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PREPARED FOR THE ECB BOND MARKET CONTACT GROUP – MUZINICH VIEWS AND OPINION FOR ILLUSTRATIVE PURPOSES ONLY

2020 Pandemic Sell-Off: A credit manager viewpoint

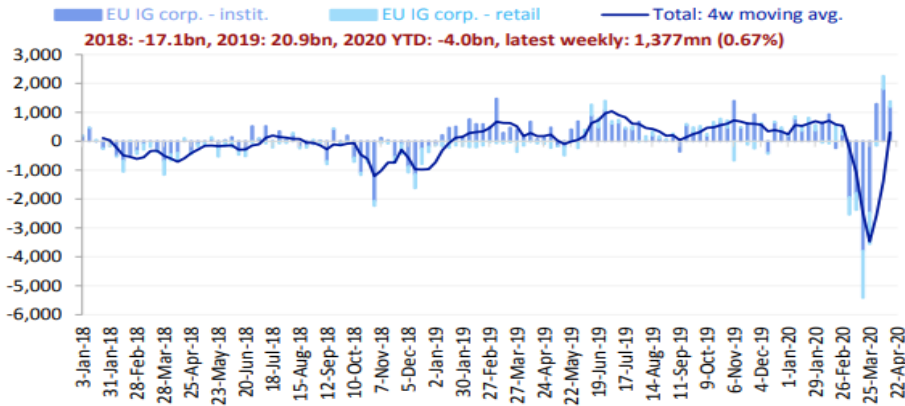
Tatjana Greil-Castro

21 April 2020

Muzinich & Co

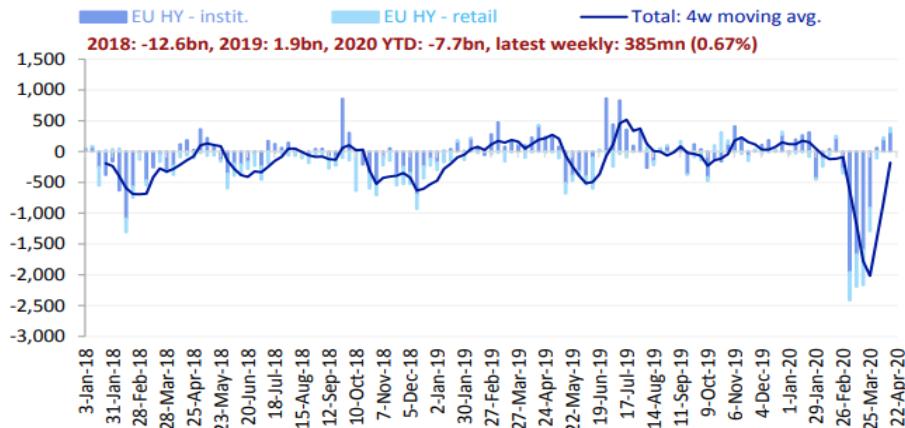
Unprecedented speed and magnitude of outflows led to severe illiquidity *Muzinich & Co*

