Muzinich & Co.

Corporate Credit Market Snapshot

28 February 2017

Key Takeaway*

- Global fixed income returns generated solid, positive returns with European governments (UK, Germany) outperforming
- Corporate credit was the beneficiary of strong inflows as investors looked to spread product in an environment of solid economic growth and low absolute yields globally
- On a sector basis, healthcare outperformed in the US on the market's realization that much of the Affordable Care Act will likely remain in place for the time being and that replacement is more likely than repeal
- Markets are pricing in an increased likelihood of the Federal Reserve acting at the upcoming mid-March meeting

**Muzinich Analysis*

High Yield and Leveraged Loan Technicals

US Retail Fund Flows *

$1.5 billion in high yield inflows, $3.0 billion in leveraged loan retail inflows MTD (through 02.28)

HY New Issuance*	US	EUR
YTD	$48.9 bn	€10.5 bn
MTD	$22.4 bn	€5.1 bn
Loan New Issuance*	**US**	
YTD	$206.4 bn	
MTD	$89.1 bn	

US and European figures through February 24

Main Market Driver

Macro: Risk-on
Micro: Solid technicals

Default Rates**	US	EUR
LTM	3.6%	2.9%

Default rates are dollar weighted. Through 01.31.17.Trailing 12 months.

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

Scientific Games, EP Energy, Constellium N.V., Standard Industries, Change Health, Vertiv, Amerigas, Post Holdings Inc, Symantec Corp, Peabody, Summit Mid, Block Communications Inc, Halcon Resources, Kronos Acquisition, Stoneway Capital Corp, Cliffs Natural Resources Inc, AECOM, NGL Energy Partners, United Rentals, Viacom Inc, CDW LLC, Ardagh Pkg

New Issuance Pipeline (Announced *)**

American Axle, LPL Financial, BlueLine Rental, Vermilion Energy

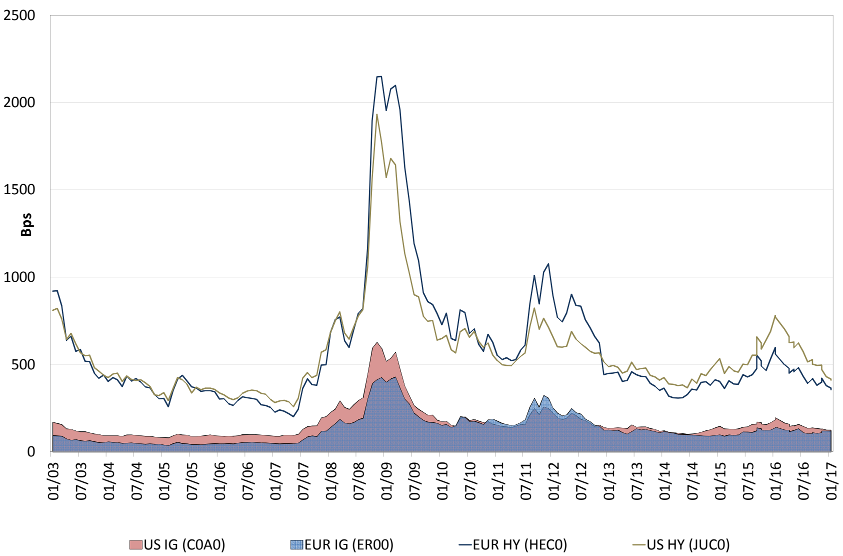
** JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. ** Moody's; ***Muzinich & Co.*

