

Key Takeaway*

- Economic data and earnings have generally been strong, however, investor sentiment shifted later in the month as concerns began to set in about the future economic growth outlook and the COVID-19 Delta variant
- Global fixed income returns were mostly positive for the month with high quality governments and investment grade corporates significantly outperforming high yield
- Treasuries rallied as it appears to investors that the Federal Reserve (Fed) will remain accommodative for longer given a possible weaker growth outlook
- The deterioration of investor sentiment in China weakened EM returns this month as increased regulations (mostly in the property, education, technology sectors) contributed to market uncertainty

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

-\$414 million in high yield outflows, \$1.3 billion in leveraged loan retail inflows MTD (through 07.31)

HY New Issuance**	US	EUROPE	Main Market Driver*
YTD	\$329.5 bn	\$100.4 bn	Macro: Rates
MTD	\$30.4 bn	\$9.8 bn	Micro: Mixed flows, continued issuance
Loan New Issuance**	US	EUROPE	Default Rates***
YTD	\$559.5 bn		US 4.1%
MTD	\$64.6 bn		EUR 4.0%

Default rates are dollar weighted. Through 06.30.21. Trailing 12 months.

US & European figures through July 31

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

Carnival Corp, DirectV Holdings/Fin, Air Canada, Performance Food Group, ADT Security Corp, Builders Firstsource, Jeffries Fin LLC, Mav Acquisition, APX Group Inc, First Student and First Transit, AmWins Group Inc, Centrifid Media, Seaspan, Curo Group Holdings Corp, Novelis Corp, United Rentals, HCRX Investments, Ithaca Energy North Sea, McLaren Finance PLC, VMED O2 UK Financing, Jaguar Land Rover, Strathcona Resources, Acrisure

US New Issuance Pipeline MTD (Announced*)

Bally's Corp, Venture Global LNG, McGraw Hill

Source: Muzinich

Market Performance % and Statistics as of 2021-07-31

		Performance				Characteristics		
		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
High Yield								
JUC0	US HY Cash Pay Constr.	0.36	1.36	0.36	3.96	3.67	3.97	340
JCAN	US HY BB/B Non-Fncl. Constr.	0.42	1.29	0.42	3.30	3.78	3.65	307
HECO	Euro HY Constr.	0.41	0.58	0.41	3.44	3.48	2.48	321
HEC5	Euro HY BB/B Non-Fncl. Constr.	0.44	0.56	0.44	2.99	3.51	2.25	299
Investment Grade								
COA0	US Corp Master	1.21	1.67	1.21	0.14	8.26	1.95	87
C4NF	US Corporate BBB Non-Financial	1.28	1.90	1.28	0.83	8.54	2.23	110
ER00	EMU Corp	1.16	0.43	1.16	0.72	5.38	0.15	85
EN40	EMU Corp BBB Non-Financial	1.26	0.49	1.26	1.14	5.51	0.26	95
Governments (7-10 Yr Indices)								
G402	U.S. Treasuries 7-10 Yrs	1.82	1.05	1.82	-1.57	7.91	1.14	0
G4L0	UK Gilts 7-10 Yrs	1.20	0.57	1.20	-2.56	7.67	0.51	-2
G4D0	German Fed Govt 7-10 Yrs	1.85	0.47	1.85	-0.35	8.14	-0.60	-1
Equities								
S&P	S&P 500 incl. Dividends	2.38	2.33	2.38	17.98			
DAX	DAX Index	0.09	0.71	0.09	13.31			
Loans						Yield (%)	Discount Margin	
CS Leveraged Loan Index		0.00	0.41	0.00	3.48	(3yr life) 4.14%	bps (3yr life) 453	
CS Western European Leveraged Loan Index		0.04	0.31	0.04	2.95	3.74%	414	

