

## Key Takeaway\*

- Global credit markets were dramatically impacted by the Russian invasion of Ukraine. If not for the war, February would have been all about rates
- The first half of the month was marked by increasing inflation concerns and fears that the Federal Reserve (Fed) would need to act aggressively to increase interest rates and withdraw stimulus. Once Russia invaded Ukraine, US Treasuries rallied
- The picture has changed radically for the ECB given developments in Ukraine and it is generally expected that the ECB will delay its plans to withdraw accommodation
- The G7 imposed restrictions on the Central Bank of Russia including disconnecting select Russian banks from the SWIFT financial messaging system and sanctioning key Russian leaders

## High Yield and Leveraged Loan Technicals

### US Retail Fund Flows\*\*

\$8.1 billion in high yield outflows, \$5.5 billion in leveraged loan retail inflows MTD (through 02.28)

HY New Issuance**	US	EUROPE	Main Market Driver*
YTD	\$33.5bn	\$10.2 bn	Macro: Russia invasion of Ukraine; rates
MTD	\$9.3 bn	\$3.7 bn	Micro: Outflows, reduced issuance
Loan New Issuance**	US	EUR	Default Rates***
YTD	\$98.9 bn		LTM US 1.3%
MTD	\$48.0 bn		LTM EUR 1.2%

US & European figures through February 28

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

McAfee, NCL Corp., Twitter Inc., AMC Entertainment, Scientific Games, Prince International, News Corp

### US New Issuance Pipeline MTD (Announced\*)

Betling Brands Inc.,

Source: Muzinich

### Market Performance % and Statistics as of 2022-02-28

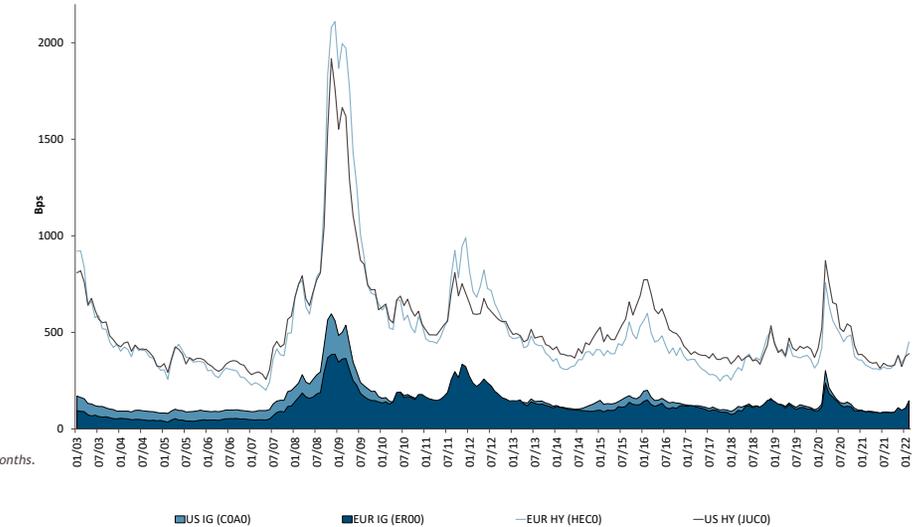
		Performance				Characteristics		
		MTD	Pr.Mth	QTD	YTD	DTW	YTW	STW
<b>High Yield</b>								
JUC0	US HY Cash Pay Constr.	-0.91	-2.74	-3.63	-3.63	4.47	5.56	390
JCAN	US HY BB/B Non-Fncl. Constr.	-0.86	-2.85	-3.69	-3.69	4.58	5.19	353
HECO	Euro HY Constr.	-3.23	-1.53	-4.71	-4.71	3.74	4.32	450
HEC5	Euro HY BB/B Non-Fncl. Constr.	-3.23	-1.54	-4.72	-4.72	3.82	4.11	428
<b>Investment Grade</b>								
COA0	US Corp Master	-2.18	-3.13	-5.24	-5.24	7.83	3.13	128
C4NF	US Corporate BBB Non-Financial	-2.53	-3.38	-5.82	-5.82	8.12	3.50	162
ER00	EMU Corp	-2.65	-1.32	-3.93	-3.93	5.11	1.28	146
EN40	EMU Corp BBB Non-Financial	-3.06	-1.42	-4.44	-4.44	5.24	1.51	167
<b>Governments (7-10 Yr Indices)</b>								
G402	U.S. Treasuries 7-10 Yrs	-0.38	-2.30	-2.67	-2.67	8.06	1.82	4
G4L0	UK Gilts 7-10 Yrs	-0.45	-2.62	-3.05	-3.05	8.02	1.32	-3
G4D0	German Fed Govt 7-10 Yrs	-1.21	-1.36	-2.56	-2.56	8.29	0.05	-1
<b>Equities</b>								
S&P	S&P 500 incl. Dividends	-3.00	-5.17	-8.02	-8.02			
DAX	DAX Index	-6.53	-2.60	-8.96	-8.96			
<b>Loans</b>						Yield (%)	Discount Margin	
CS Leveraged Loan Index		-0.50	0.36	-0.14	-0.14	(3yr life) 4.27%	bps (3yr life) 450	
CS Western European Leveraged Loan Index		-0.90	0.29	-0.62	-0.62	3.94%	459	

