Muzinich & Co. Corporate Credit Snapshot

Muzinich & Co

28 February 2019

Key Takeaway*

- Global credit's strong start to the New Year continued into February with high yield, loans and investment grade corporates generating positive returns and high yield and loans outperforming
- Credit benefitted from solid US economic data, generally decent corporate earnings/outlooks and dovish US Federal Reserve (Fed) comments
- The Fed (as per their minutes) announced they would remain "patient" with future rate hikes and that balance sheet reduction (quantitative tightening) would likely come to a close at year end at the current pace
- There were continued signs of economic weakness across the Eurozone, with the manufacturing sector's flash PMI reading falling to its lowest level in six years

High Yield and Leveraged Loan Technicals

US Retail Fund Flows**

$4.8 billion in high yield inflows, $1.8 billion in leveraged loan retail outflows MTD (through 2.28)

HY New Issuance**	US	EUR	**Main Market Driver***		
YTD	$38.8 bn	€34.2 bn	Macro: Risk-on sentiment		
MTD	$21.2 bn	€18.7 bn	Micro: Strong high yield technicals		
Loan New Issuance**	US		**Default Rates*****	US	EUR
YTD	$38.8 bn		LTM	2.1%	0.6%
MTD	$24.9bn		*Default rates are dollar weighted. Through 01.31.19.Trailing 12 months.*		

US & European figures through February 28

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

Transdigm Inc., Star Merger, Fortress Transportation, Clear Channel Worldwid, CommScope Technologies, Mednax Inc, XPO Logistics, Inc., Springleaf Finance, Antero Midstream, USA Compression Partners, Bausch Health Cos Inc, Bombardier Inc, William Carter, CHS/Community Health

US New Issuance Pipeline MTD (Announced*)

