Muzinich & Co.

Corporate Credit Market Snapshot

17 January 2017

Key Takeaway*

- Global fixed income returns were mixed for the month. EM outperformed DM. Within DM, US high yield led the way. European sovereigns declined
- Corporate credit technicals generally strong given inflows and limited new issuance
- In the US, markets have been generally euphoric on the hope that a Trump administration will be more business friendly (less regulation and lower taxes)
- The strength of EM has been broad-based although Brazil is leading the strength by far

**Muzinich Analysis*

High Yield and Leveraged Loan Technicals

US Retail Fund Flows *

$0.9 billion in high yield inflows, $1.8 billion in leveraged loan retail inflows MTD (through 01.13)

HY New Issuance*	US	EUR
YTD	$8.4 bn	€2.8 bn
MTD	$8.4 bn	€2.8 bn
Loan New Issuance*	US	
YTD	$5.7 bn	
MTD	$5.7 bn	

US figures through January 13; European figures through January 16

Main Market Driver

Macro: Risk-on
Micro: Solid technicals

Default Rates**	US	EUR
LTM	3.7%	2.6%

Default rates are dollar weighted. Through 12.31.16.Trailing 12 months.

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

Lennar Corp, Flex Acquisition Co, Icahn Enterprises, Meg Energy Corp, Zayo Group, Tenn Meger Sub Inc, Silversea Cruise, CCO Holdings, Terex Corp

New Issuance Pipeline (Announced *)**

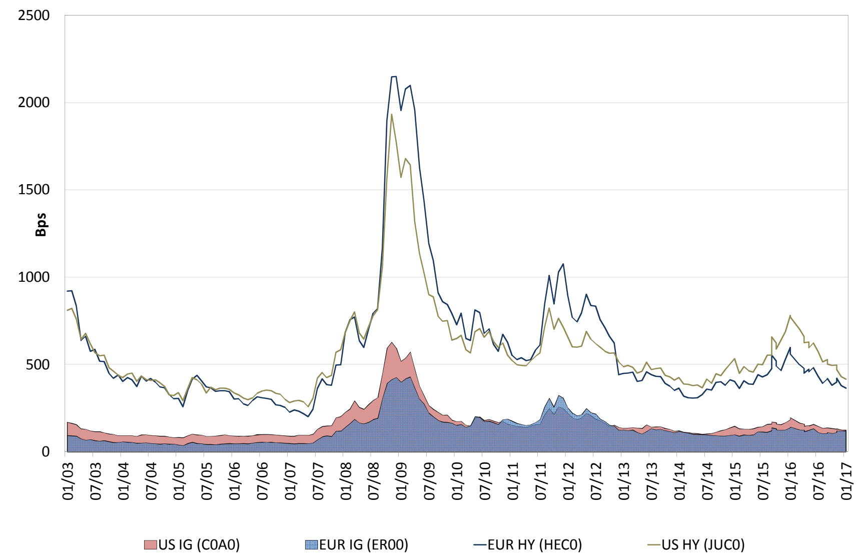
Park Aerospace, AirXcel, Pattern Energy Group Inc, Koppers Inc, Radiate Holdco, Vivent Inc

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

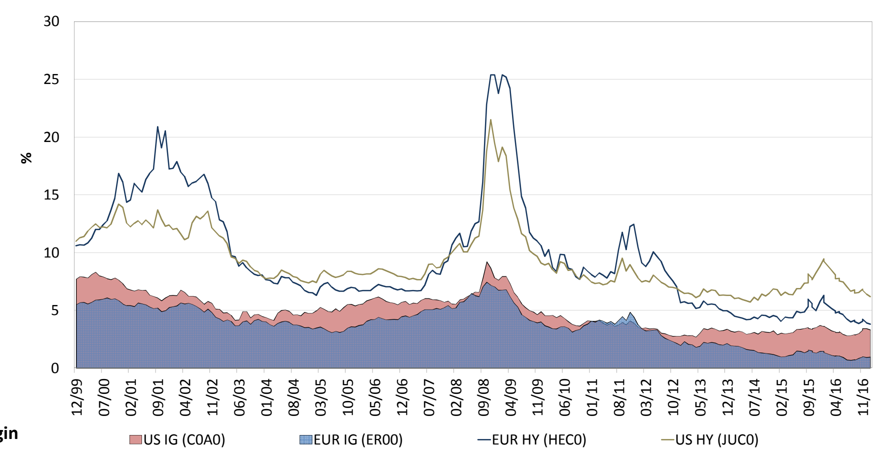
Market Performance % and Statistics as of 2017-01-17