Inflows/outflows in Euro IG markets



Source : Deutsche Bank, EPFR

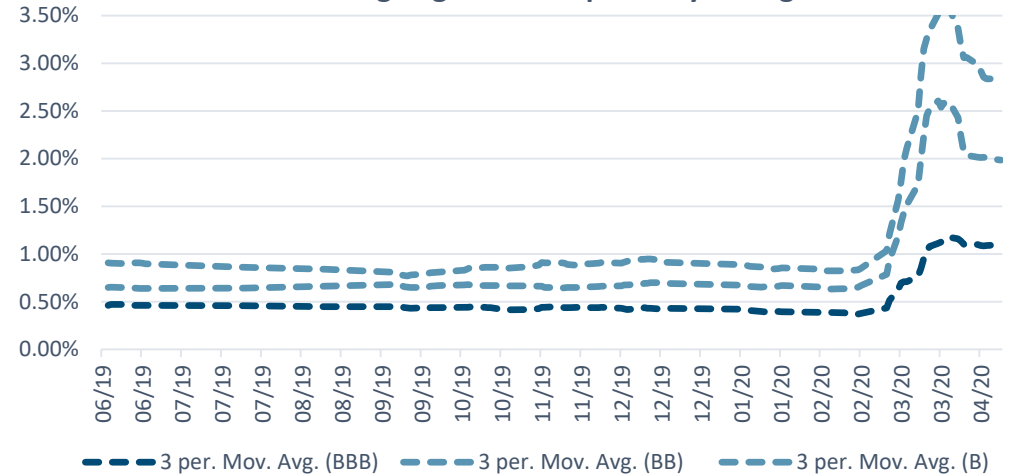
Inflows/outflows in Euro HY markets



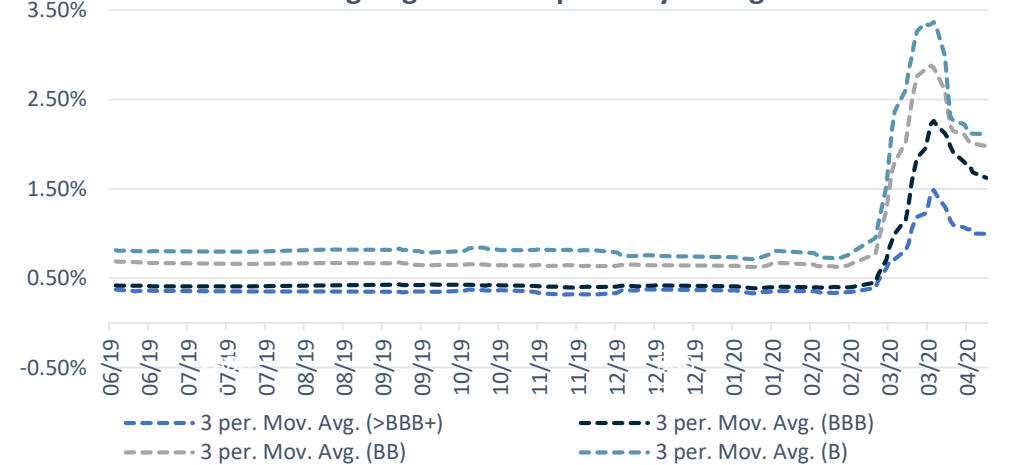
Source : Deutsche Bank, EPFR

Source: DB research "Macro credit Brief" as at April 20, 2020, EPFR Data

EUR 3d Moving Avg. Bid-Ask Spread by Rating Bucket



USD 3d Moving Avg. Bid-Ask Spread by Rating Bucket

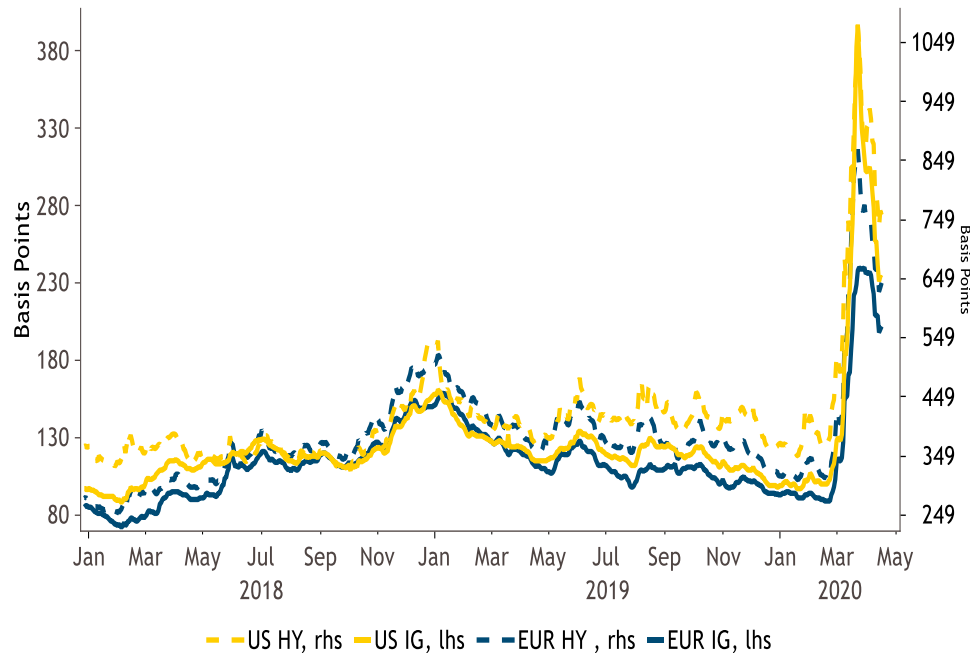


Source: Muzinich calculations, April 14, 2020

A “rich” valuation starting point amplified the sell-off and outflows