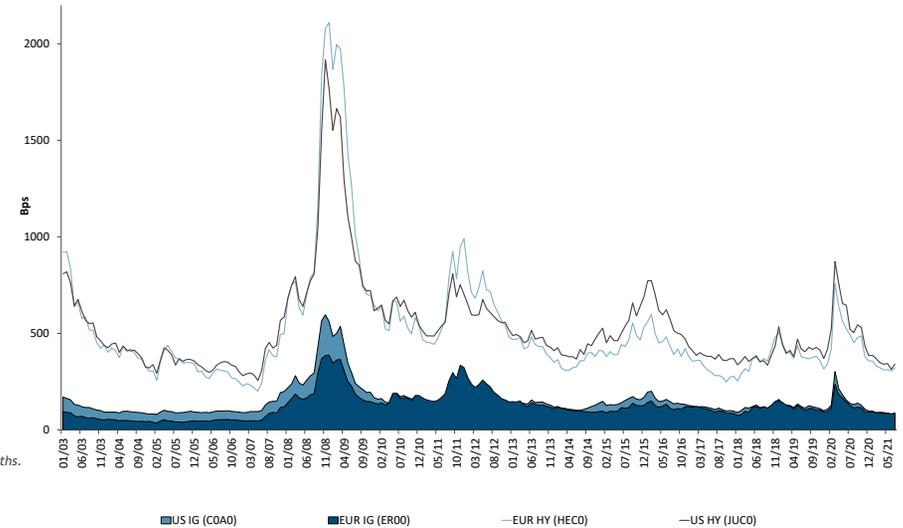
All performance, duration, yield and spread data downloaded from Bloomberg.

Past performance is not indicative of future results.

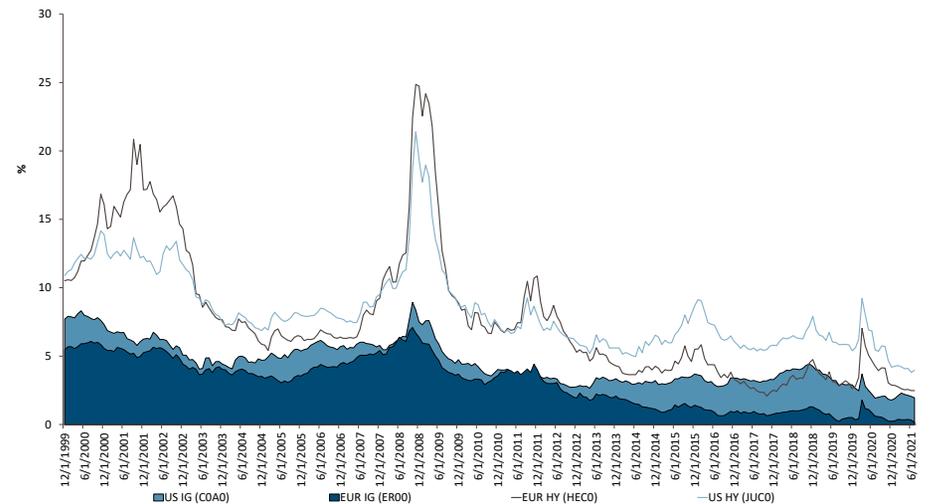
*Muzinich & Co. views and opinions, not to be construed as investment advice. **JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. ***Moody's Default Report

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Corporate Bond Spreads (STW) by Index

