ANALYSIS

# Credit Continuum

## September 2018

### *Currency crises and idiosyncratic country events have created more volatility in some segments of the market, although appear relatively contained for now*

Despite recent headwinds, such as currency crises within a number of emerging market countries and fiscal uncertainty in Italy, we believe the global macroeconomic backdrop continues to be supportive for credit.

Within the US, the macro picture appears solid, with strong domestic demand and companies continuing to feel the benefits of the tax cut programme.

Meanwhile, US employment data for August has provided confirmation than hiring is robust and wage growth is accelerating. In our view, these data points should support the current Federal Open Market Committee's (FOMC) interest rates projections framework when it meets at the end of September. The market has largely priced in the Federal Reserve's next monetary policy decision, likely to be a further 25bps rise.*

With equity earnings growth probably at its peak, we believe investors are looking for the first signs that would herald the end of the credit cycle. While we do not think we have yet reached that point, we believe current US valuations would not offer enough protection.

*https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20180801.pdf


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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.

Within the eurozone, economic activity has followed a soft patch from its 2017 peak, but remains above potential growth, although there is some weakness in Italy.

We believe the upcoming Italian budget negotiations are likely to dominate sentiment towards the broader eurozone in the short term, and volatility is unlikely to fade before the final budget is presented at month end.

However, with yields already having risen quite significantly, we believe a lot of the risk has already been priced. Recent statements from Italy have also provided the markets some reassurance.

Looking at valuations, we believe European credit markets have accumulated value over the summer and now appear attractive relative to US markets. Indeed, in our view valuations could become even more attractive following the resolution of the Italian budget; were we to see a constructive resolution, we expect the market has room to tighten.

Within emerging markets (EM), recent volatility on the back of a number of events in countries such as Turkey and Argentina, has resulted in significant outflows from EM local currency funds. However, we note that EM hard currency denominated funds have held up relatively well under pressure.

While we believe the broader EM local currency complex remains weak, with mounting pressure on a number of countries reliant on international funding, Asia appears more insulated due its lower levels of external debt.

## Important Information