Evolution of Spread to Worst on EUR/US IG/HY main indices



Performance and Spread to Worst of a series of indices

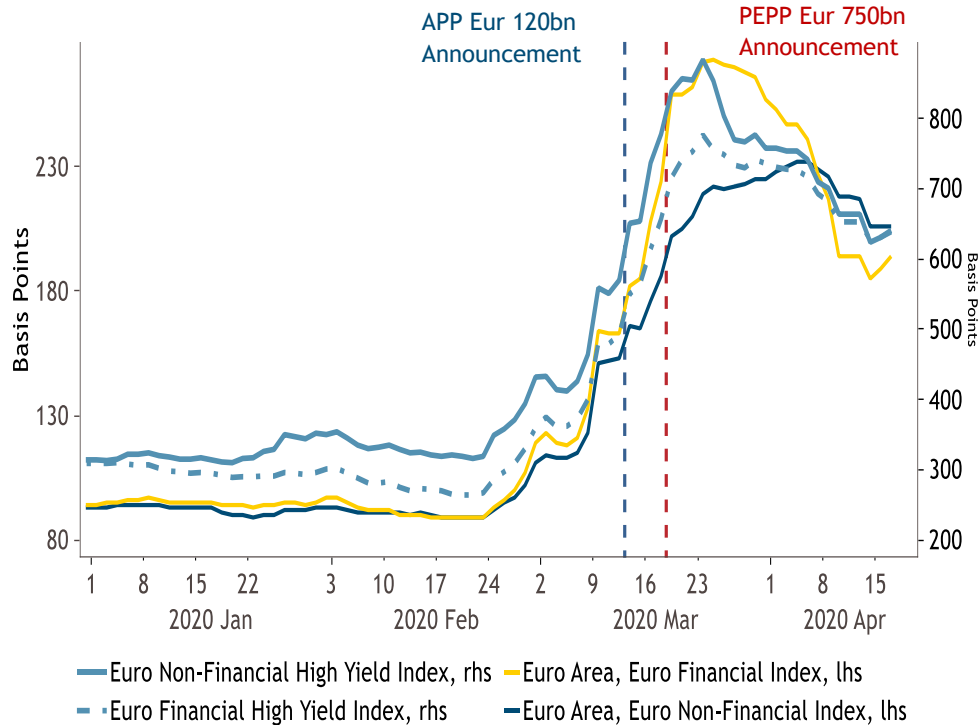
	Total return YTD at 21 Feb	Spread to Worst at 21 Feb	Total return 21 Feb to 23 Mar	Spread to Worst at 23 Mar	Total return 23 Mar to 15 Apr	Spread to Worst at 15 Apr
Euro IG	1.33%	89	-7.93%	238	2.67%	200
Euro HY	1.26%	311	-20.51%	868	10.91%	634
Euro Fin IG	1.07%	89	-8.68%	272	4.69%	189
Euro non-Fin IG	1.48%	89	-7.51%	219	1.55%	206
Euro Govvies AAA 7-10y	1.95%	4	-0.83%	4	0.96%	4
Italian BTP 7-10 y	3.60%	123	-5.37%	195	-1.96%	232

