ANALYSIS

Credit Continuum

16 July 2020

Chart a Course

Supportive technicals and marginally improving fundamentals continue to help compensate for persistent worrying signs.

The month of June saw the continuation of the global credit markets upside trajectory that started in April and May. Positive macro data leading to a much-expected recovery and the support provided by the Federal Reserve and the European Central Bank continues to have the intended effect on credit markets. Forward looking expectations remain challenged by an increase in new COVID-19 cases in the US and some regions in Europe. However, new developments in the search for a vaccine are encouraging.

After record new issuance YTD in developed credit markets, which has enabled corporates to shore up liquidity to withstand the coming months, we believe the level of corporate issuance may come down between now and the end of the year as economies continue the path to a progressive reopening.

In Europe, Germany has started its semester as president of the Council of the European Union and the priority in the agenda is achieving an agreement on the proposed EU Recovery Fund. The European Central Bank is willing to take time to asses the impact of the measures taken so far, but remains ready to act if necessary.

In our view, geopolitical tensions will remain on the forefront during the second half of 2020. The upcoming US Presidential election, the political consequences of the evolution of the spread of COVID-19, as well as political events such as renewed trade tensions between the US and China, events in Hong Kong and the outcome of the UK – EU negotiations can create volatility in the credit markets.

Michael McEachern, MBA

Portfolio Manager & Head of Public Markets

Michael manages the Muzinich Global Tactical Credit strategy. Prior to joining Muzinich in 2012, Michael was president and Head of the High Yield Division at Seix Advisors, Inc. At Seix Advisors, he was the founding partner of the high yield strategy that grew to over $13 billion under his leadership. Previously, Michael served in various research and portfolio management capacities at American General Corp. and at Capital Holding Corporation. He earned a BA in Management Science from the University of California, San Diego and an MBA from Rice University.

Looking forward, we expect the technical picture to remain supportive as the economic outlook improves and buyers, including the Federal Reserve and the European Central Bank, compete for a limited supply of investments.

In our view, marginally improving fundamentals and more limited new issuance make current valuations attractive still, such that spreads should tighten in the next few months. We expect interest rates to remain near historical lows and thus the extra yield that credit markets offer will potentially provide an attractive advantage to US Treasuries.

We expect the fundamental picture to be supported by further fiscal policy assets and the technical picture to be supported by investors' confidence and central bank ongoing purchase programmes.

The consensus amongst our senior investment professionals as of July 2, 2020 was that there is still some performance potential to be captured during Q3 and that portfolios should be positioned for a constructive outlook.

Important Information