For Professional Clients/Qualified/Institutional & Accredited Investors Only

Muzinich & Co. Corporate Credit Snapshot | October 2023

KEY TAKEAWAYS

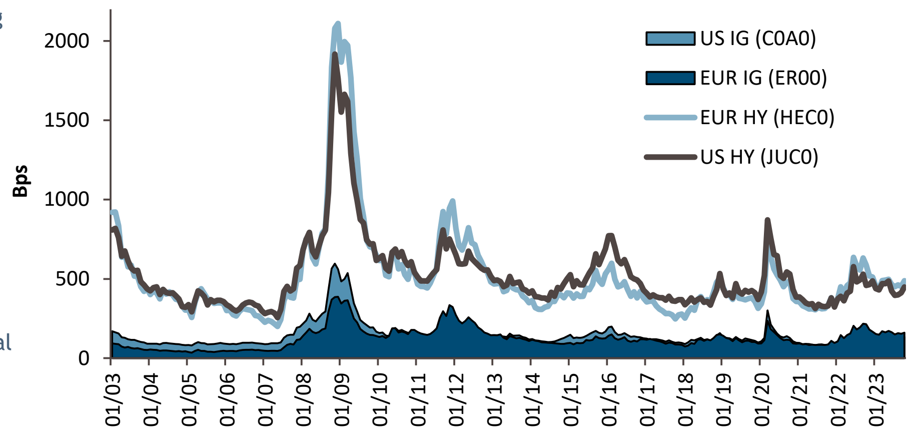
-US credit delivered negative returns in October driven largely by continued domestic economic strength. This caused investors to reassess their view on rates; the market reaction was mostly bearish, with investors having concluded that the above trend growth and tight labor market could interrupt the disinflation trend and force the FOMC (Federal Open Market Committee) to tighten monetary policy further

-European credit markets generated mixed returns with only investment grade credit generating positive returns in October

-Emerging Market (EM) debt delivered negative returns this month on the back of geopolitical uncertainty and the recent jump in US yields.

-A number of central banks began cutting rates this month; Hungary's central bank cut rates in-line with expectations, while Chile's central bank delivered a more cautious rate cut than expected as challenging global financial conditions outweighed the fall in inflation

CORPORATE BOND SPREADS (STW) BY INDEX



HIGH YIELD AND LEVERAGED LOAN TECHNICALS

US Retail Fund Flows

US$8.1 billion in high yield outflows, US$1.1bn billion in leveraged loan retail outflows MTD (through 10.31)

HY New Issuance*	US	EUROPE
YTD	US$146.1 bn	US$39.2 bn
MTD	US$9.4 bn	US$0.5 bn
Loan New Issuance*	US	
YTD	US$289.7 bn	
MTD	US$31.8 bn	

Main Market Driver		
Macro: Strong eco data and rates		
Micro: Weaker technicals		
Default Rates**	US	EUR
LTM	4.9%	3.1%

US New Issuance Names (500 mn and above) MTD

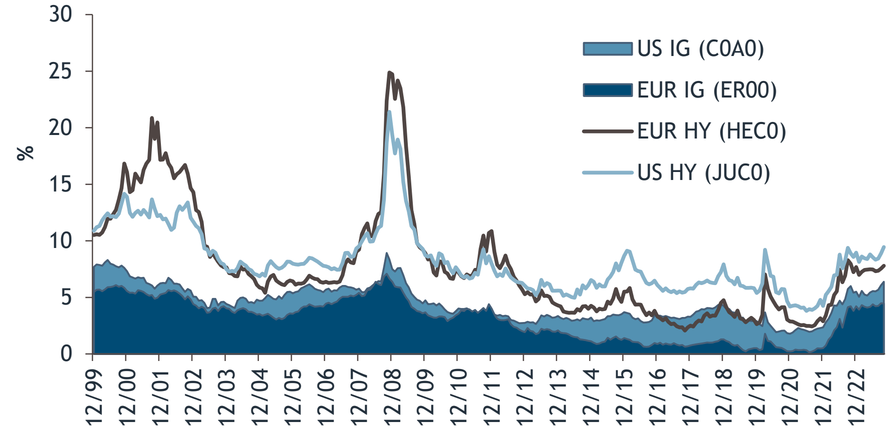
Civitas Resource, NCL Corp., Newold Digital, Venture Global, Borr Drilling, Cetera, Navient Corp.

