Muzinich & Co. Corporate Credit Snapshot

Muzinich & Co

31 March 2022

Key Takeaway*

- Global credit markets delivered mixed returns in March. It was another challenging month for duration sensitive credit as rates moved higher
- The Federal Reserve (Fed) announced their hawkish rate plan which consists of several rate hikes and a wind down of quantitative easing. The European Central Bank (ECB) announced an end to its pandemic asset purchase program by the end of Q2 and intention to raise interest rates in the second half of 2022. This communication was viewed as very hawkish and led to higher short term interest rates, which led to a substantial decline in the amount of negative yielding European debt
- During the month, the belly of the US Treasury curve flattened (3 year to 7 years flatter) and the 7 to 10 year segment inverted, with 10 year rates lower than 7 year rates. Historically, an inverted yield curve over a number of months has been an indicator of a recessionary environment
- Emerging Markets (EM) continued to be challenged this month by negative performance from China (particularly the property sector) and Russian assets, as well as rising US rates

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

$4.9 billion in high yield outflows, $2.2 billion in leveraged loan retail inflows MTD (through 03.31)

HY New Issuance**	US	EUROPE	Main Market Driver*		
YTD	$46.5 bn	$13.3 bn	Macro: Rates; Russian invasion of Ukraine		
MTD	$9.9 bn	$1.2 bn	Micro: Mixed technicals		
Loan New Issuance**	US		**Default Rates*****	US	EUR
YTD	$120.5 bn		LTM	1.2%	2.1%
MTD	$21.6 bn				

US & European figures through March 31

Default rates are dollar weighted. Through 02.28.22.Trailing 12 months.

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

Ford Motor Credit Co., Churchill Downs, Novolex, Yum! Brands Inc, Bellring Brands Inc., Owens & Minor Inc., Crown Americas, SPX Flow, Macy's

US New Issuance Pipeline MTD (Announced*)