CNX Resources

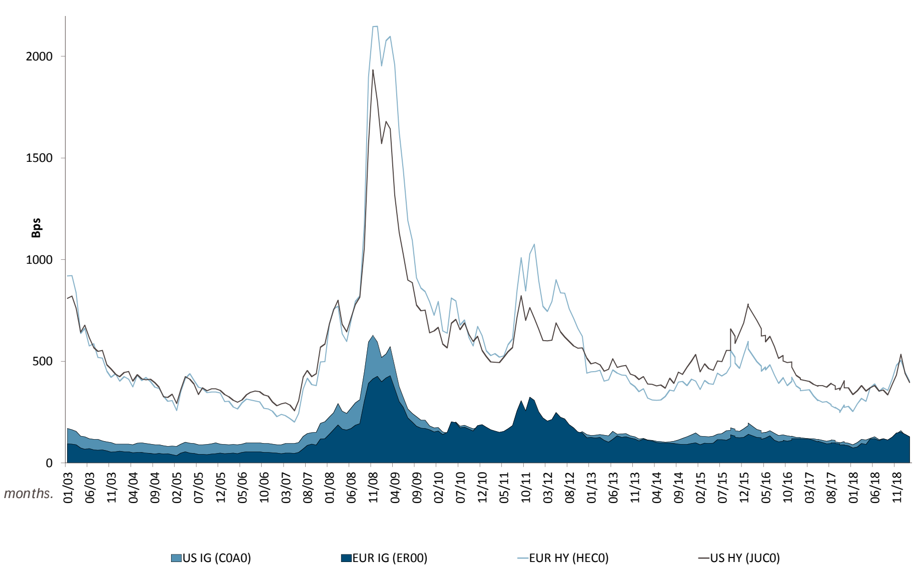
Source: Muzinich

Market Performance % and Statistics as of 2019-02-28

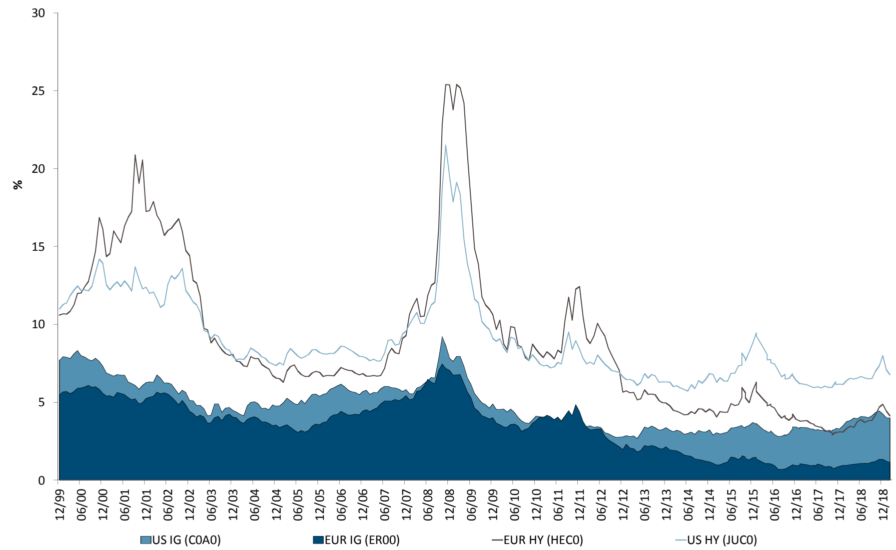
		Performance				Characteristics		
High Yield		**MTD**	**Pr.Mth**	**QTD**	**YTD**	**DTW**	**YTW**	**STW**
JUC0	US HY Cash Pay Constr.	1.69	4.59	6.36	6.36	3.79	6.53	396
JC4N	US HY BB/B Non-Fncl. Constr.	1.64	4.43	6.14	6.14	3.83	5.91	334
HEC0	Euro HY Constr.	1.84	2.30	4.18	4.18	3.42	3.70	403
HEC5	Euro HY BB/B Non-Fncl. Constr.	1.86	2.22	4.12	4.12	3.34	3.29	363
Investment Grade								
C0A0	US Corp Master	0.36	2.09	2.46	2.46	6.94	3.98	128
C4NF	US Corporate BBB Non-Financial	0.49	2.29	2.80	2.80	7.22	4.38	166
ER00	EMU Corp	0.68	1.05	1.74	1.74	4.98	1.05	128
EN40	EMU Corp BBB Non-Financial	0.78	1.14	1.93	1.93	4.99	1.32	153
Governments (7-10 Yr Indices)								
G4O2	U.S. Treasuries 7-10 Yrs	-0.37	0.71	0.34	0.34	7.56	2.68	
G4L0	UK Gilts 7-10 Yrs	-0.45	0.45	0.01	0.01	7.77	1.21	
G4D0	German Fed Govt 7-10 Yrs	-0.26	0.98	0.71	0.71	8.09	0.03	
Equities								
S&P	S&P 500 incl. Dividends	3.21	8.01	11.48	11.48			
DAX	DAX Index	3.07	5.82	9.06	9.06	**Yield (%)**	**Discount Margin**	
Loans						(3yr life)	bps (3yr life)	
CS Institutional Leveraged Loan Index		1.54	2.42	4.00	4.00	6.55%	399	
CS Western European Leveraged Loan Index		0.93	1.15	2.09	2.09	4.45%	418	

All performance, duration, yield and spread data downloaded from Bloomberg.
Past performance is not indicative of future results.

Corporate Bond Spreads (STW) by Index



Corporate Bond Yields (YTW) by Index

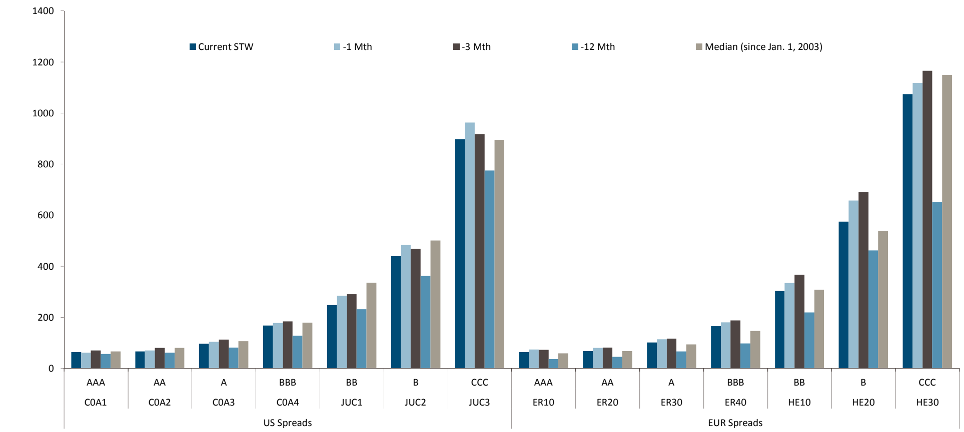


**Muzinich & Co. Opinion **JP Morgan for U.S. and Credit Suisse for Europe; European figures include non-Euro issues of European companies. ***Moody's*

2019-03-05-2631

Corporate Bond Spreads (STW) as of 2019-02-28

US/EM	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
	C0A0	IG	128	136	143	100	134
	JUC0	HY Constrained	396	440	433	355	482
	JUC4	BB/B	333	374	370	291	409
US Spreads	C0A1	AAA	63	60	69	55	66
	C0A2	AA	65	69	79	61	79
	C0A3	A	96	103	112	80	105
	C0A4	BBB	167	177	183	127	178
	JUC1	BB	247	284	290	231	335
	JUC2	B	439	482	468	361	500
	JUC3	CCC	897	962	917	774	894
EM Spreads	EMCL	Emerging Markets	274	294	320	216	318
EUR							
	ER00	IG	128	142	147	79	112
	HEC0	HY Constrained	403	447	479	291	428
EUR Spreads	ER10	AAA	63	73	72	36	58
	ER20	AA	67	79	81	44	67
	ER30	A	100	113	116	66	93
	ER40	BBB	164	180	187	97	146
	HE10	BB	302	333	366	218	307
	HE20	B	574	656	690	461	537
	HE30	CCC	1073	1117	1165	652	1149



Credit Market Update*

US

US credit's strong start to the new year continued into February with high yield, loans and investment grade corporates generating positive returns and high yield and loans outperforming. The US 10 year Treasury declined. Credit benefitted from solid economic data, generally decent corporate earnings/outlooks and dovish US Federal Reserve (Fed) comments. The Fed (as per their minutes) announced they would remain "patient" with future rate hikes and that balance sheet reduction (quantitative tightening) would likely come to a close at year end at the current pace. We believe that this means less upward pressure on longer term rates and the continuation of an environment of central bank driven liquidity.