Source: Macrobond, ICE Index as at April 15, 2020

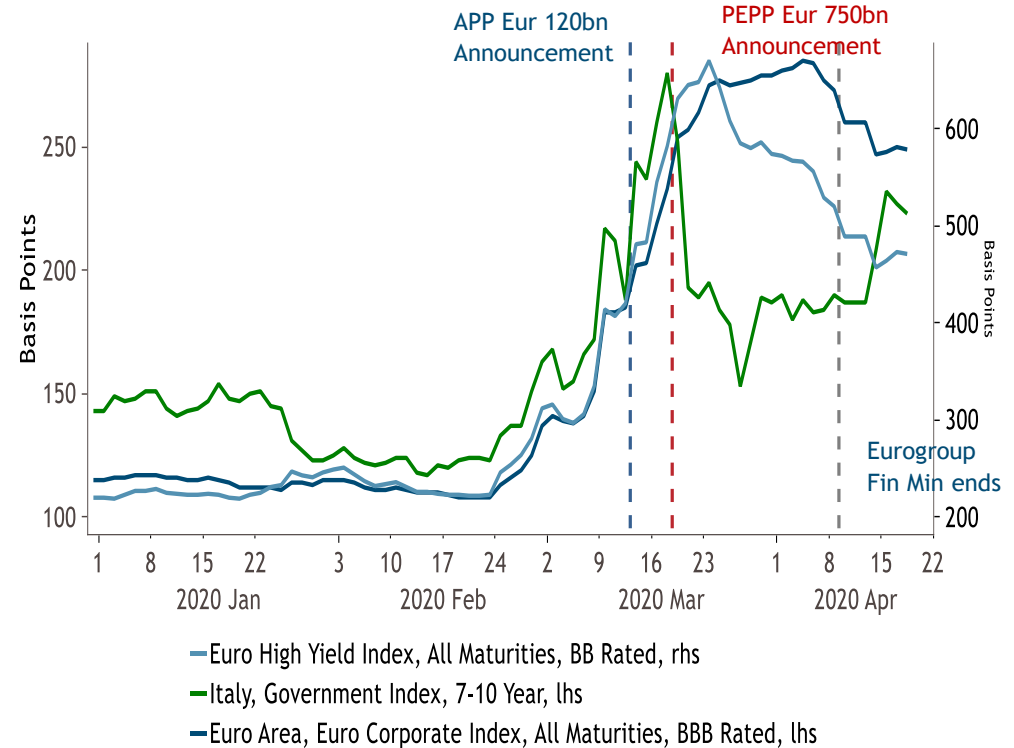
Source: Macrobond, ICE Index, Muzinich, as at April 15, 2020. Past performance is not indicative of future results. Not to be construed as an offer, invitation or inducement to engage in any investment activity.

