilts 7-10 Yrs	0.10	-0.03	1.36	-1.98	7.22	4.33	-3	2.56	-9.64	-8.08	-5.55	-2.57
G4D0	German Fed Govt 7-10 Yrs	-2.51	0.47	-2.19	-0.32	7.61	2.76	0	-3.07	-10.05	-7.53	-5.84	-3.13
Equities													
S&P	S&P 500 incl. Dividends	-4.77	-1.59	-3.27	13.06				21.59	1.37	10.13	11.36	9.90
DAX	DAX Index	-3.51	-3.04	-4.71	10.51	**YTM (%)**	**Discount Margin**		27.01	0.41	6.44	5.48	4.67
Loans							bps (3yr life)						
CS Leveraged Loan Index		0.88	1.15	3.37	9.91	9.85	551		12.47	4.65	5.91	4.62	4.31
CS Western European Leveraged Loan Index		0.98	1.36	3.53	10.44	8.79	500		13.68	3.72	4.99	3.63	3.37

Past performance is not a reliable indicator of current or future performance.

Muzinich views and opinions are for illustrative purposes only and not to be construed as investment advice. All performance, duration, yield and spread data sourced by Bloomberg as of September 30th, 2023. Full information on indices is provided on page 5. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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CREDIT MARKET UPDATE

US:

US credit delivered negative returns in September driven by a large increase in Treasury yields. In the first half of the month, the rise in rates was viewed as benign and a reflection of the strong US economy. Interest rate volatility declined, equity prices remained resilient, and investment grade spreads tightened. However, towards the end of the month, the FOMC (Federal Open Market Committee) signaled that the Federal Reserve viewed rates as insufficiently restrictive, prompting a further jump in Treasury yields which led to higher implied interest rate volatility, lower stock prices, and, eventually, wider spreads. We believe volatility around rates, the US economy, and global situations will continue over the next 6-12 months.

EUROPE:

European credit markets generated mixed returns with high yield (HY) eking out a positive return despite the recent trend of higher rates and the pervasive "higher for longer" central bank narrative. While we believe that rates may continue to go slightly higher in Europe, inflation has started to trend lower, and PMI (Purchasing Managers' Index) data show some signs of stabilization this month. In our view, HY remains well supported, benefiting from tighter spreads and a healthy carry. While investment grade (IG) credit suffered at the long end on rising rates, IG delivered flat returns at the short end of the curve. We anticipate continued volatility as credit markets adjust to a "new normal" of higher rates. Consequently, we believe it is prudent to maintain diversification across rate curves and credit markets.

EM:

Emerging Market debt delivered negative returns this month on the back of rising US yields. In Latin America, Brazil's central bank remained committed to its pace of easing by cutting rates, while Mexico's central bank maintained its hawkish narrative—underscoring that rates should be expected to remain on hold for an extended period. In the Czech Republic and Hungary, monetary authorities demurred from guiding on rate cuts, despite an encouraging macro backdrop, due in part to a regional currency slide. Central banks in Asia have sought to mitigate pressure from outflows by tightening capital accounts and targeting front-end rates to dissuade local outflows. China's PMI (Purchasing Managers' Index) showed a pickup heading into October, indicating a shift from recent weakness in global tech spending and reflecting the constructive impact of China's targeted policy supports. In Japan, as market pressures persist and inflation is forecast to increase, we expect the Bank of Japan to adjust forward guidance, opening the door for an early balance sheet adjustment and phasing out of the yield curve control.

OUTLOOK

While parts of the underlying US economy have shown resilience in the face of the Federal Reserve's tightening cycle, certain headwinds to growth are beginning to surface. US economic growth forecasts for the next 6-9 months are beginning to weaken on the restart of student loan payments, on some signs that the US consumer has drawn down its excess pandemic savings, and on the cumulative tightening effects of higher interest rates. While backward looking data on the US job market suggest employment remains strong, some more real time indicators (i.e., job openings) are beginning to weaken. Despite potential acceleration of these headwinds in the US and weakening European growth, credit spreads have generally remained at relatively tight levels. Although default activity is increasing, the pace has been methodical and remains below the long-term market average. Corporate credit balance sheets entered this cycle in good shape fundamentally, featuring low leverage and high interest coverage, as well as a relatively benign maturity profile. Default activity has largely been focused in certain sectors (e.g., healthcare, technology), where leverage was high and in others (e.g., telecommunications) with secular concerns. In our view, large sectors in credit, such as energy, are performing well. While maturities will begin to pick up in 2025, financing markets remain open to good credits. We continue to maintain diversification within our portfolios and increase our allocations to more liquid parts of global credit.

Important Information

The following indices referenced in the snapshot are ICE BofA indices:
JUC0 – ICE BofA US Cash Pay High Yield Constrained Index
JUC1 - ICE BofA BB US Cash Pay High Yield Constrained Index;
JUC2 - ICE BofA Single-B US Cash Pay High Yield Constrained Index;
JUC3 - ICE BofA CCC and Lower US Cash Pay High Yield Constrained Index;
JUC4 - ICE BofA BB-B US Cash Pay High Yield Constrained Index;
JC4N – ICE BofA BB-B US Non-Financial Cash Pay High Yield Constrained Index;
HEC0 – ICE BofA Euro High Yield Constrained Index;
HE10 – ICE BofA BB Euro High Yield Index;
HE20 – ICE BofA Single-B Euro High Yield Index;
HE30 – ICE BofA CCC & Lower Euro High Yield Index;
HEC5 – ICE BofA BB-B Euro Non-Financial High Yield Constrained Index;
C0A0 - ICE BofA US Corporate Index;
C0A1 - ICE BofA AAA US Corporate Index;
C0A2 - ICE BofA AA US Corporate Index;
C0A3 - ICE BofA Single-A US Corporate Index;
C0A4 - ICE BofA BBB US Corporate Index;
C4NF – ICE BofA BBB US Non-Financial Corporate Index;
ER00 - ICE BofA Euro Corporate Index;
ER10 - ICE BofA AAA Euro Corporate Index;
ER20 - ICE BofA AA Euro Corporate Index;
ER30 - ICE BofA Single-A Euro Corporate Index;
ER40 - ICE BofA BBB Euro Corporate Index;
EN40 - ICE BofA BBB Euro Non-Financial Index;
G4O2 – ICE BofA 7-10 Year US Treasury Index
G4L0 - ICE BofA 7-10 Year UK Gilt Index
G4D0 – ICE BofA 7-10 Year German Government Index;
EMCL – ICE BofA US Emerging Markets Liquid Corporate Plus Index.

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.
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 US$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. You cannot invest directly into an index.

Important Information

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