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 YIELDS (YTW) BY INDEX



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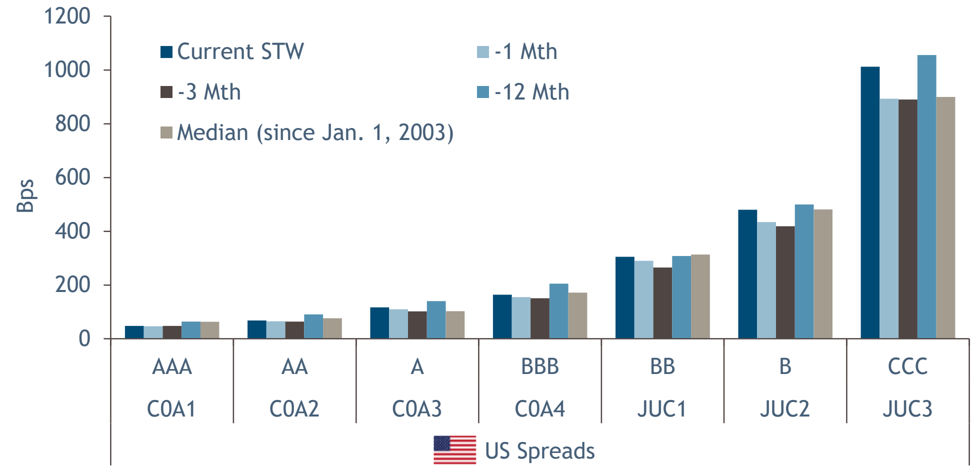
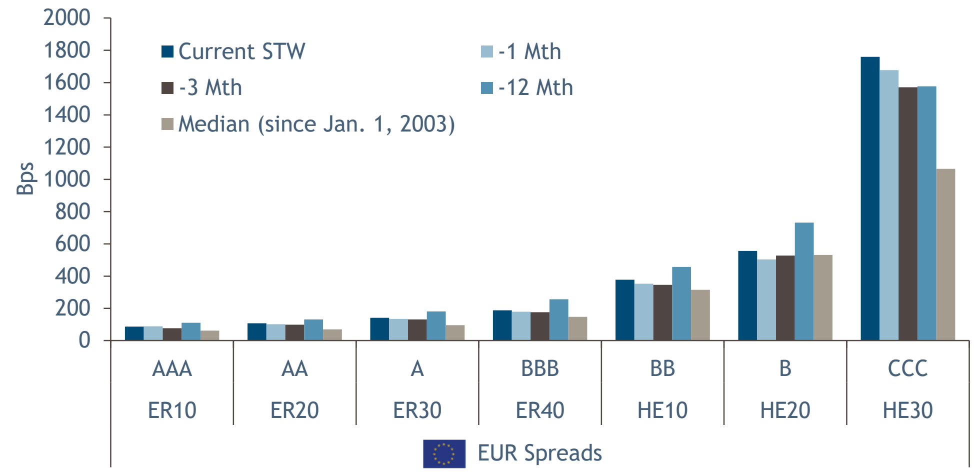
CORPORATE BOND SPREADS (STW) – OCTOBER 31, 2023

	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US	C0A0	IG	134	127	121	167	132
	JUC0	HY	449	413	397	459	460
	JUC4	BB/B	382	354	332	389	390
	C0A1	AAA	48	47	48	64	64
	C0A2	AA	68	65	64	91	77
	C0A3	A	117	110	102	140	103
	C0A4	BBB	164	155	151	205	172
	JUC1	BB	305	290	265	308	314
	JUC2	B	480	434	419	500	481
	JUC3	CCC	1012	893	890	1056	900
EM	EMCL	All	268	253	253	375	306
EUR	ER00	IG	161	154	150	215	117
	HEC0	HY	488	453	451	587	433
	ER10	AAA	87	89	77	111	62
	ER20	AA	108	102	99	132	71
	ER30	A	142	135	132	181	96
	ER40	BBB	188	179	176	257	148
	HE10	BB	378	353	346	457	316
	HE20	B	556	504	528	732	532
	HE30	CCC	1760	1677	1571	1577	1066

CORPORATE BOND SPREADS (STW)





