

Key Takeaway*

- Global fixed income returns were mixed in October. In the US, investment grade corporates generated a positive coupon-like return, while high yield and Treasuries declined
- US investment grade corporate outperformance this month was primarily a function of a rally in 30-year bonds (30-year rates declined). As market expectations rose around a potential increase in the Federal Reserve (Fed) Funds rate, the yield curve flattened with the short-end rising and long-end declining
- In Europe, inflationary pressures and supply chain disruptions weighed on the growth outlook
- Emerging Markets (EM) contended with the rise in short-end US rates as well as continued volatility in China; mostly related to the property sector and ongoing drought-led power shortages

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

\$1.4 billion in high yield inflows, \$2.6 billion in leveraged loan retail inflows MTD (through 10.31)

HY New Issuance**	US	EUROPE	Main Market Driver*
YTD	\$440.0 bn	\$127.2 bn	Macro: Rates and Inflation
MTD	\$30.2 bn	\$13.6 bn	Micro: Company Earnings
Loan New Issuance**	US	EUROPE	Default Rates***
YTD	\$732.8 bn		LTM US 2.5%
MTD	\$77.2 bn		LTM EUR 2.4%

Through 09.30.21. Trailing 12 months.

US & European figures through October 31

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

Carnival Corp., Weatherford International, Gray Television Inc., Iliad Holdings, Hexaware Technologies, Frontier Communications, Roblox Corp., Lamb Weston, Vertiv Group Corp., Canpack, Sunoco, Avantor Funding Inc., Polynt, Summit Midstream Holdings, Perimeter Solutions, Sonic Automotive, Aggreko, Conduent Bus Services, Thor Industries, Harbour Energy, Eneavor Mining, Glatfelter, Option Care, Labl Inc, SLM Corp.

US New Issuance Pipeline MTD (Announced*)

United Site Services, LifeScan Global Corp., Petrofac Limited

Source: Muzinich

Market Performance % and Statistics as of 2021-10-31

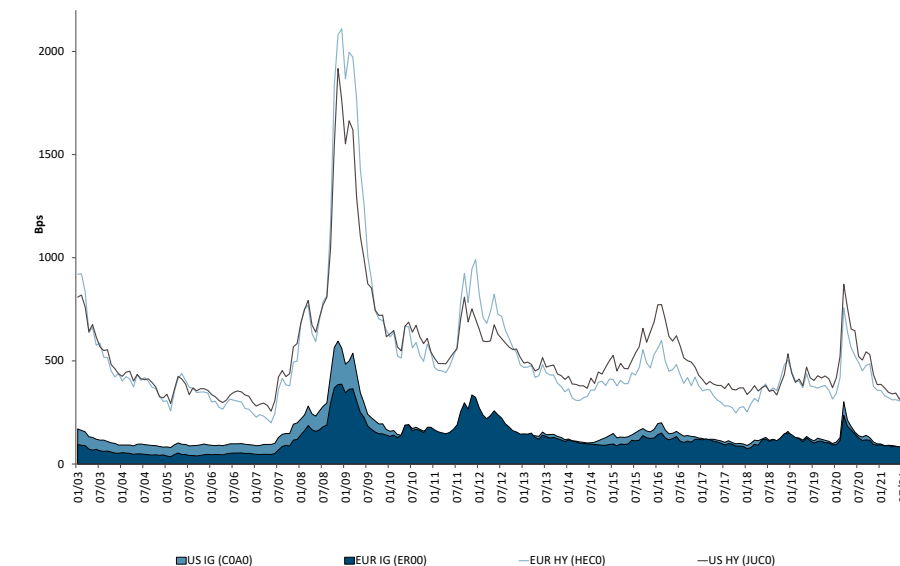
		Performance			Characteristics			
		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
High Yield								
JUC0	US HY Cash Pay Constr.	-0.18	0.03	-0.18	4.37	3.95	4.25	330
JC4N	US HY BB/B Non-Fncl. Constr.	-0.17	-0.05	-0.17	3.65	4.04	3.93	297
HEC0	Euro HY Constr.	-0.60	-0.09	-0.60	3.06	3.54	2.90	334
HEC5	Euro HY BB/B Non-Fncl. Constr.	-0.56	-0.18	-0.56	2.52	3.61	2.71	316
Investment Grade								
COA0	US Corp Master	0.25	-1.06	0.25	-0.87	8.22	2.23	86
C4NF	US Corporate BBB Non-Financial	0.30	-1.04	0.30	-0.15	8.50	2.51	109
ER00	EMU Corp	-0.70	-0.66	-0.70	-1.05	5.31	0.49	87
EN40	EMU Corp BBB Non-Financial	-0.73	-0.69	-0.73	-0.73	5.46	0.62	99
Governments (7-10 Yr Indices)								
G402	U.S. Treasuries 7-10 Yrs	-0.31	-1.71	-0.31	-3.83	7.92	1.50	0
G4L0	UK Gilts 7-10 Yrs	-0.31	-2.32	-0.31	-5.47	7.94	0.97	0
G4D0	German Fed Govt 7-10 Yrs	-0.99	-1.52	-0.99	-3.46	8.17	-0.20	0
Equities								
S&P	S&P 500 incl. Dividends	7.01	-4.65	7.01	24.03			
DAX	DAX Index	2.81	-3.63	2.81	14.36			
Loans						Yield (%)	Discount Margin	
CS Leveraged Loan Index		0.24	0.65	0.24	4.90	(3yr life) 4.14%	(3yr life) 440	
CS Western European Leveraged Loan Index		0.14	0.44	0.14	4.04	3.75%	407	