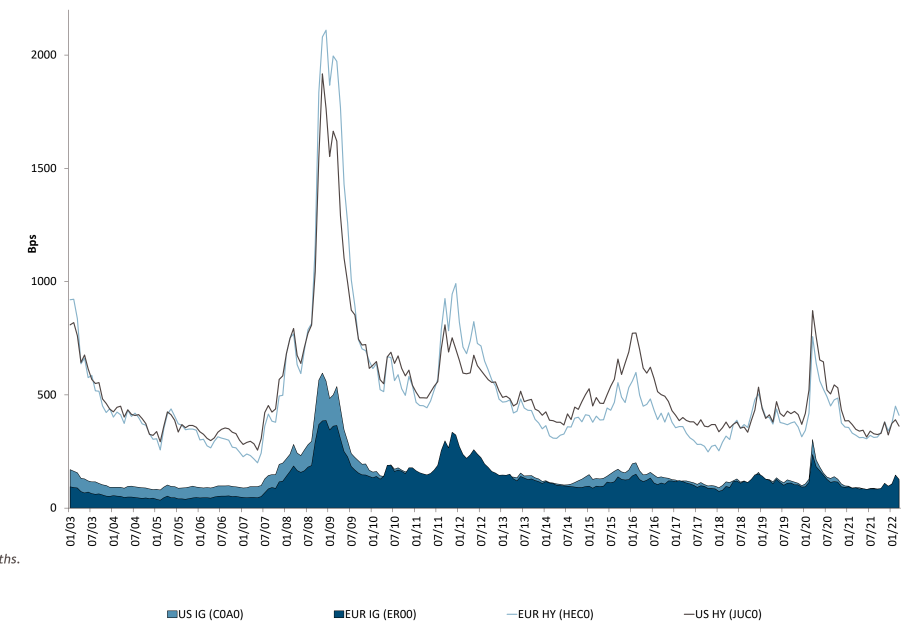
Source: Muzinich

Market Performance % and Statistics as of 2022-03-31

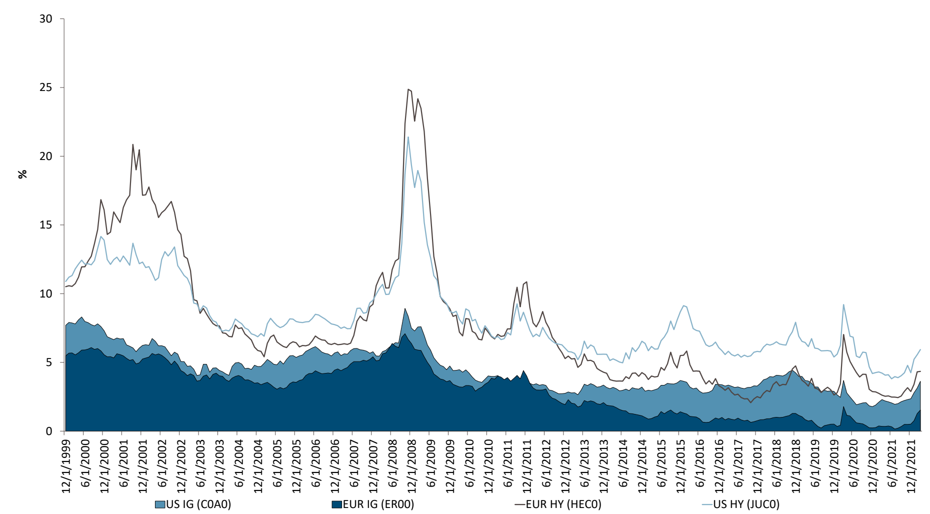
		Performance				Characteristics		
High Yield		**MTD**	**Pr.Mth**	**QTD**	**YTD**	**DTW**	**YTW**	**STW**
JUC0	US HY Cash Pay Constr.	-0.91	-0.91	-4.51	-4.51	4.43	5.94	362
JC4N	US HY BB/B Non-Fncl. Constr.	-0.83	-0.86	-4.49	-4.49	4.55	5.55	323
HEC0	Euro HY Constr.	-0.12	-3.23	-4.83	-4.83	3.69	4.35	410
HEC5	Euro HY BB/B Non-Fncl. Constr.	0.17	-3.23	-4.55	-4.55	3.77	4.13	388
Investment Grade								
C0A0	US Corp Master	-2.64	-2.18	-7.74	-7.74	7.79	3.63	121
C4NF	US Corporate BBB Non-Financial	-2.84	-2.53	-8.49	-8.49	8.13	3.91	150
ER00	EMU Corp	-1.39	-2.65	-5.26	-5.26	5.09	1.54	127
EN40	EMU Corp BBB Non-Financial	-1.80	-3.06	-6.16	-6.16	5.24	1.75	147
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	-3.93	-0.38	-6.49	-6.49	7.96	2.35	6
G4L0	UK Gilts 7-10 Yrs	-1.56	-0.45	-4.56	-4.56	7.93	1.53	-3
G4D0	German Fed Govt 7-10 Yrs	-3.32	-1.21	-5.79	-5.79	8.20	0.46	0
Equities								
S&P	S&P 500 incl. Dividends	3.71	-3.00	-4.60	-4.60			
DAX	DAX Index	-0.32	-6.53	-9.25	-9.25	**Yield (%)**	**Discount Margin**	
Loans						(3yr life)	bps (3yr life)	
	CS Leveraged Loan Index	0.04	-0.50	-0.10	-0.10	4.40%	449	
	CS Western European Leveraged Loan Index	0.09	-0.90	-0.53	-0.53	4.01%	463	