PEPP: A decisive moment for Sovereign and Credit spreads

Financials versus non Financials - Spread to Worst



Euro IG, HY, and Italy 7-10y indices - Spread to Worst

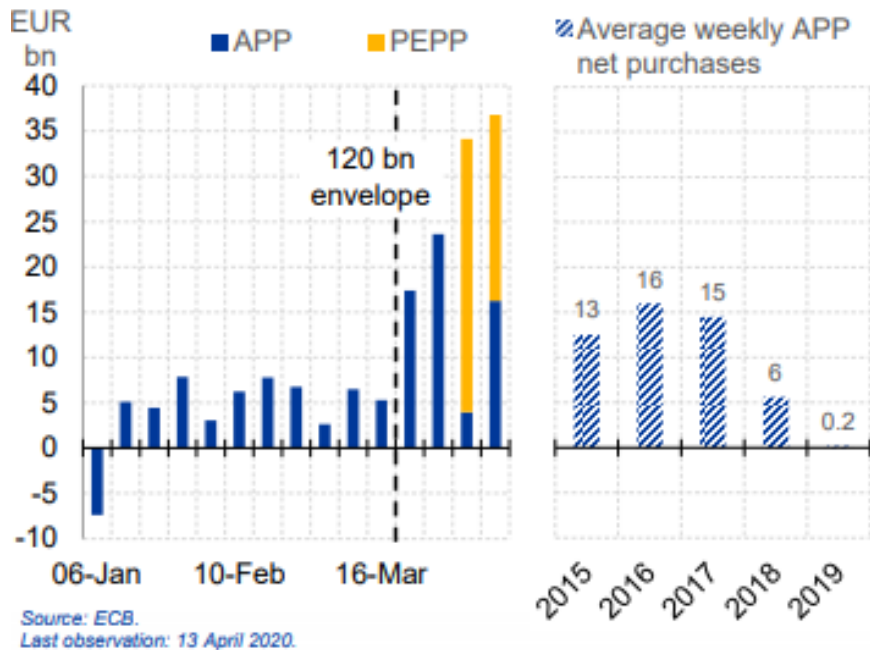


Source: Macrobond, ICE Index, Muzinich, April 16, 2020

PEPP - Pandemic Emergency Purchase Programme, APP - Asset Purchase Programme

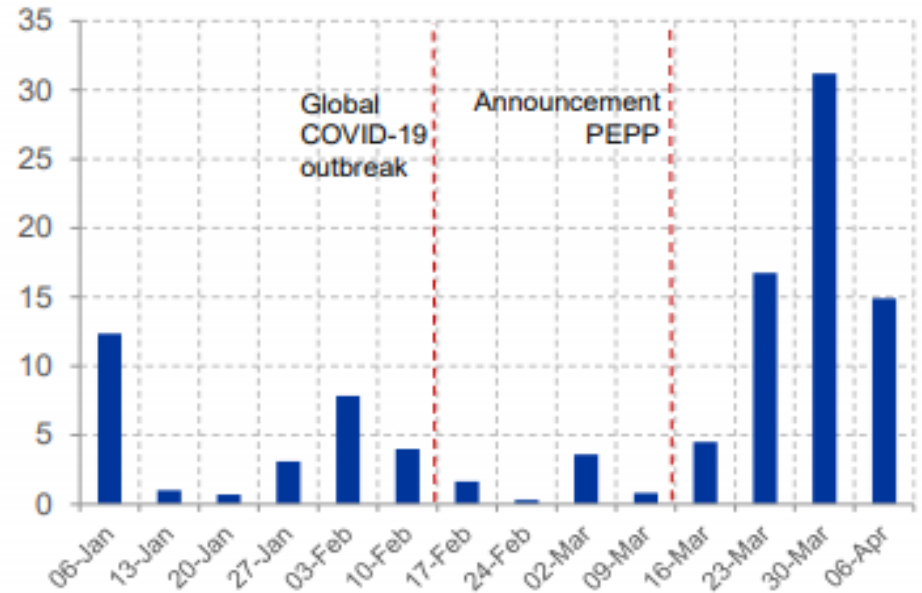
PEPP: A decisive moment for Primary market as well

Weekly purchase volumes under APP and PEPP



Source: ECB, I. Schnabel, The ECB's response to Covid-19 pandemic, 16 April 2020

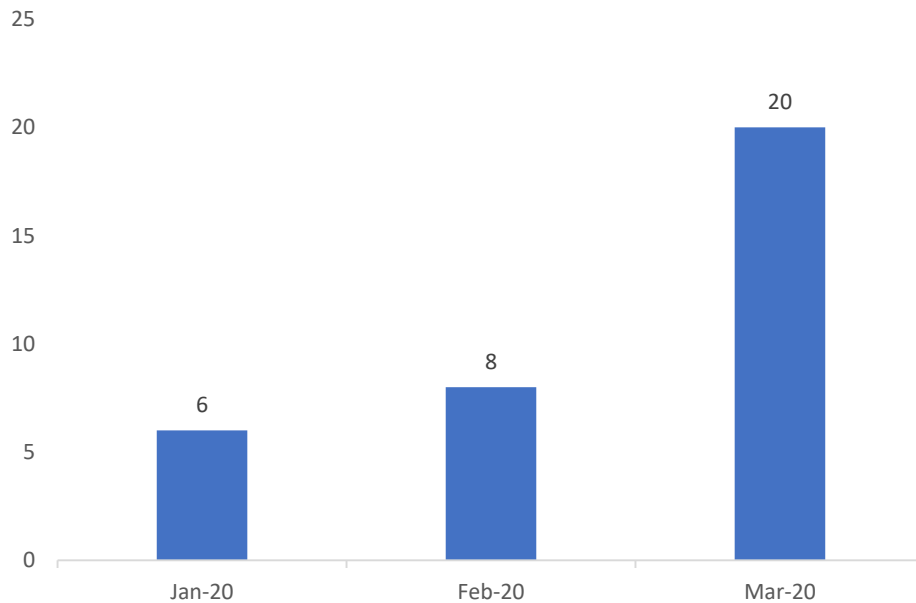
Issuance of CSPP- and PEPP-eligible corporate bonds (€ billion, excluding commercial paper)