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

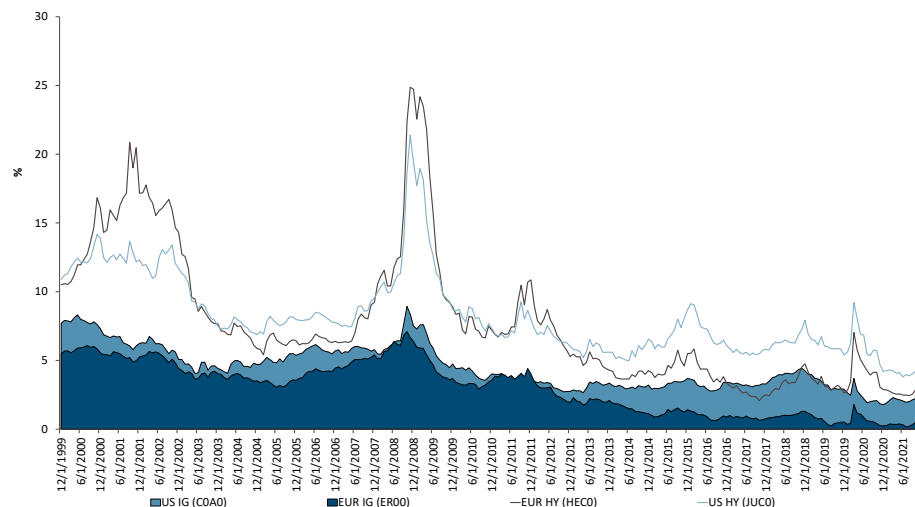
Past performance is not indicative of future results.