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

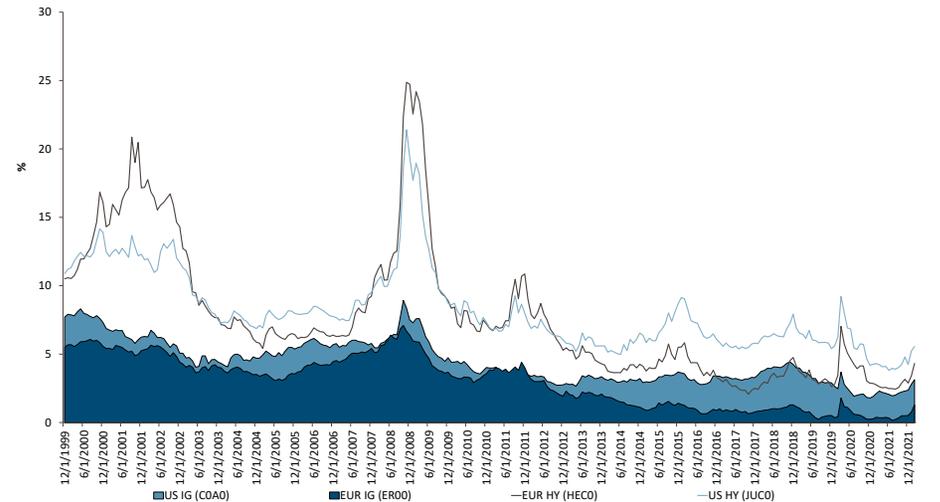
Past performance is not indicative of future results.