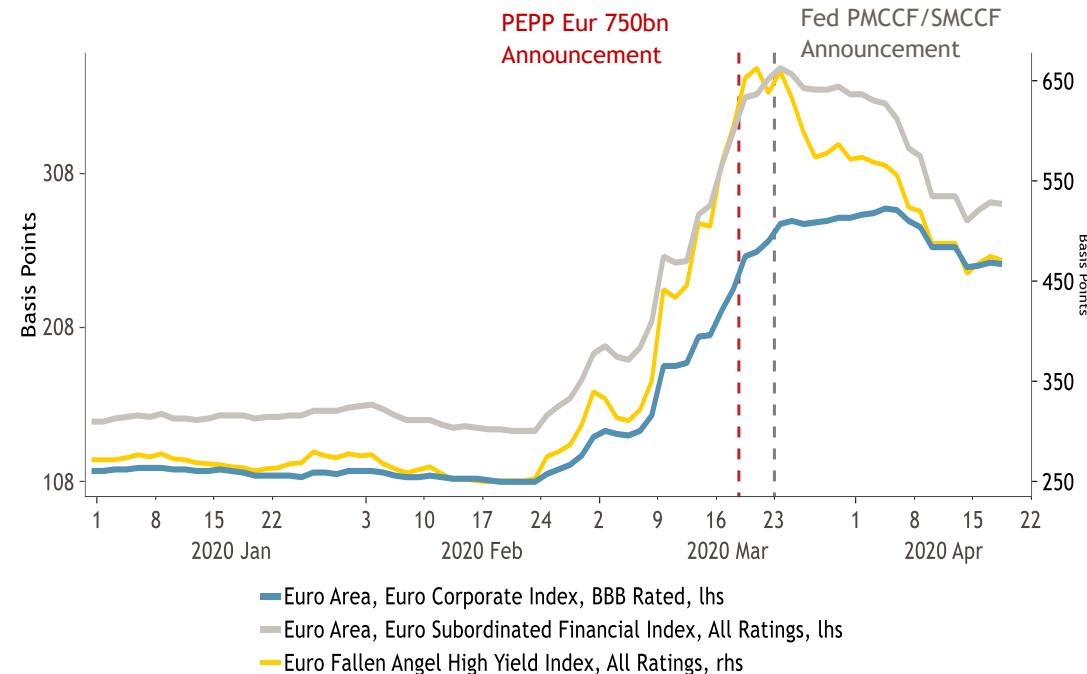
Source: ECB, I. Schnabel, The ECB's response to Covid-19 pandemic, 16 April 2020, Dealogic and ECB calculations. Notes: Dates refer to the Monday of each week. Weekly issued amounts. Last observation: 9 April 2020

PEPP: Did smooth the rating cliff risk for now

Euro downgrades into High Yield in 1Q20 (Eur, Bn)



Euro BBB, Euro SubFin and Fallen Angels index Spread To Worst (bps)



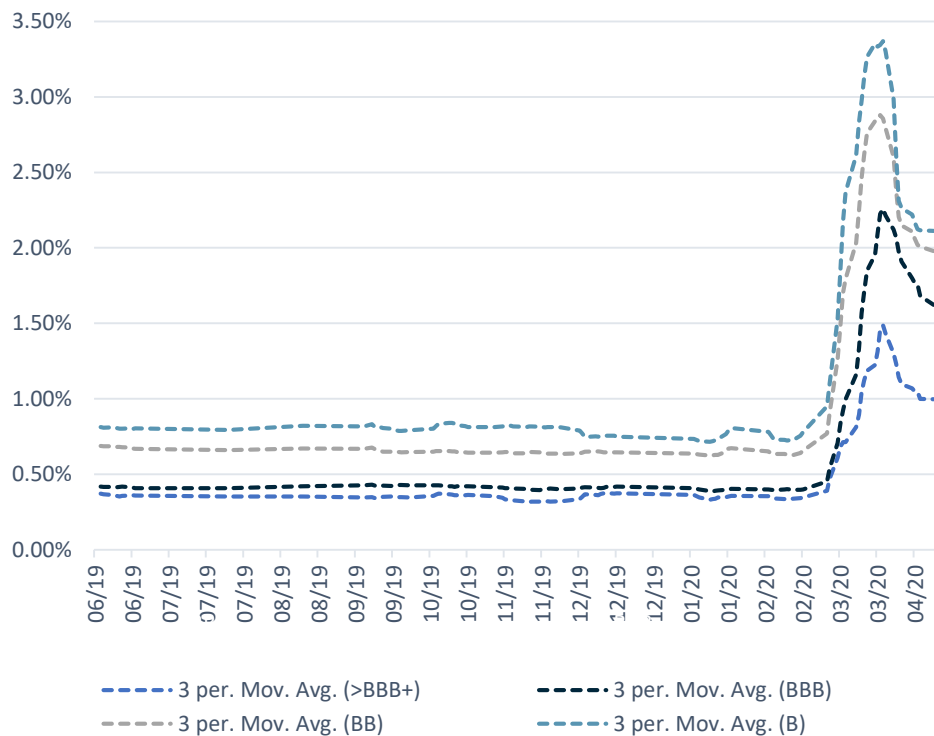
Source: Credit Suisse “European Credit Trades & Themes”, 6 April 2020