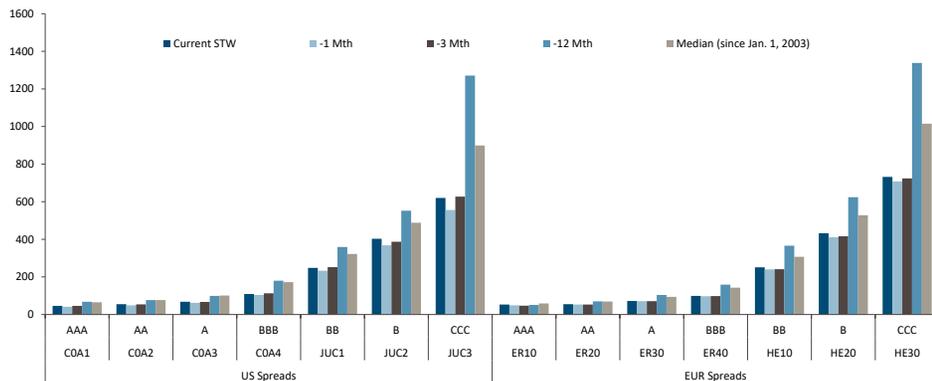


Corporate Bond Yields (YTW) by Index



Corporate Bond Spreads (STW) as of 2021-07-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US Spreads	COA0	IG	87	82	90	137	131
	JUC0	HY Constrained	340	314	340	521	470
	JUC4	BB/B	305	283	303	427	398
	COA1	AAA	46	41	46	68	65
EM Spreads	COA2	AA	55	49	54	77	77
	COA3	A	68	62	67	99	101
	COA4	BBB	109	104	113	180	172
	JUC1	BB	248	233	252	359	322
	JUC2	B	403	368	387	552	488
	JUC3	CCC	620	556	627	1271	899
	EMCL	Emerging Markets	269	249	259	386	314
EUR							
EUR Spreads	ER00	IG	85	83	84	127	113
	HEC0	HY Constrained	321	306	311	492	421
	ER10	AAA	53	49	47	51	59
	ER20	AA	55	53	53	70	69
	ER30	A	72	71	71	104	94
	ER40	BBB	99	97	98	159	143
	HE10	BB	251	240	241	366	307
	HE20	B	432	411	416	624	528
	HE30	CCC	732	708	724	1338	1015



Credit Market Update*

US:

Economic data and earnings have generally been strong (firm employment data), however investor sentiment changed later in the month as concerns began to set in about the future economic growth outlook and the COVID-19 Delta variant. US fixed income returns were positive in July with US Treasuries significantly outperforming and high yield lagging, albeit still generating a positive return. Treasuries rallied as it appears to investors that the Federal Reserve (Fed) will remain accommodative for longer given a possible weaker growth outlook. Spreads widened in both the high yield and investment grade markets, impacting prices. However, coupon helped high yield generate a positive return while rates helped investment grade corporates. In keeping with weaker performance in risk assets, CCCs lagged. High yield issuance delivered the highest issuance for any July on record.

Europe:

The European Central Bank (ECB) set a new inflation target of 2% and clarified they would allow inflation to go above 2%. They also left rates unchanged. It was a positive month for European fixed income, with strong returns from German bunds and UK gilts as investors sought safer havens on the back of the increasing impact of the COVID Delta variant. While both sub-asset classes of European credit produced positive returns, investment grade outperformed high yield, benefitting from the rally in government bonds. There were signs of stronger economic activity in the eurozone after a higher-than-expected 2% rise in eurozone gross domestic product (quarter on quarter) printed for the second quarter, announced in early August.

EM:

Central banks globally remained broadly supportive, the US dollar weakened, and commodities reverted to moving higher in price by the end of the month, however Emerging Markets (EM) also had to contend with the deterioration of investor sentiment in China. EM fixed income returns were mixed with investment grade generating positive returns, but high yield declining. The deterioration of investor sentiment in China weakened EM returns as increased regulations (mostly in the property, education, and technology sectors) contributed to market uncertainty. In the property sector, where policies were instituted to stop excessively leveraged building, we think long-term stability is increasing and companies will be protected over time, even if at present it has been hard not to get caught between a positive long-term outlook and weak short-term sentiment. In Turkey, the lira clawed its way back from a steep decline earlier in the year following the central bank's decision not to cut interest rates. Brazil remains poised for a rate increase as the central bank moves to tame inflation with prices moving sharply upward in the country's economic recovery.

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; 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.

*Muzinich & Co. views and opinions, not to be construed as investment advice.

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