

Key Takeaway*

- Risk assets (high yield and equities) rallied this month - a fitting end to a strong year
- US high yield led the way both for the month and the year as investors looked to buy risk on the back of a "new hope" that economic growth would continue/accelerate in the US
- The ECB held a highly anticipated press conference towards the beginning of the month in which it both unexpectedly lowered its monthly target QE program while extending the program beyond market expectations
- The Federal Reserve met this month and increased the Fed funds rate for the first time in a year. We believe future Fed rate increases will continue to be based on positive economic data/trends

*Muzinich Analysis

High Yield and Leveraged Loan Technicals

US Retail Fund Flows *

\$6.4 billion in high yield inflows, \$5.7 billion in leveraged loan retail inflows MTD (through 12.28)

HY New Issuance*	US	EUR	Main Market Driver
YTD	\$286.2 bn	€58.9 bn	Macro: Risk-on
MTD	\$19.2 bn	€0.6 bn	Micro: Solid technicals
Loan New Issuance*	US		Default Rates**
YTD	\$485.4 bn		US EUR
MTD	\$69.7 bn		LTM 4.0% 3.4%

Default rates are dollar weighted. Through 11.30.16. Trailing 12 months.

US & European figures through December 30

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

Hudbay Minerals, Alta Mesa Holdings, Grinding Media, Nabors Industries, NCL Corp, Cheniere Corp Christi, Parsley Energy, Rowan Companies, Chesapeake Energy Corp, Antero Resources, Ritchie Bros Auctioneers, Starwood Property Trust, Concho Resources, Amerigas Partners, Noble Holding, Gulfport Energy Corp, Tesoro Corp, Diamondback Energy Inc

New Issuance Pipeline (Announced ***)

Downstream Development Authority

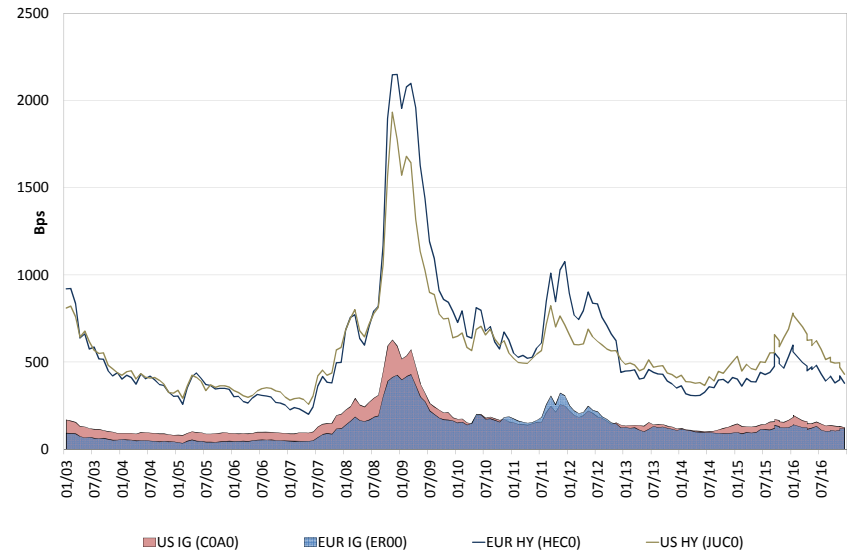
* JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. ** Moody's; ***Muzinich & Co.