Market Performance % and Statistics as of 2017-02-28

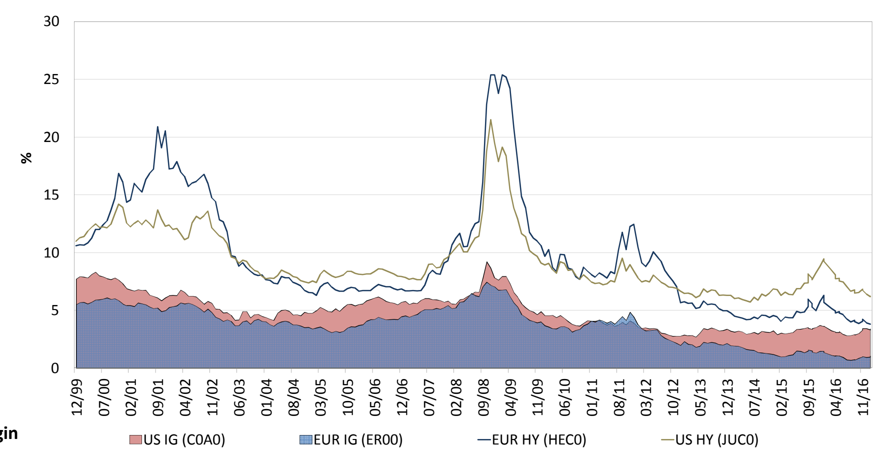
		MTD	Previous Mth	QTD	YTD	Duration DTW	Yield YTW	Spread STW
High Yield								
JUC0	US HY Cash Pay Constr.	1.56	1.34	2.93	2.93	3.77	5.57	386
JC4N	US HY BB/B Non-Fncl. Constr.	1.22	1.20	2.43	2.43	3.84	4.94	323
HEC0	Euro HY Constr.	0.95	0.75	1.71	1.71	3.09	2.97	360
HEC5	Euro HY BB/B Non-Fncl. Constr.	1.02	0.65	1.67	1.67	3.12	2.47	312
Investment Grade								
C0A0	US Corp Master	1.13	0.41	1.55	1.55	6.94	3.28	118
C4NF	US Corporate BBB Non-Financial	1.28	0.57	1.85	1.85	7.19	3.65	149
ER00	EMU Corp	1.18	-0.58	0.59	0.59	5.28	0.82	122
EN40	EMU Corp BBB Non-Financial	1.27	-0.58	0.69	0.69	5.37	0.94	131
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	0.76	0.15	0.91	0.91	7.60	2.30	
G4L0	UK Gilts 7-10 Yrs	2.66	-1.21	1.42	1.42	7.49	0.89	
G4D0	German Fed Govt 7-10 Yrs	2.00	-1.28	0.69	0.69	8.22	-0.06	
Equities								
S&P	S&P 500 incl. Dividends	3.97	1.90	5.94	5.94			
DAX	DAX Index	2.59	0.47	3.08	3.08			

	MTD	Previous Mth	QTD	YTD	Yield % (3yr life)	Discount Margin bps (3yr life)
Loans						
CS Institutional Leveraged Loan Index	0.51	0.33	0.84	0.84	5.56%	381

Corporate Bond Spreads (STW) by Index



Corporate Bond Yields (YTW) by Index



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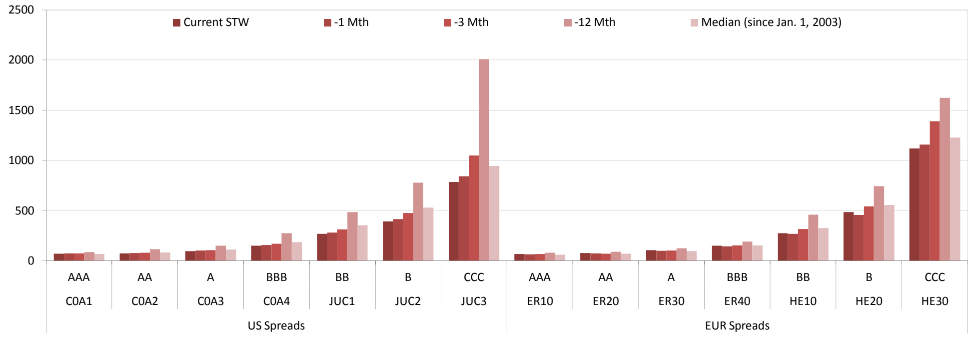
Corporate Bond Spreads (STW) as of 2017-02-28

