Muzinich & Co. Corporate Credit Snapshot

Muzinich & Co

31 December 2021

Key Takeaway*

- Despite the global spread of the COVID-19 Omicron variant, it was a risk-on month
- The Federal Reserve (Fed)'s acknowledgement that inflation is broad based and likely not transitory contributed to a sell-off in Treasuries
- European credit markets managed to shrug off concerns surrounding the Omicron variant in December, with spreads in both IG and HY tightening after reports that the new variant appeared less lethal than its predecessors
- Emerging Markets (EM) generated positive returns this month (both HY and IG), despite continued uncertainties imposed by the Omicron variant

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

$3.8 billion in high yield inflows, $2.2 billion in leveraged loan retail inflows MTD (through 12.31)

HY New Issuance**	US	EUROPE	**Main Market Driver***		
YTD	$483.8 bn	$158.6 bn	Macro:COVID-19 Omicron variant.		
MTD	$11.5 bn	$1.5 bn	Micro: Positive inflows. Continued issuance.		
Loan New Issuance**	US		**Default Rates*****	US	EUR
YTD	$835.1 bn		LTM	1.8%	1.5%
MTD	$27.6 bn		*Through 11.30.21.Trailing 12 months.*		

US & European figures through December 31

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

DirecTV Fin, Southwestern Energy Company, II-VI Inc., Iron Mountain, Ritchie Bros., Firstcash Inc., WeWork, Fair Isaac, Standard Industries, Post Holdings Inc.

US New Issuance Pipeline MTD (Announced*)