Market Performance % and Statistics as of 2016-12-31

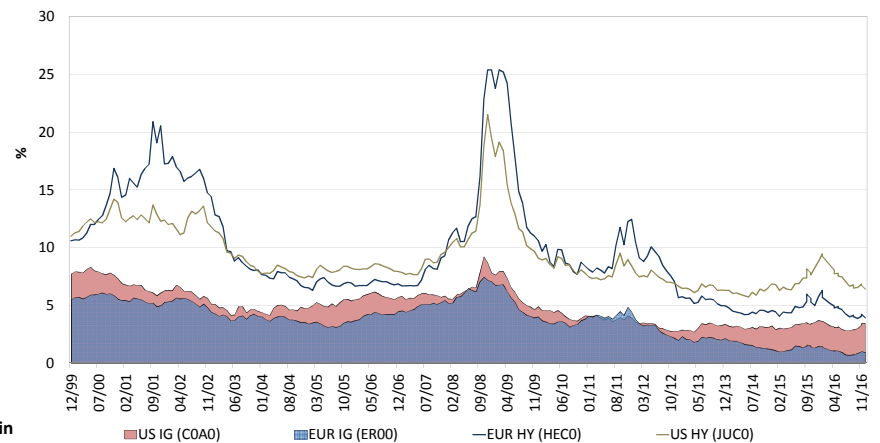
		Previous			Duration		Yield	Spread
High Yield		MTD	Mth	QTD	YTD	DTW	YTW	STW
JUC0	US HY Cash Pay Constr.	1.95	-0.40	1.85	17.34	3.96	6.09	430
JC4N	US HY BB/B Non-Fncl. Constr.	1.66	-0.52	1.28	15.49	4.06	5.30	351
HEC0	Euro HY Constr.	1.86	-0.92	1.84	9.10	3.20	3.31	379
HEC5	Euro HY BB/B Non-Fncl. Constr.	1.78	-0.78	1.78	10.20	3.25	2.78	328
Investment Grade								
C0A0	US Corp Master	0.63	-2.68	-2.88	5.96	6.87	3.40	126
C4NF	US Corporate BBB Non-Financial	0.91	-2.93	-2.79	8.77	7.14	3.79	158
ER00	EMU Corp	0.59	-1.04	-1.26	4.75	5.25	0.88	120
EN40	EMU Corp BBB Non-Financial	0.67	-1.34	-1.53	5.92	5.32	1.00	130
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	-0.18	-3.99	-5.53	0.97	7.58	2.37	
G4L0	UK Gilts 7-10 Yrs	1.49	-0.96	-2.87	7.84	7.48	1.05	
G4D0	German Fed Govt 7-10 Yrs	0.55	-0.67	-2.21	4.35	7.87	-0.04	
Equities								
S&P	S&P 500 incl. Dividends	1.97	3.70	3.81	11.93			
DAX	DAX Index	7.90	-0.23	9.23	6.87			
Loans								
CS Institutional Leveraged Loan Index		0.92	0.32	1.70	7.65		5.59%	392

Yield % Discount Margin
(3yr life) bps (3yr life)

Corporate Bond Spreads (STW) by Index



Corporate Bond Yields (YTW) by Index

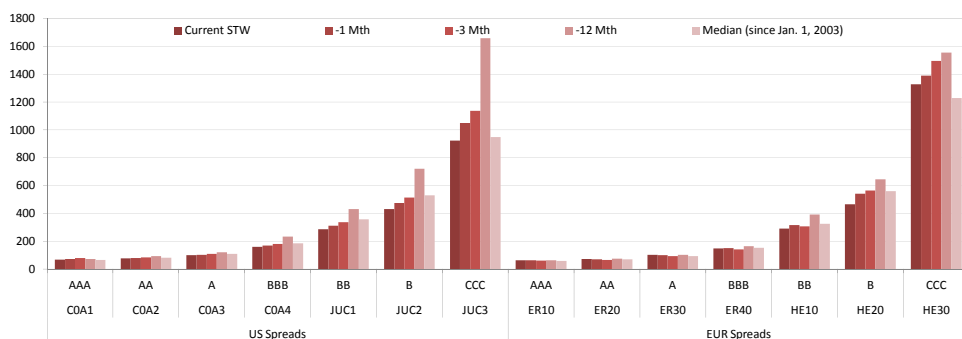


Corporate Bond Spreads (STW) as of 2016-12-31

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US Spreads	COA0	IG	126	132	138	168	143
	JUC0	HY Constrained	430	471	501	689	513
	JUC4	BB/B	349	379	413	557	442
	COA1	AAA	68	72	80	72	67
	COA2	AA	77	80	84	93	82
	COA3	A	101	104	109	121	110
	COA4	BBB	161	170	180	234	185
	JUC1	BB	286	311	337	431	357
	JUC2	B	432	475	514	720	530
	JUC3	CCC	922	1050	1137	1657	949
EM Spreads	EMCL	Emerging Markets	305	314	325	442	330