Europe

January's rebound in credit markets continued into February, although there were some signs of ongoing deterioration in macro fundamentals. Signs of less restrictive central bank monetary policy from the US Federal Reserve and the easing of trade tensions between the US and China lifted investor sentiment on a global basis. As a result, valuations returned to more normalized levels following the cheapening we saw in the final quarter of 2018. Within high yield, the technical backdrop appeared to strengthen, as investors returned to the market after last year's outflows, although the primary market was quieter with only the higher quality names issuing new paper. Within investment grade, corporate fundamentals continued to appear robust after a solid round of fourth-quarter earnings reports, which has resulted in a fall in net leverage and an increase in interest coverage ratios. The earnings blackout period was followed by strong primary issuance by investment grade rated issuers that was well digested by the market. However, at the macro level, there were continued signs of economic weakness across the Eurozone, with the manufacturing sector's flash PMI reading falling to its lowest level in six years. Other areas of the Eurozone economy did provide some support, with the unemployment rate remaining low and a continuation of wage growth. The Italian economy returned to the spotlight after the European Commission (EC) cut the country's growth forecasts for 2019 to 0.2% from 1.2% following criticism of the government's fiscal policies. The EC also highlighted that Greece and Spain were suffering "excessive economic imbalance," adding further complexity to the region's macroeconomic picture.

Emerging Markets

Emerging market (EM) corporates put in another month of solid returns, benefiting from the pause in US Federal Reserve rate increases and positive signs in the US/China trade dispute. However, an increase in Pakistan/India tensions and lack of resolution in the US/North Korea summit on denuclearisation somewhat negatively impacted positive sentiment towards month end. Both rating segments did well, although higher yielding paper was the standout performer in this risk-on environment, as credit spreads tightened. In China, there were further indications of an economic slowdown, with the manufacturing sector contracting for the third month running. Nevertheless, there were signs the country's monetary policy stimulus measures were starting to take effect with Chinese bank lending reaching an all-time high, which should help boost the real economy. Meanwhile, growth in Indonesia appeared solid after full-year GDP numbers were released, coming in at 5.17%, beating expectations. There were also hopes for improvement for Brazil's economic recovery after newly-elected President Bolsonaro announced a program of wide-ranging economic reforms, starting with the country's pension system. Political events dominated elsewhere in emerging markets, with Turkey's long-running attempts at EU membership appearing in further doubt following calls by the European Parliament to end talks on the matter.

*Muzinich & Co. Opinion

Disclaimer

The following indices referenced in the snapshot are BofA Merrill Lynch indices. BofA Merrill Lynch data downloaded from Bloomberg: JUC0 – BofA ML U.S. High Yield, Cash Pay, Constrained Index; JUC1 - BofA ML U.S. High Yield, Cash Pay, BB Rated, Constrained Index; JUC2 - BofA ML U.S. High Yield, Cash Pay, B Rated Constrained Index; JUC3 - BofA ML U.S. High Yield, Cash Pay, CCC and Lower Constrained Index; JUC4 – BofA ML U.S. High Yield, Cash Pay, BB/B Rated Constrained Index; JC4N – BofA ML BB/B U.S. Non-Financial, Cash Pay, High Yield Constrained Index; HEC0 – BofA ML Euro High Yield Constrained Index; HE10 – BofA ML Euro High Yield, BB Rated; HE20 – BofA ML Euro High Yield, B Rated; HE30 – BofA ML Euro High Yield, CCC and Lower Rated; HEC5 – BofA ML BB/B Euro Non-Financial High Yield Constrained Index; C0A0 – BofA ML U.S. Corporate Master; C0A1 - BofA ML U.S. Corporates, AAA Rated; C0A2 - BofA ML U.S. Corporates, AA Rated; C0A3 - BofA ML U.S. Corporates, A Rated; C0A4 - BofA ML U.S. Corporates, BBB Rated; C4NF - BofA ML BBB U.S. Corporate Non-Financial Index; ER00 – BofA ML EMU Corporate Index; ER10 – BofA ML EMU Corporates, AAA Rated; ER20 – BofA ML EMU Corporates, AA Rated; ER30 – BofA ML EMU Corporates, A Rated; ER40 – BofA ML EMU Corporates, BBB Rated; EN40 - BofA ML EMU Corporates, Non-Financial, BBB Rated; G4O2 - BofA ML U.S. Treasuries, 7 – 10 Yrs; G4L0 - BofA ML UK Gilts 7 – 10 Yrs; G4D0 - BofA ML German Federal Governments, 7 – 10 Yrs.

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