

Credit Continuum

May 2018



Increasing dispersion may prove beneficial for active managers

With tangible signs of changes in the global macroeconomic and fiscal backdrop, perhaps the main issue on investors' minds is where we are in the economic cycle and whether a recession is imminent? While we are seeing signs that we are further along in the cycle, we believe we still have some way to go (i.e. possibly several years) before the end.

However, as we enter the latter stages of the current economic cycle and stimulative monetary policy is withdrawn, we expect to see increasing dispersion of returns across corporate credit.

During these times we believe active management is likely to become increasingly important; issuers will compete for capital and certain issuers will be challenged by larger coupons or limited capital market access.

An investor blindly buying into the market via an index or a macro-oriented approach could be exposed to challenged issuers, while actively managed, fundamental credit portfolios may avoid this disaster.

We are also seeing increasing credit quality degradation - notably in the US investment grade market, where the number of BBB rated credits now comprise close to half the total index.* As a result, this segment of the market will likely produce more volatility and dispersion during the next economic downturn. While we believe the segment offers value, this trend further highlights the need for thorough, bottom-up credit analysis, even in an investment universe traditionally considered to be relatively low risk.

We also continue to believe the carry provided by credit, as well as the regular income via the coupon, should continue to prove supportive for the asset class.



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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.

* Source: ICE BofA Merrill Lynch US Corporate Index (COA0), as of 7 May 2018

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