EUR

EUR Spreads	ER00	IG	120	120	111	126	116
	HEC0	HY Constrained	379	421	419	532	451
	ER10	AAA	65	65	62	63	59
	ER20	AA	74	71	67	75	70
	ER30	A	102	100	93	102	94
	ER40	BBB	148	152	141	166	155
	HE10	BB	292	316	307	392	326
	HE20	B	466	541	565	644	561
	HE30	CCC	1327	1389	1495	1554	1229



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Credit Market Update*

US

US risk assets (high yield and equities) rallied strongly this month – a fitting end to a strong year. Within fixed income, US high yield led the way both for the month and the year as investors looked to buy risk on the back of a “new hope” that economic growth would continue/accelerate in the US. While recent economic data has been decent, much of the new optimism is a function of the market’s belief that the fiscal and economic policies of President-elect, Donald Trump, will be stimulative. This optimism led to strong inflows into high yield. Given that new supply is typically more muted in December due to the holidays, high yield benefitted from strong technical support. The investment grade market benefitted from lighter supply and a rally in higher-beta sectors like energy, metals/mining and technology. Within investment grade, longer duration outperformed as investors took comfort in recent rate stabilization. The Federal Reserve (“Fed”) met this month and increased the Fed funds rate for the first time in a year. We believe the pace of future Fed rate increases will continue to be based on positive economic data/trends.

Europe

Contrary to US Treasuries which continued to sell off into December (yields higher), we saw major European rates rally during December (yields down). While European governments and investment grade corporates generated solid, positive performance, high yield outperformed. The European Central Bank (“ECB”) held a highly anticipated press conference towards the beginning of the month in which it both unexpectedly lowered its monthly target Quantitative Easing (“QE”) program while at the same time extending the timing of the program beyond what the market had expected. Headlines around the Italian banking sector as well as the Italian referendum were a big theme for investors going into December. However, as both a ‘no’ vote and some government intervention in the rescue plan for the most stressed Italian banks were largely anticipated, neither of these events managed to derail the market. The Austrian presidential election outcome went against the recent populist trend. The December new issue market was relatively small while inflows returned in Europe, after weakening—more particularly for high yield than for investment grade—in November.

EM

Emerging Markets (“EM”) generated strong positive performance led by high yield during this risk on month. EM performance was driven by spread tightening (partially a retracement from the initial Trump overreaction), a continuation of rising commodity prices and positive equity sentiment. Higher beta sectors like oil/gas and metals/mining outperformed. Given the outperformance of the commodities sector, LATAM generated the best returns on a geographic basis. Asia underperformed. Strong sentiment continues in the Brazilian market as growth expectations rise and fiscal management improves. The Obama administration expelled 35 Russian diplomats in response to alleged meddling in the election – with little impact on Russian credit.

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; HECS – BofA ML BB/B Euro Non-Financial High Yield Constrained Index; CDA0 – BofA ML U.S. Corporate Master; CDA1 – BofA ML U.S. Corporates, AAA Rated; CDA2 – BofA ML U.S. Corporates, AA Rated; CDA3 – BofA ML U.S. Corporates, A Rated; CDA4 – 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.

All performance, duration, yield and spread data downloaded from Bloomberg. Market iBoxx USD Leveraged Loan (iBOXLTRI), S&P 500 incl. Dividends, and DAX figures from Bloomberg. The content of this presentation is for information purposes and is directed at institutional, professional and sophisticated investors able to understand and accept the risks involved. It has been prepared using publicly available information, internally developed data and other sources believed to be reliable. It does not constitute an offer or solicitation to any person in any jurisdiction to purchase or sell any investment, nor does it constitute investment advice. The material in this presentation is directed only at entities or persons in jurisdictions or countries where access to and use of this information is not contrary to local laws or regulations. The views expressed and the information contained in this presentation may be subject to change at any time without notice. This document is intended for the sole use of the intended recipients and its content may not be copied, published or otherwise distributed. Muzinich does not warrant this information, and does not accept liability of any type for actions taken or not taken as a result of this information. Past performance of a fund does not indicate future performance. Investments are impacted by market conditions and investors may not receive back their invested capital. This material is intended for Professional Clients under the Markets in Financial Instruments Directive, where relevant. In the U.S., Muzinich services are available only to Accredited or Qualified Investors and are not intended for public sale.

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*Muzinich Analysis.