Source: Macrobond, ICE Index, April 17 2020

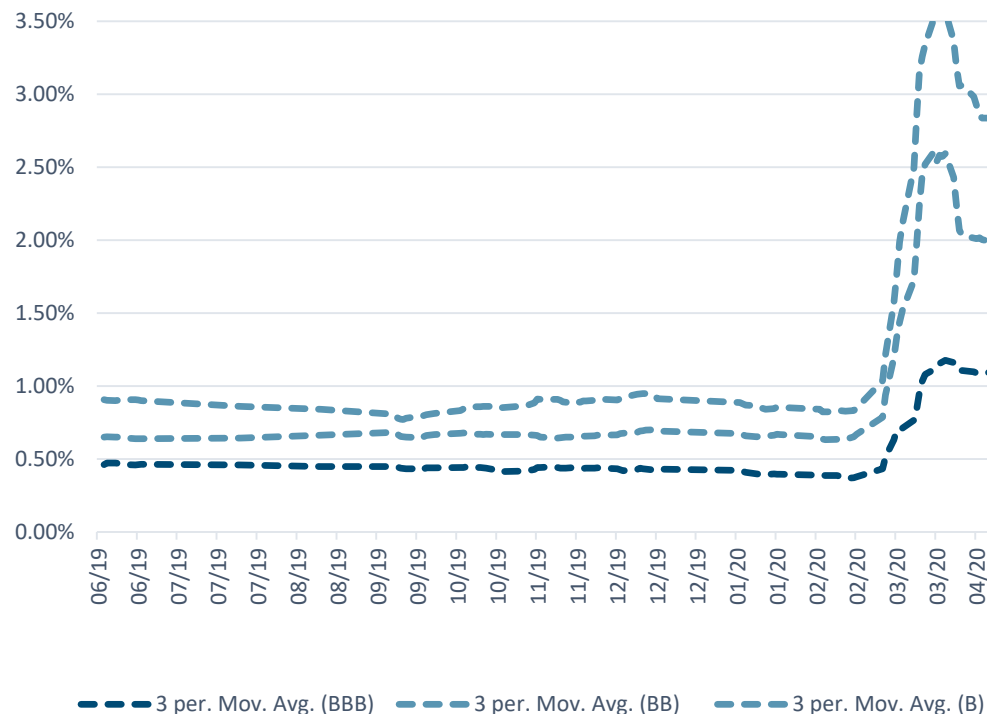


Lack of Liquidity widened bid - ask spreads in a >5 std event*

USD 3d Moving Avg. Bid-Ask Spread by Rating Bucket



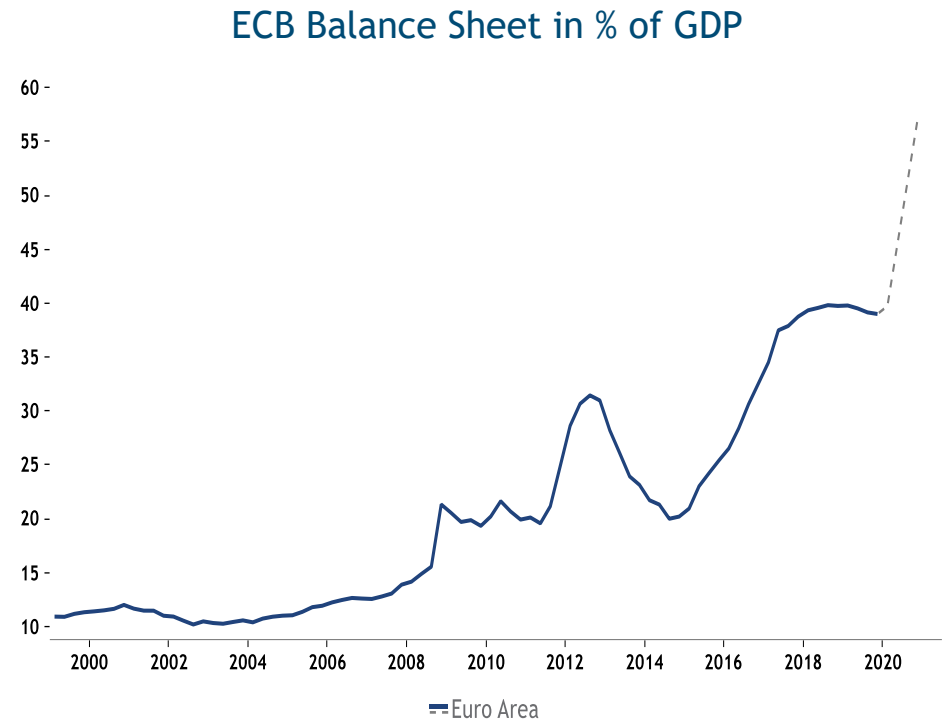
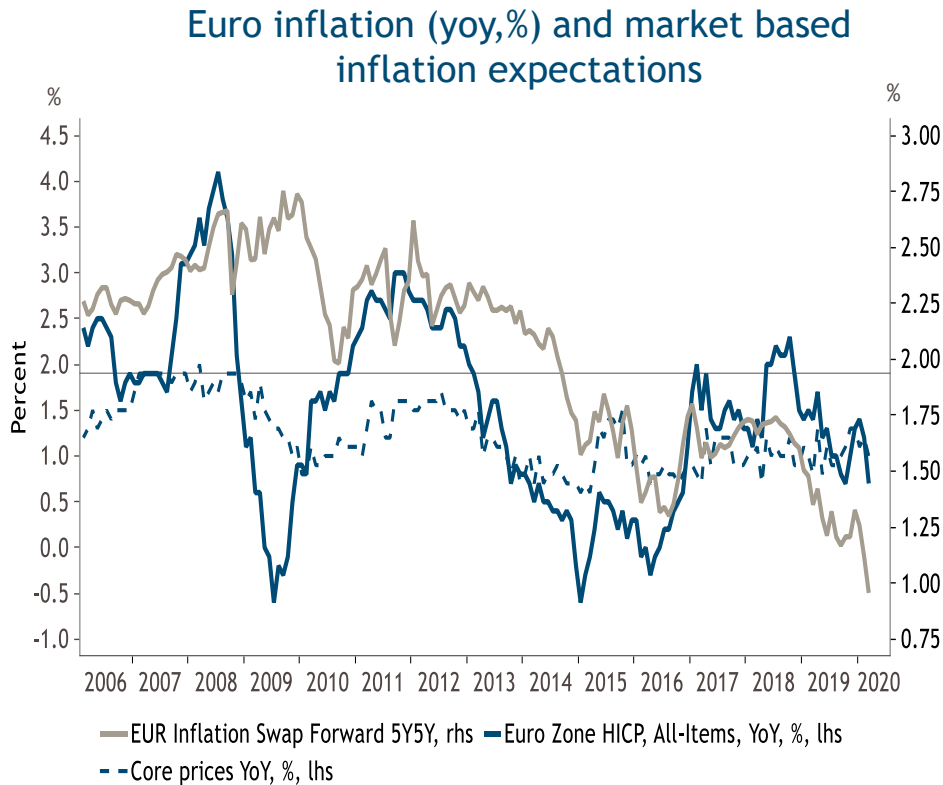
EUR 3d Moving Avg. Bid-Ask Spread by Rating Bucket



Source: Muzinich calculations, April 14, 2020

*Bid-ask spreads widened by more than five standard deviations from their long term average.

Strategic Review: A single inflation objective with B/S at ~55% of GDP? *Muzinich & Co*



Source: Macrobond, Eurostat, March 2020

Source: Macrobond, Muzinich forecast end of 2020. Forecast based solely on Muzinich views and opinion. There can be no guarantee the above would prove to be correct. See Important Information at the end regarding forward-looking statements. Not to be construed as an offer, invitation or inducement to engage in any investment activity.

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