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*

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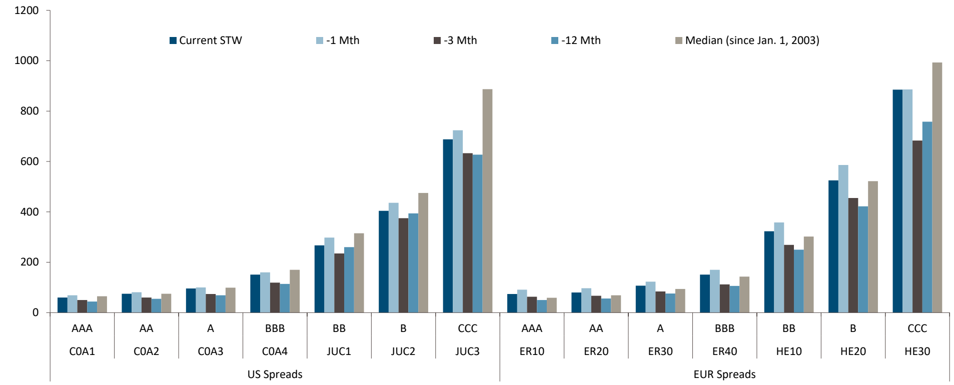
Corporate Bond Spreads (STW) as of 2022-03-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
	C0A0	IG	121	128	95	91	129
	JUC0	HY Constrained	362	390	323	348	461
	JUC4	BB/B	324	352	289	310	390
US Spreads	C0A1	AAA	60	69	50	44	65
	C0A2	AA	75	81	60	55	75
	C0A3	A	96	100	74	69	99
	C0A4	BBB	151	160	119	114	170
	JUC1	BB	267	298	235	260	315
	JUC2	B	404	436	375	394	475
	JUC3	CCC	688	724	633	627	887
EM Spreads	EMCL	Emerging Markets	288	354	270	264	308
EUR							
	ER00	IG	127	146	97	90	111
	HEC0	HY Constrained	410	450	341	322	419
EUR Spreads	ER10	AAA	74	91	63	50	59
	ER20	AA	80	97	67	56	69
	ER30	A	107	123	84	76	94
	ER40	BBB	151	170	112	106	143
	HE10	BB	323	358	269	250	302
	HE20	B	525	586	455	422	522
	HE30	CCC	885	886	683	758	993



Credit Market Update*

US:

It was another challenging month for US fixed income as rates moved higher, impacting duration sensitive credit like investment grade corporates and Treasuries most directly. March economic data was strong and inflation prints were higher. The Federal Reserve (Fed) announced their hawkish rate plan which consists of several rate hikes and a wind down of quantitative easing. During the month, the belly of the curve flattened (3 year to 7 years flatter) and the 7 to 10 year segment inverted, with 10 year rates lower than 7 year rates. Historically, an inverted yield curve over a number of months has been an indicator of a recessionary environment. While high yield new issuance was muted, BB and B issuers were still able to come to market. CCC issuers, however, found the market challenging as market participants reassessed their risk appetites. We find in general that high yield issuers have not needed to come to the new issue market and issue in today's higher rate environment, as they have already locked in historically low rates with long dated maturities. This limited new issuance has dampened spread widening. This is not the case in the investment grade market where issuers typically have a variety of maturities outstanding (e.g., 5, 10, and 30 year bonds) and are used to regularly accessing the market. Investment grade spreads have been wider given this technical impact.

Europe:

European fixed income returns were mixed in March with high yield flat to barely positive as duration sensitive credit declined more substantially. Early in the month, spreads were wider on the back of the Russian invasion of the Ukraine, however, as the month progressed, inflation concerns, rates, and central bank action dominated investor thoughts. The European Central Bank (ECB) announced it will end to its pandemic asset purchase program by the end of Q2 and intends to raise interest rates in the second half of 2022. This communication was viewed as very hawkish and led to higher short term interest rates. With the rise in short-term rates, the amount of negative yielding European debt has substantially declined. The investment grade new issue market reopened in mid-March and the high yield market is expected to reopen after Easter.

EM:

Emerging Markets (EM) continued to be challenged this month by negative performance from China (particularly the property sector) and Russian assets, as well as rising US rates and higher inflation prints. While the war in Ukraine continues to exact a horrific human toll, the markets seem to be looking through the current geopolitical situation. EM saw inflows each week of the second half of the month. We note that second quarter seasonal economic data has historically supported the second quarter of the year as the strongest total return quarter for global corporate credit over the last 10 years (Bloomberg, 31 March 2022). Furthermore, looking ahead for EM high yield, a second negative quarter to start the year has only happen once in 2018, with a data set going back to 2003 (ibid., 31 March 2022). Positive data for strong seasonal results are further enhanced by solid balance sheet fundamentals, more competitive valuations than at the start of the year, and low positioning by asset allocators to fixed income, with JPMorgan estimating that bond allocations by investors globally stand at 18% of the average portfolio, the lowest level since 2008 (Bloomberg, "PM Strategist Says Bonds Rotation Into Equities to Slow From 2Q," 31 March 2022). China released disappointing economic data at the close of the month, including PMIs below 50, indicating economic contraction for both manufacturing and services. The economic cost of China's COVID-19 zero tolerance policy is now clearly seen. We continue to watch for signs of a dislocation in pricing that may present attractive opportunities.

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