Royal Caribbean, Covanta

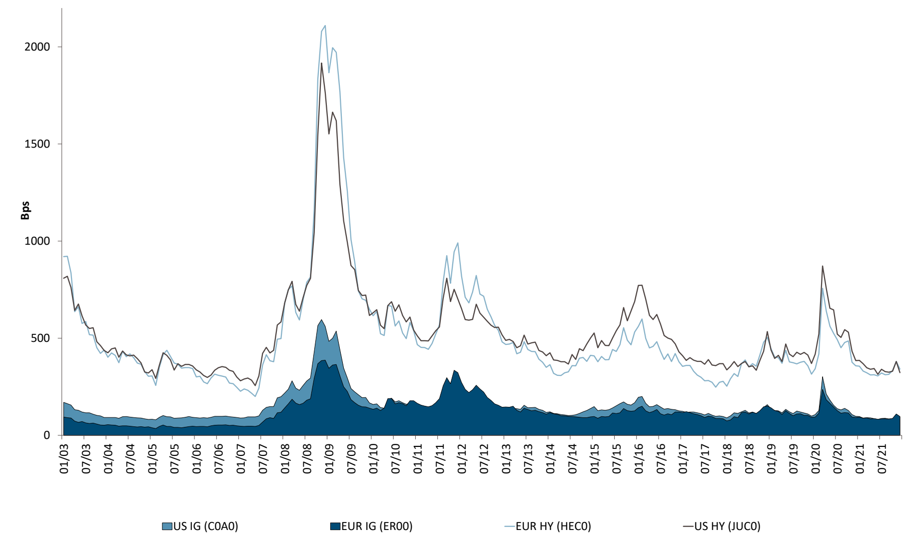
Source: Muzinich

Market Performance % and Statistics as of 2021-12-31

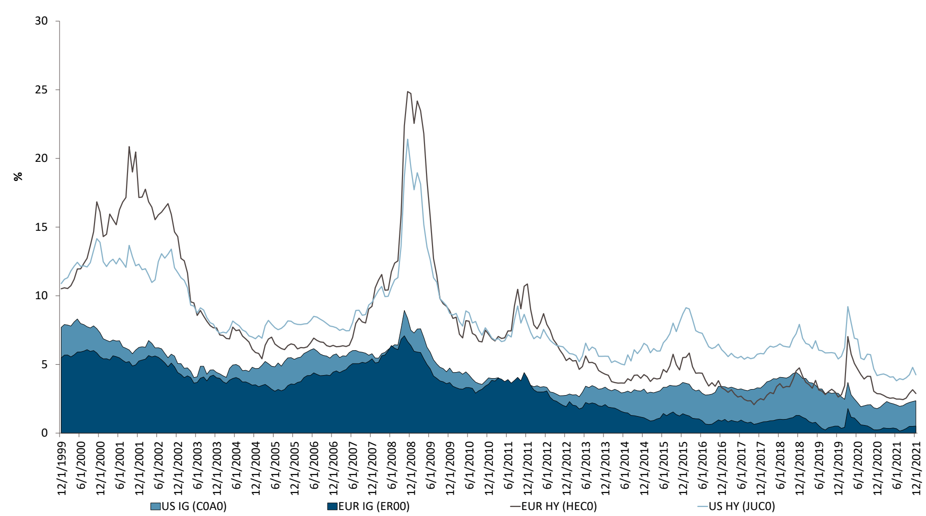
		Performance				Characteristics		
High Yield		**MTD**	**Pr.Mth**	**QTD**	**YTD**	**DTW**	**YTW**	**STW**
JUC0	US HY Cash Pay Constr.	1.92	-1.04	0.68	5.28	3.81	4.25	323
JC4N	US HY BB/B Non-Fncl. Constr.	1.94	-1.02	0.73	4.58	3.90	3.92	290
HEC0	Euro HY Constr.	0.88	-0.60	-0.33	3.35	3.47	2.89	341
HEC5	Euro HY BB/B Non-Fncl. Constr.	0.91	-0.58	-0.24	2.86	3.52	2.72	325
Investment Grade								
C0A0	US Corp Master	-0.17	0.09	0.17	-0.95	8.22	2.36	95
C4NF	US Corporate BBB Non-Financial	-0.06	-0.01	0.23	-0.22	8.51	2.65	119
ER00	EMU Corp	-0.14	0.17	-0.67	-1.02	5.25	0.51	97
EN40	EMU Corp BBB Non-Financial	-0.12	0.16	-0.68	-0.68	5.39	0.65	109
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	-0.31	1.04	0.41	-3.13	8.01	1.44	0
G4L0	UK Gilts 7-10 Yrs	-1.14	1.92	0.45	-4.75	8.12	0.90	-2
G4D0	German Fed Govt 7-10 Yrs	-1.40	2.18	-0.26	-2.74	8.16	-0.29	-1
Equities								
S&P	S&P 500 incl. Dividends	4.47	-0.70	11.02	28.68			
DAX	DAX Index	5.20	-3.75	4.09	15.79	**Yield (%)**	**Discount Margin**	
Loans						(3yr life)	bps (3yr life)	
CS Leveraged Loan Index		0.63	-0.15	0.71	5.40	4.15%	439	
CS Western European Leveraged Loan Index		0.42	0.15	0.70	4.63	3.82%	413	

All performance, duration, yield and spread data downloaded from Bloomberg.
Past performance is not indicative of future results.

Corporate Bond Spreads (STW) by Index



Corporate Bond Yields (YTW) by Index

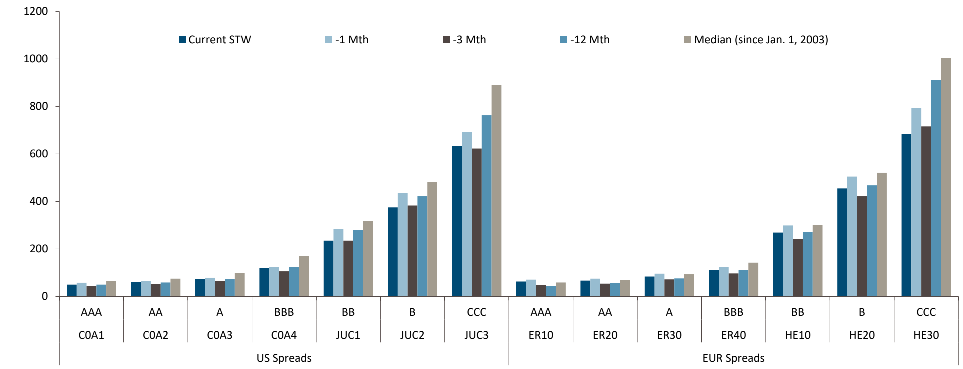


*Muzinich & Co. views and opinions, not to be construed as investment advice. **JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. ***Moody's Default Report

