

Key Takeaway\*

- Global fixed income returns were mixed for the month. EM high yield outperformed DM. European sovereigns and investment grade declined
- In the US, investor euphoria regarding a "new hope" in President Trump has morphed into concerns about the "new reality"
- Corporate credit technicals were generally solid. US loan new issuance has been extremely robust given strong inflows into the loan asset class on the back of investor concerns about the potential for increased inflation/rising rates
- The strength of EM has been broad-based although Brazil is leading the strength by far

\*Muzinich Analysis

High Yield and Leveraged Loan Technicals

US Retail Fund Flows \*

\$0.5 billion in high yield outflows, \$3.3 billion in leveraged loan retail inflows MTD (through 01.27)

HY New Issuance*	US	EUR	Main Market Driver
YTD	\$24.4 bn	€5.4 bn	Macro: Risk-on
MTD	\$24.4 bn	€5.4 bn	Micro: Solid technicals
Loan New Issuance*	US		Default Rates**
YTD	\$87.8 bn		US EUR
MTD	\$87.8 bn		LTM 3.7% 2.6%

Default rates are dollar weighted. Through 12.31.16. Trailing 12 months.

US figures through January 27; European figures through January 30

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

Lennar Corp, Flex Acquisition Co, Icahn Enterprises, Meg Energy Corp, Zayo Group, Tenn Meger Sub Inc, Silversea Cruise, CCO Holdings, Terex Corp, Koppers Inc, Vector Group, Ardagh Pkg, Park Aerospace Holdings, Nielson Co

New Issuance Pipeline (Announced \*\*\*)

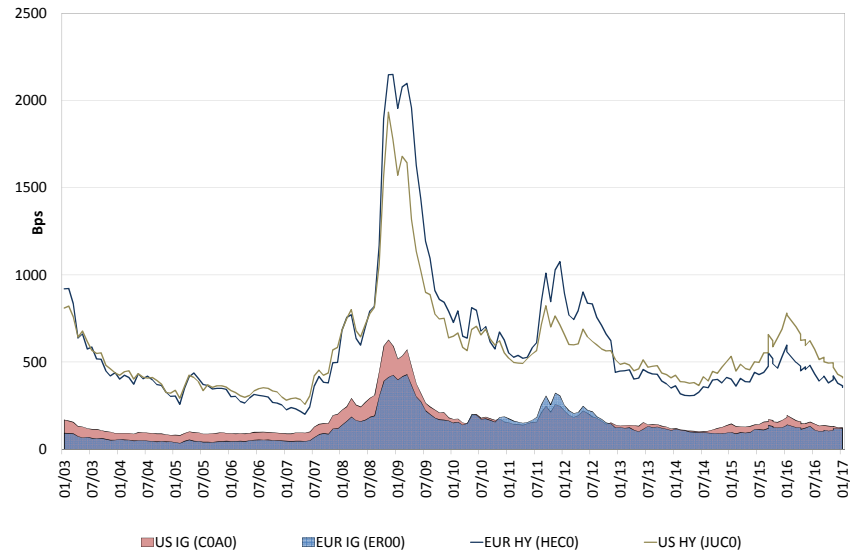
Vertiv Intermediate, American Greetings, Change Healthcare, EP Energy, Ferroglobe, Scientific Games

\* JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. \*\* Moody's; \*\*\*Muzinich & Co.