*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

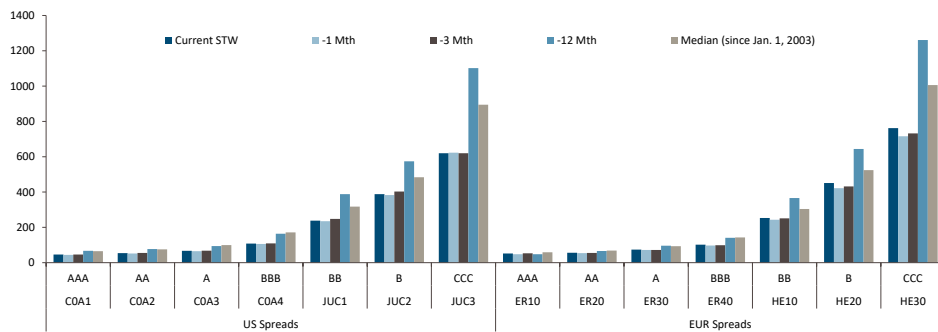


Corporate Bond Spreads (STW) as of 2021-10-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US/EM	COA0	IG	86	84	87	128	129
	JUC0	HY Constrained	330	325	340	531	463
	JUC4	BB/B	296	290	305	457	396
	COA1	AAA	46	44	46	67	65
US Spreads	COA2	AA	54	52	55	77	76
	COA3	A	67	65	68	94	100
	COA4	BBB	108	106	109	164	172
	JUC1	BB	238	235	248	388	318
	JUC2	B	388	383	403	574	484
	JUC3	CCC	620	623	620	1102	895
	EM Spreads	EMCL	Emerging Markets	270	262	269	347

EUR

EUR Spreads	ER00	IG	87	84	85	115	112
	HEC0	HY Constrained	334	314	321	486	420
	ER10	AAA	52	48	53	48	59
	ER20	AA	56	54	55	66	69
	ER30	A	74	72	72	96	94
	ER40	BBB	102	97	99	141	143
	HE10	BB	253	243	251	366	304
	HE20	B	451	422	432	644	524
	HE30	CCC	762	716	732	1261	1006



Credit Market Update

US:

US fixed income returns were mixed in October with investment grade corporates generating a positive coupon-like return and high yield and Treasuries declining. Investment grade corporate outperformance this month was primarily a function of a rally in 30-year bonds (30-year rates declined). As market expectations rose around a potential increase in the Federal Reserve (Fed) Funds rate, the yield curve flattened with the short-end rising and long-end declining. This is to be expected when the Fed enters a hiking cycle. October was the first negative return month for the broad US high yield market since September 2020 as the market digested issues ranging from early reported earnings, to inflation concerns, to Treasury volatility. CCC underperformance stood out during October after being resilient during a lackluster September as investors appear to have repriced some CCCs. Supply was manageable during the month with many issuers entering quiet periods before earnings. There were no high yield defaults during October, the fourth consecutive month, and the default rate is now 0.44% (Source: J.P. Morgan Default Monitor, November 1, 2021). The default rate is at its lowest level since 2007, something we predicted would happen in September. The declining default rate and the low level of distressed bonds is setting up a below average default rate through 2023; this is a bullish sign for an extended period of stable credit spreads.

Europe:

This month uncertainty around the European economic recovery continued as inflationary pressures and supply chain disruptions weighed on the growth outlook. In another month dominated by rates uncertainty, returns from both European investment grade and high yield remained in negative territory while spreads widened. High yield, with its greater spread cushion able to absorb more of the rate moves, outperformed investment grade. Within investment grade, the yield curve started to flatten - short rates moved up faster than the longer end as the market appeared to price in more "permanent" inflation, led by soaring gas prices as increasing demand met with supply concerns. Nevertheless, despite increased pressure on the European Central Bank (ECB) to tighten monetary policy, President Lagarde continued to leave forward guidance unchanged. Instead, the pandemic emergency purchase program (PEPP) will continue to run at a moderately lower pace with any further major decisions postponed to the December meeting. The ECB continues to believe eurozone inflation will decline next year and is consequently forestalling policy changes, despite the broader market view that supply chain bottlenecks and inflationary pressures will likely continue well into 2022.

EM:

Emerging Markets (EM) fixed income returns declined this month driven by a rise in short-end US Treasury rates and continued volatility in China; mostly related to the property sector and ongoing drought-led power shortages. By the close of the month, however, positive headlines from China began to dominate and Chinese securities rebounded considerably. Further, the month ended optimistically with oil and natural gas inventories reported at higher levels than at the beginning of the month and market expectations indicating full oil demand recovery in 2022. We continued to see strong reported earnings, robust technicals, company buybacks, and strong retail flows, even as inflation continues to be the market's main concern globally. While Turkey has continued to pursue its unorthodox methods to tame inflation (by cutting interest rates), other EM central banks—notably Brazil—aggressively hiked interest rates this month.

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; JUC4N - 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; G40Z - 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 U.S. 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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