2022-01-10-7719

Corporate Bond Spreads (STW) as of 2021-12-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
	C0A0	IG	95	100	84	98	129
	JUC0	HY Constrained	323	380	325	385	462
	JUC4	BB/B	289	344	290	333	393
US Spreads	C0A1	AAA	50	58	44	50	65
	C0A2	AA	60	65	52	59	75
	C0A3	A	74	79	65	74	99
	C0A4	BBB	119	124	106	125	171
	JUC1	BB	235	285	235	281	317
	JUC2	B	375	436	383	422	482
	JUC3	CCC	633	692	623	763	892
EM Spreads	EMCL	Emerging Markets	270	295	262	275	309
EUR							
	ER00	IG	97	110	84	92	111
	HEC0	HY Constrained	341	381	314	358	419
EUR Spreads	ER10	AAA	63	71	48	44	59
	ER20	AA	67	75	54	57	69
	ER30	A	84	96	72	76	94
	ER40	BBB	112	125	97	112	143
	HE10	BB	269	299	243	271	302
	HE20	B	455	505	422	468	521
	HE30	CCC	683	793	716	912	1004



Credit Market Update*

US:

Despite the global spread of the COVID-19 Omicron variant, it was a risk-on December. Equities, high yield (HY), and oil all posted strong gains this month. Within fixed income, HY and loans generated strong positive returns while Treasuries and investment grade (IG) corporates declined. The month started off weaker in HY with new issues weighing on the market. After new issuance stopped in advance of the typical holiday slow down, and after early data from South Africa indicated that while the Omicron variant was more contagious—but less lethal—than previous variants, investor fear subsided and spreads tightened meaningfully. The Federal Reserve (Fed)'s acknowledgement that inflation is broad based and likely not transitory contributed to a sell-off in Treasuries. We saw significant IG issuance with companies pulling forward their financing plans given potential rate hikes in 2022. We expect pressure on interest rates based on the Fed's hiking cycle and planned tapering will affect the shape of the US Treasury curve—the more hikes, the flatter the curve.

Europe:

European credit markets managed to shrug off concerns surrounding the COVID-19 Omicron variant in December, with spreads in both investment grade and high yield tightening after reports that the new variant appeared less lethal than its predecessors. In our view, tighter spreads seem justified, as companies are now sitting on cash. We believe that yields are supportive for credit investing. With the predictable seasonal slowdown in December, investors shored up their cash reserves to weather the year's last few weeks of lower liquidity, leaving them in a position to deploy capital quickly as new opportunities arise. The macroeconomic backdrop continued to present a mixed picture. Inflation remained elevated prompting the European Central Bank (ECB) to announce it was cutting back its pandemic emergency purchase program which will end in March. However, the ECB is committed to maintaining its broader asset purchase program, while leaving interest rates unchanged over the medium term.

EM:

Emerging Markets (EM) generated positive returns this month despite continued uncertainties imposed by the COVID-19 Omicron variant. Both high yield and investment grade corporates posted gains in December, driven by investor sentiment which improved as fears related to possible lockdowns subsided and the variant was widely reported to be less lethal than those that preceded. In Latin America, Brazil successfully auctioned various deep sea oil prospects in a watershed moment for the government's program of infrastructure and natural resource concessions. Turkish inflation soared to the highest level in almost two decades as President Erdogan's economic management continued to spark a surge in consumer prices. One of the greatest wild cards for EM in 2022 is how long China will keep its "zero-COVID" policy since stringent controls in China are influencing global markets. Following China's sharp slowdown last year, there is some hope that China's stance may ease following the February Olympics, which could boost consumption and help stabilize the economy. However, it is also possible that strict lockdowns and closed borders will remain until the end of 2022, which in turn might prolong supply bottlenecks and keep global inflation elevated.

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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, B Rated; HE30 – BofA ML Euro High Yield, CCC and Lower Rated; HEC5 – BofA ML BB/B Euro Non-Financial High Yield Constrained Index; C0A0 – BofA ML U.S. Corporate Master; C0A1 - BofA ML U.S. Corporates, AAA Rated; C0A2 - BofA ML U.S. Corporates, AA Rated; C0A3 - BofA ML U.S. Corporates, A Rated; C0A4 - 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; G4O2 - 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.