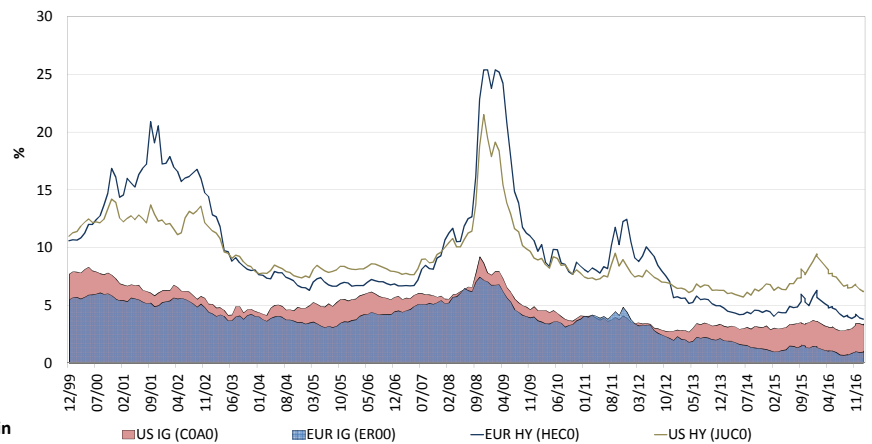
Market Performance % and Statistics as of 2017-01-31

		Previous			Duration		Yield	Spread
		MTD	Mth	QTD	YTD	DTW	YTW	STW
<b>High Yield</b>								
JUC0	US HY Cash Pay Constr.	1.34	1.95	1.34	1.34	3.86	5.85	410
JC4N	US HY BB/B Non-Fncl. Constr.	1.20	1.66	1.20	1.20	3.95	5.15	339
HEC0	Euro HY Constr.	0.75	1.86	0.75	0.75	3.17	3.17	355
HEC5	Euro HY BB/B Non-Fncl. Constr.	0.65	1.78	0.65	0.65	3.23	2.71	310
<b>Investment Grade</b>								
C0A0	US Corp Master	0.41	0.63	0.41	0.41	6.87	3.38	124
C4NF	US Corporate BBB Non-Financial	0.57	0.91	0.57	0.57	7.12	3.75	154
ER00	EMU Corp	-0.58	0.59	-0.58	-0.58	5.24	1.00	117
EN40	EMU Corp BBB Non-Financial	-0.58	0.67	-0.58	-0.58	5.32	1.11	126
<b>Governments (7-10 Yr Indices)</b>								
G4O2	U.S. Treasuries 7-10 Yrs	0.15	-0.18	0.15	0.15	7.49	2.37	
G4L0	UK Gilts 7-10 Yrs	-1.21	1.49	-1.21	-1.21	7.40	1.22	
G4D0	German Fed Govt 7-10 Yrs	-1.28	0.55	-1.28	-1.28	7.96	0.15	
<b>Equities</b>								
S&P	S&P 500 incl. Dividends	1.90	1.97	1.90	1.90			
DAX	DAX Index	0.47	7.90	0.47	0.47			
<b>Loans</b>								
					Yield %		Discount Margin	
					(3yr life) bps		(3yr life)	
CS Institutional Leveraged Loan Index		0.33	0.92	0.33	0.33	5.61%	392	