\*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

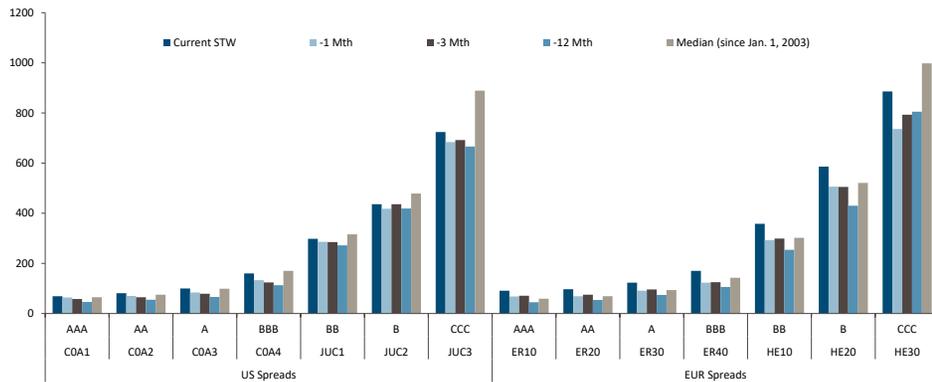


## Corporate Bond Yields (YTW) by Index



**Corporate Bond Spreads (STW) as of 2022-02-28**

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US Spreads	COA0	IG	128	107	100	89	129
	JUC0	HY Constrained	390	374	380	369	462
	JUC4	BB/B	352	339	344	328	391
	COA1	AAA	69	64	58	46	65
EM Spreads	COA2	AA	81	70	65	55	75
	COA3	A	100	84	79	66	99
	COA4	BBB	160	133	124	113	170
	JUC1	BB	298	286	285	272	316
	JUC2	B	436	418	436	419	479
	JUC3	CCC	724	684	692	666	889
	EMCL	Emerging Markets	354	283	295	253	309
<b>EUR</b>							
EUR Spreads	ER00	IG	146	106	110	88	111
	HEC0	HY Constrained	450	374	381	331	419
	ER10	AAA	91	68	71	45	59
	ER20	AA	97	69	75	54	69
	ER30	A	123	91	96	74	94
	ER40	BBB	170	123	125	106	143
	HE10	BB	358	293	299	254	302
	HE20	B	586	506	505	430	521
	HE30	CCC	886	736	793	805	998



**Credit Market Update\***

US:

War in Ukraine has dramatically impacted sentiment in the fixed income markets. If not for the war, February would have been all about rates. All of US fixed income was down this month with US investment grade (IG) posting the sharpest declines and Treasuries, while also negative, rallying toward month-end as investors fled to the relative safety of government bonds. The first half of the month was marked by increasing inflation concerns and fears that the Federal Reserve (Fed) would need to act aggressively to increase interest rates and withdraw stimulus. Investors were forecasting the Fed would increase rates by 50 bps. Once Russia invaded Ukraine, US Treasuries rallied. Both the IG and high yield (HY) new issue markets were open, albeit down from 2021 issuance levels. We have, however, seen increased concessions with new issues in both markets pricing wider reflecting the new environment. While spreads widened for both IG and HY corporates, HY spreads remain inside their long-term median while IG is trading at its long-term median.

Europe:

The Russian invasion of Ukraine trumped rates in February leading all segments of the European fixed income market to decline. In the first half of the month, rates drove returns as it was widely expected that given inflationary pressures, the European Central Bank (ECB) would be hawkish at its March meeting and announce an end to its asset purchase program and signal a willingness to raise rates. The picture has changed radically for the ECB given developments in Ukraine and it is generally expected that the ECB will delay its plans to withdraw accommodation. There was limited investment grade and high yield issuance in February and while there were some modest outflows, selling was very orderly. It is important to emphasize that Russia is a member of EM indices, generally issuing in US Dollars, and that the only Russian exposure in European indices are Euro denominated issues comprising only 0.15% of the broad European market (ICE BofA ML Euro HY Constrained Index - HEC0).

EM:

Emerging Markets (EM) declined in February primarily as a function of geopolitical concerns leading up to Russia's invasion of Ukraine at the end of the month. In the first half of the month, EM returns were driven also by rates; given continued inflationary pressure and concerns that the Fed would need to act aggressively by increasing rates and withdrawing stimulus. However, following the Russian invasion, government bonds in the US and Europe rallied and oil prices rose as investors weighed the global economic implications of the war. Headlines have focused on the threat to global recovery from the Russian/Ukraine crisis—along with its potential to amplify other shocks—as the US and its allies have stepped up efforts to isolate Moscow. Russia has doubled interest rates and recent sanctions sent the ruble plunging. Meanwhile Russian bonds tumbled as investors braced for the possibility of the country defaulting on its debt for the first time since 1998 (Source: The Financial Times, 28 February 2022). Credit markets globally dropped on news of tightening sanctions, while the G7 imposed restrictions on the Central Bank of Russia including disconnecting select Russian banks from the SWIFT financial messaging system and sanctioning key Russian leaders.

**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; 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, B Rated; HE20 - 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; G402 - 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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