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MARKET PERFORMANCE % AND STATISTICS - OCTOBER 31, 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	-1.25	-1.19	-1.25	4.58	3.83	9.45	449	5.79	-3.16	1.22	1.54	2.87
JC4N	US HY BB-B	-0.95	-1.29	-0.95	4.00	3.91	8.76	381	5.27	-3.07	0.79	1.39	2.95
HEC0	Euro HY	-0.27	0.32	-0.27	5.82	3.02	7.79	488	8.95	-3.08	0.61	0.36	1.55
HEC5	Euro HY BB-B	-0.24	0.09	-0.24	5.84	3.13	7.23	433	8.86	-3.00	0.40	0.02	1.03
Investment Grade													
C0A0	US IG	-1.82	-2.45	-1.82	-1.38	6.35	6.39	134	3.25	-8.72	-5.19	-2.28	0.97
C4NF	US BBB Corporates	-1.90	-2.43	-1.90	-0.96	6.53	6.58	154	4.04	-9.05	-4.92	-2.18	1.22
ER00	Europe IG	0.41	-0.86	0.41	2.76	4.39	4.46	161	3.92	-5.95	-3.97	-2.71	-1.01
EN40	Europe BBB	0.30	-0.78	0.30	3.16	4.43	4.61	175	4.78	2.36	1.57	1.17	0.94
Governments (7-10 Year Indices)													
G4O2	US Treasuries 7-10 Yrs	-1.92	-3.10	-1.92	-4.71	7.23	4.90	-1	-2.38	-9.53	-7.66	-3.88	-0.47
G4L0	UK Gilts 7-10 Yrs	-0.21	0.10	-0.21	-2.18	7.22	4.42	-3	-2.44	-9.60	-8.07	-5.37	-2.85
G4D0	German Fed Govt 7-10 Yrs	0.60	-2.51	0.60	0.27	7.55	2.71	0	-2.33	-9.32	-7.58	-5.39	-3.17
Equities													
S&P	S&P 500 incl. Dividends	-2.10	-4.77	-2.10	10.68				10.12	-3.04	10.34	10.18	10.99
DAX	DAX Index	-3.75	-3.51	-3.75	6.37	**YTM (%)**	**Discount Margin**		11.74	-2.84	8.62	3.58	5.29
Loans							bps (3yr life)						
CS Leveraged Loan Index		0.03	0.88	0.03	9.94	10.23	578		11.56	4.55	5.86	4.75	4.32
CS Western European Leveraged Loan Index		-0.33	0.98	-0.33	10.08	9.06	539		12.57	3.47	4.79	3.64	3.26

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

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Muzinich & Co. Corporate Credit Snapshot | October 2023

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CREDIT MARKET UPDATE

US:

US credit delivered negative returns in October driven largely by continued domestic economic strength. US economic data continues to demonstrate vigor, particularly for the consumer. This caused investors to reassess their view on rates; the market reaction was mostly bearish, with investors having concluded that the above trend growth and tight labor market could interrupt the disinflation trend and force the FOMC (Federal Open Market Committee) to tighten monetary policy further. Economic reports continued to show limited evidence of any imminent downturn in the economy, with 3Q GDP surpassing expectations, while new and pending home sales also exceeded expectations (despite high mortgage rates). Consumer spending remained robust throughout the month and core inflation indicators moved modestly lower. The net result was a dramatic increase in Treasury rates at the long end (a bear steepener), which weighed on fixed income returns.

EUROPE:

European credit markets generated mixed returns with only investment grade credit generating positive returns in October. Rates rallied at the start of the month following the Hamas attacks on Israel. As the month progressed—and the conflict seemed to remain relatively regionally contained—rates sold off, only to tighten again at the end of the month in response to a more dovish tone from the ECB (European Central Bank) and continued weak economic data. As a result, rates finished the month broadly lower. The ECB's messaging didn't change materially from the September meeting; however, the tone was considered more cautious. The "higher-for-longer" narrative persisted, this time accompanied by greater concern over the economic outlook; consequently, the market began pulling forward rate cut expectations again. This was further supported by (i) the weak GDP print from Germany; (ii) the ECB's Bank Lending Survey which showed a continued contraction in the availability of credit and as well as demand from borrowers; and (iii) the rapid decline in Eurozone inflation that we saw at the end of the month. Primary markets were notably quiet with very little deal-flow across the board, providing a positive technical which supported spreads despite the negative news cycle.

EM:

Emerging Market debt delivered negative returns this month on the back of geopolitical uncertainty and the recent jump in US yields. A number of central banks began cutting rates this month; Hungary's central bank cut rates in-line with expectations, while Chile's central bank delivered a more cautious rate cut than expected as challenging global financial conditions outweighed the fall in inflation. Israel's central bank remained on hold (in-line with expectations), while at the same time forecasters began pulling forward expected easing to Q1 2024, assuming softer growth and easing in financial conditions. In Asia, China continued to benefit from signs of a regional tech industry recovery as well as additional financial easing. In Japan, the BoJ (Bank of Japan) added some flexibility to its yield curve control policy, and the government announced a stimulus package to support low-income households and help raise its current low approval rating caused by the rising cost of living.

OUTLOOK

Looking ahead to the upcoming FOMC rate decision, consensus is that change is unlikely in early November. The market is anticipating no further increases and less than three cuts in 2024. Away from the Fed, the market will also absorb a plethora of additional datapoints, including home prices, vehicle sales, consumer confidence, ISM data, durable goods orders, and jobs/employment reports. We will also move to the heart of earnings season and continue to contend with uncertainty surrounding global conflicts and a potential US government shutdown on November 17th. While global markets are likely to remain choppy, we maintain our belief in the value of higher quality, lower volatility strategies where returns are driven by coupon income. Yields remain historically high—with high yield spreads at or above long-term averages—offering a potential cushion should rates move higher or spreads widen. Yields have rarely been this high during periods of economic growth, which we believe is a compelling position for 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.

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