Corporate Bond Spreads (STW) by Index

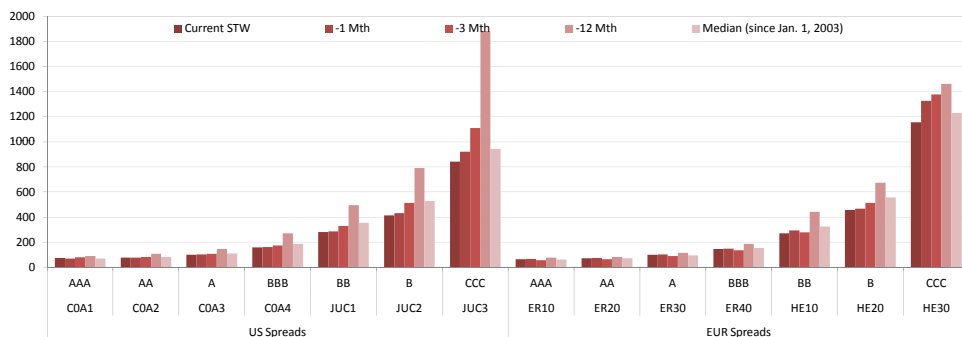


Corporate Bond Yields (YTW) by Index



## Corporate Bond Spreads (STW) as of 2017-01-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)	
US Spreads	COA0	IG	124	126	134	196	142	
	JUC0	HY Constrained	410	430	494	772	507	
	JUC4	BB/B	338	349	408	624	441	
	COA1	AAA	74	68	78	89	68	
	COA2	AA	76	77	82	107	82	
	COA3	A	100	101	106	145	110	
	COA4	BBB	157	161	173	271	185	
EM Spreads	JUC1	BB	280	286	330	496	354	
	JUC2	B	414	432	512	790	529	
	JUC3	CCC	842	922	1109	1883	945	
	EMCL	Emerging Markets	285	305	316	490	329	
	<b>EUR</b>							
	EUR Spreads	ER00	IG	117	120	106	142	117
HEC0		HY Constrained	355	379	380	561	449	
ER10		AAA	64	65	55	75	60	
ER20		AA	72	74	63	82	71	
ER30		A	99	102	89	114	95	
ER40		BBB	144	148	134	187	153	
HE10		BB	269	292	279	441	325	
HE20		B	457	466	513	673	556	
HE30		CCC	1157	1327	1377	1461	1229	



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## Credit Market Update\*

### US:

While January was a strong month for risk assets, we definitely noticed a shift in sentiment mid-month. It appears that investor euphoria regarding a “new hope” in President Trump has morphed into concerns about the “new reality”. Nevertheless, for the month US high yield outperformed investment grade corporates, US Treasuries and loans. Most of the returns were front-loaded to the first half of the month. Earnings continue to come in fine. As it is earnings season and many companies are in their quiet periods, we saw somewhat lower high yield issuance. Loan new issuance has been extremely robust given strong inflows into the loan asset class on the back of investor concerns about the potential for increased inflation/rising interest rates. Despite a strong technical backdrop, loans have underperformed high yield largely because loans, which traditionally offer little call protection, have been trading close to par (providing therefore limited opportunities for capital appreciation). Investors will be paying close attention to what a Trump presidency means for policy and markets.

### Europe:

European fixed income returns were mixed for the month with high yield generating solid, positive performance and government bonds declining. European investment grade declined on the back of sovereign weakness. We speculate that the decline in European sovereigns (yields higher) is likely a response to a slightly more hawkish sounding ECB and higher than expected Consumer Price Index figures, coupled with stronger than expected confidence data, retail, and industrial sales figures. New issuance in the European investment grade market was very strong during the first month of the New Year, especially when compared to the same time last year which was characterized by subdued new issuance due to market weakness. In the European high yield market, new issuance was dominated by Sterling denominated bonds as UK companies prudently tried to lock in long-term funding ahead of the expected prolonged Brexit negotiations. In terms of flows, the European investment grade market generally recorded outflows during the month while flows into European high yield appeared more mixed with slightly negative-to-neutral fund flow data.

### EM:

January was a strong month for Emerging Market (EM) assets as the year began in a risk-on mode with high yield outperforming investment grade. In keeping with the risk-on theme, metals/mining outperformed on a sector basis. Flows were positive into EM-dedicated equity funds, but flat for EM-dedicated bond funds. The LATAM region was the leader for the month, largely driven by Brazil and Argentina, where we saw a flood of new issuance, albeit largely for refinancing transactions that did not significantly grow market supply. Argentina remains “open,” with investors participating in corporate issuance, mostly from utility companies, and in a significant sovereign issue. Asia saw some new issues in the property market but was generally quiet due to the Chinese New Year. In other news, Fitch downgraded Turkey to high yield on the back of political and security developments and their effect on the country’s economic and institutional independence.

## 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; JCAN – BofA ML BB/B U.S. Non-Financial, Cash Pay, High Yield Constrained Index; HECO – 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; CD40 – BofA ML U.S. Corporate Master; CD41 – BofA ML U.S. Corporates, AAA Rated; CD42 – BofA ML U.S. Corporates, AA Rated; CD43 – BofA ML U.S. Corporates, A Rated; CD44 – BofA ML U.S. Corporates, BBB Rated; CANF – BofA ML BB 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.

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