



Credit Continuum

15 June 2020

Road to Recovery

Monetary stimulus measures and high levels of cash continue to support spread tightening between now and year end.

The rally in credit markets has continued in May given Federal Reserve and European Central Bank support measures and the hope that economic activity would resume as COVID-19 lockdowns are slowly phased out to varying degrees in most countries.

In this context, credit returns were strong, particularly US high yield outperformed all segments of the US fixed income market followed by loans and investment grade corporates. It appears that the surprising rebound in employment in May, although still at its highest level since the Great Depression, fueled enough hope of economic recovery, overshadowing widespread social unrest in the US to support credit markets.

The month of May has seen record flows in both high yield and investment grade corporates, further demonstrating the strength of the Fed's plan in our view. High yield has experienced record new issuance while investment grade posted its second highest new issuance month on record. Many companies, even the ones more impacted by COVID-19, have taken advantage of open capital markets and issued debt to shore up liquidity in their balance sheet to weather the coming months or to refinance upcoming maturities.

We believe that the continuous monetary stimulus provided by the extensive packages approved by both Fed and ECB together with an excess of liquidity, which is reaching record high levels, are reinforcing the tightening of spreads and the return to positive territory for total returns between now and rest of the year. (Please see Fig. 1 on the next page)



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.

In April, we noted in our Whitepaper [Long Term Valuations Can't Be Ignored](#), that if history is a guide in terms of return expectations, markets can recover quite quickly after a significant widening of spreads. In our view, the total return outlook has been historically positive when spreads have reached crisis levels.

Fig. 1 Spread to worst for US High Yield and rolling 3mth total return annualized



Source: ICE BoFA US High Yield Index (H0A0) as of June 14, 2020.

We believe that while companies are providing little forward guidance, the market will likely not focus on Q2 earnings numbers, as investors are looking ahead to 2021 and the companies that will survive because they have sufficient liquidity. In our view, credit selection will be important and the resilience of a company's balance sheet to prolonged economic uncertainty due to a potential second wave of COVID-19, renewed trade tensions between US and China and upcoming US presidential election, will be key in our credit analysis.

Important Information

Muzinich & Co. referenced herein is defined as Muzinich & Co., Inc. and its affiliates. This document has been produced for information purposes only and as such the views contained herein are not to be taken as investment advice. Opinions are as of date of publication and are subject to change without reference or notification to you. Past results do not guarantee future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed and investors may not get back the full amount invested. Rates of exchange may cause the value of investments to rise or fall. This document and the views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity; they are for information purposes only. Opinions and statements of financial market trends that are based on market conditions constitute our judgement as at the date of this document. They are considered to be accurate at the time of writing, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. Certain information contained in this document constitutes forward-looking statements; due to various risks and uncertainties, actual events may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in this document may be relied upon as a guarantee, promise, assurance or a representation as to the future. All information contained herein is believed to be accurate as of the date(s) indicated, is not complete, and is subject to change at any time. Certain information contained herein is based on data obtained from third parties and, although believed to be reliable, has not been independently verified by anyone at or affiliated with Muzinich and Co., its accuracy or completeness cannot be guaranteed. Emerging Markets may be more risky than more developed markets for a variety of reasons, including but not limited to, increased political, social and economic instability; heightened pricing volatility and reduced market liquidity. In Europe, this material is issued by Muzinich & Co. Ltd., which is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ. Muzinich & Co. Limited. is a subsidiary of Muzinich & Co., Inc. Muzinich & Co., Inc. is a registered investment adviser with the Securities and Exchange Commission. Muzinich & Co., Inc.'s being a registered investment adviser with the Securities Exchange Commission (SEC) in no way shall imply a certain level of skill or training or any authorization or approval by the SEC.

(H0A0)The ICE BofA ML US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$250 million.