		MTD	Previous Mth	QTD	YTD	Duration DTW	Yield YTW	Spread STW
High Yield								
JUC0	US HY Cash Pay Constr.	1.13	1.95	1.13	1.13	3.84	5.83	416
JC4N	US HY BB/B Non-Fncl. Constr.	1.04	1.66	1.04	1.04	3.93	5.07	339
HEC0	Euro HY Constr.	0.60	1.86	0.60	0.60	3.11	3.17	364
HEC5	Euro HY BB/B Non-Fncl. Constr.	0.57	1.78	0.57	0.57	3.17	2.66	313
Investment Grade								
C0A0	US Corp Master	0.99	0.63	0.99	0.99	6.88	3.29	125
C4NF	US Corporate BBB Non-Financial	1.15	0.91	1.15	1.15	7.15	3.66	156
ER00	EMU Corp	-0.13	0.59	-0.13	-0.13	5.20	0.91	119
EN40	EMU Corp BBB Non-Financial	-0.09	0.67	-0.09	-0.09	5.26	1.02	128
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	0.95	-0.18	0.95	0.95	7.54	2.26	
G4L0	UK Gilts 7-10 Yrs	-0.47	1.49	-0.47	-0.47	7.43	1.11	
G4D0	German Fed Govt 7-10 Yrs	-0.30	0.55	-0.30	-0.30	7.82	0.00	
Equities								
S&P	S&P 500 incl. Dividends	1.37	1.97	1.37	1.37			
DAX	DAX Index	0.51	7.90	0.51	0.51			
Loans							**Yield %** (3yr life)	**Discount Margin** bps (3yr life)
CS Institutional Leveraged Loan Index		0.26	0.92	0.26	0.26		5.53%	388

Corporate Bond Spreads (STW) by Index



Corporate Bond Yields (YTW) by Index



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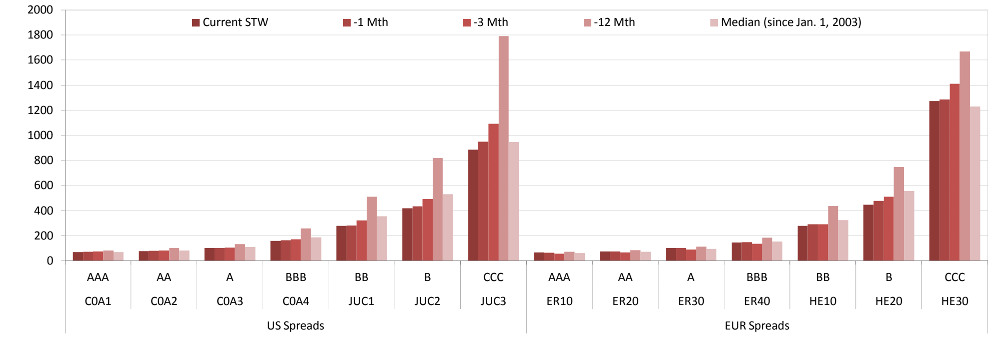
Corporate Bond Spreads (STW) as of 2017-01-17