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
	C0A0	IG	118	124	132	200	142
	JUC0	HY Constrained	386	410	471	773	507
	JUC4	BB/B	320	338	379	611	441
US Spreads	C0A1	AAA	70	74	72	87	68
	C0A2	AA	72	76	80	113	82
	C0A3	A	95	100	104	150	110
	C0A4	BBB	151	157	170	275	185
	JUC1	BB	267	280	311	485	354
	JUC2	B	391	414	475	777	529
	JUC3	CCC	783	842	1050	2009	945
EM Spreads	EMCL	Emerging Markets	269	285	314	487	329
EUR							
	ER00	IG	122	117	120	150	117
	HEC0	HY Constrained	360	355	421	599	449
EUR Spreads	ER10	AAA	68	64	65	79	60
	ER20	AA	75	72	71	88	71
	ER30	A	105	99	100	125	95
	ER40	BBB	150	144	152	192	153
	HE10	BB	274	269	316	459	325
	HE20	B	483	457	541	742	556
	HE30	CCC	1118	1157	1389	1623	1229



Credit Market Update*

US

US fixed income returns were strongly positive for the month with high yield outperforming investment grade, Treasuries and loans. Sentiment was clearly risk-on as evidenced by the outperformance of lower rated (CCC) credits. A general sense of optimism and the continued search for yield led to strong inflows. We continue to see foreign interest in US corporates given low yields and political uncertainty in Europe and lower hedging costs (at least versus a few weeks ago). Inflows coupled with limited high yield issuance provided a solid technical environment. Investment grade issuance was solid but lower than the previous month's record. On a sector basis, healthcare outperformed on the market's realization that much of the Affordable Care Act will likely remain in place for the time being and that the replacement of the program is more likely than repeal. Earnings have generally been positive with the exception of some weakness in the traditional bricks and mortar retail sector. Investors will now look to the Federal Reserve (Fed) in mid-March. Markets are pricing in an increased likelihood of the Fed acting at this meeting. Given solid fundamentals and rate concerns, we believe investors will likely continue to favor loans and high yield.

Europe

European fixed income markets generated strong, positive returns led by European governments. The rally in European rates (yields down) was not confined to the Bund but was broader based and included periphery countries. Many investors interpreted the broad based rally in European rates as related to the European Central Bank's (ECB) continued Quantitative Easing (QE) program. The high yield new issue market was weaker than previous months, however, it has been stronger than last year when the market still reeled from a big sell off. New issuance in the European investment grade market continued to be strong as companies are trying to address their funding needs in this low rate environment, particularly given the ECB's purchase program. However, the tenor of new issuance has reduced as investors are reluctant to add duration. The reluctance to add duration is also evident in fund flow data which suggests that investors are repositioning their fixed income exposure into shorter dated strategies. We agree with the sentiment that central banks could become less accommodating in the coming year as growth appears to pick up, unemployment seems to be normalizing and inflation expectations move higher.

EM

Emerging Markets (EM) generated strong returns in February driven by technicals (and to a lesser degree by improved global data and commodity prices). Treasuries saw significant intra-month volatility but ended the month marginally tighter. Regular duration and high yield continue to outperform short-duration and investment grade, although we have seen high yield-investment grade spread compression in the past month. A standout theme, not only EM related, is the low level of volatility across most asset classes. EM-dedicated flows continue to be positive both for equity and credit. On a sector basis, metals/mining and industrials outperformed. On a geographic basis, Latin America outperformed with Mexico and Brazil leading the way. Mexico announced a new policy for FX intervention, driving the Mexican Peso to appreciate by 3.5% versus the US Dollar. Brazil cut interest rates by 75 bps to 12.25%, while the Brazilian Real held steady versus the US Dollar. The BOVESPA (Brazilian stock market) was one of the top performers of the month across all asset classes. Asia returned to the market after Chinese New Year. China and India took the lead, printing a decent amount of new issues in February. High Yield outperformed, largely driven by yield seeking and recovery in risk appetite given strong economic data.

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**Muzinich Analysis.*