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
	C0A0	IG	125	126	132	184	142
	JUC0	HY Constrained	416	429	481	781	512
	JUC4	BB/B	337	344	395	645	442
US Spreads	C0A1	AAA	69	70	74	81	68
	C0A2	AA	77	78	80	101	82
	C0A3	A	101	101	105	132	110
	C0A4	BBB	159	162	171	257	185
	JUC1	BB	278	280	321	510	355
	JUC2	B	418	433	492	818	530
	JUC3	CCC	884	950	1093	1791	946
EM Spreads	EMCL	Emerging Markets	292	298	323	490	330
EUR							
	ER00	IG	119	119	108	139	116
	HEC0	HY Constrained	364	382	390	598	450
EUR Spreads	ER10	AAA	65	63	57	70	60
	ER20	AA	73	73	65	83	70
	ER30	A	102	101	90	111	94
	ER40	BBB	146	147	136	184	154
	HE10	BB	279	291	290	437	325
	HE20	B	446	476	511	748	557
	HE30	CCC	1273	1286	1410	1669	1229



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Credit Market Update*

US:

The trend of strong US corporate credit performance continues in 2017 with US high yield outperforming, followed by investment grade and US Treasuries and then loans. All segments of the US fixed income market were positive. Corporate credit technicals have been strong on the back of solid inflows (high yield, loans and investment grade) and limited new issuance at the start of earnings season. Loans in particular benefitted from especially strong inflows as investors have become increasingly concerned about the prospect of rate increases given recent positive economic data and the potential for inflation should growth be robust. Markets have been generally euphoric on the hope that a Trump administration will be more business friendly (less regulation and lower taxes). Many unknowns, however, remain in the US. We will look to the earnings statements/guidance of the industrials that will begin announcing later this month to get a sense as to the health/future growth of the US economy. We will also be watching the Trump administration closely – namely, will he make good on some of his campaign promises regarding fiscal and healthcare reform. While we certainly believe macro events have the potential to move markets, we believe credit risk remains relatively low and that defaults will largely be relegated to idiosyncratic stories.

Europe:

European fixed income returns began the year mixed with high yield generating a positive return and investment grade corporates and European sovereigns declining. High yield was able to off-set the rate sell-off through spread tightening. The strong performance of high yield can be both attributed to the expectation of higher economic growth in 2017 as well as to strong technicals (strong inflows and limited new issuance). European governments declined (rates higher) as Consumer Price Index data for the Eurozone came in above expectations. European investment grade new issuance has been strong year-to-date. We believe this may be a function of corporate Treasurers sensing that the European Central Bank (ECB) Quantitative Easing (QE) program will not run indefinitely. We believe, however, that the ECB is likely to introduce the idea of tapering significantly ahead of any actual further tapering in order to minimize any potential impact on market volatility. The UK Prime Minister clarified that the UK is planning to fully exit the European Union framework in order to regain sovereignty. The UK has outperformed economic expectations since the Brexit referendum and inflation has started to tick up which could lead to higher inflation expectations and might force the Bank of England (BoE) to take a more hawkish stance unless the economy takes a turn for the worse in the coming months.

EM:

The year started extremely strong for Emerging Markets (EM) which outperformed the Developed Markets (DM). The strength has been broad-based although Brazil is leading the strength by far. We believe investors prefer Brazil over Mexico within Latin America due to Trump's protectionist policies. The Brazilian Central Bank surprised the market by cutting the overnight rate and thus front-loading the easing cycle. The Latin American market saw increased activity with many new issues coming out of Argentina and Brazil, although a lot of this was refinancing, rather than net new supply. Petrobras issued $4 billion of bonds in a liability management exercise and should not need to access the market for the rest of the year. New issuance has begun to pick up in Asia. China announced additional supply-side reforms in steel and coal. Flows into EM dedicated funds were positive, both for equity and fixed income. Lower US Treasury yields caused long duration to outperform short duration.

Disclaimer

**Muzinich Analysis.*