Momentum Think Tank Conference

20 September 2023

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2023-08-23-11739

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Introduction

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- What rates curves signal about rate cuts
- The benefits of short duration in a raising rate environment
- US and European investment grade markets – divergence
- Active vs. passive management

Rate Curves have Inverted, Anticipating Rate Cuts in the US and Europe

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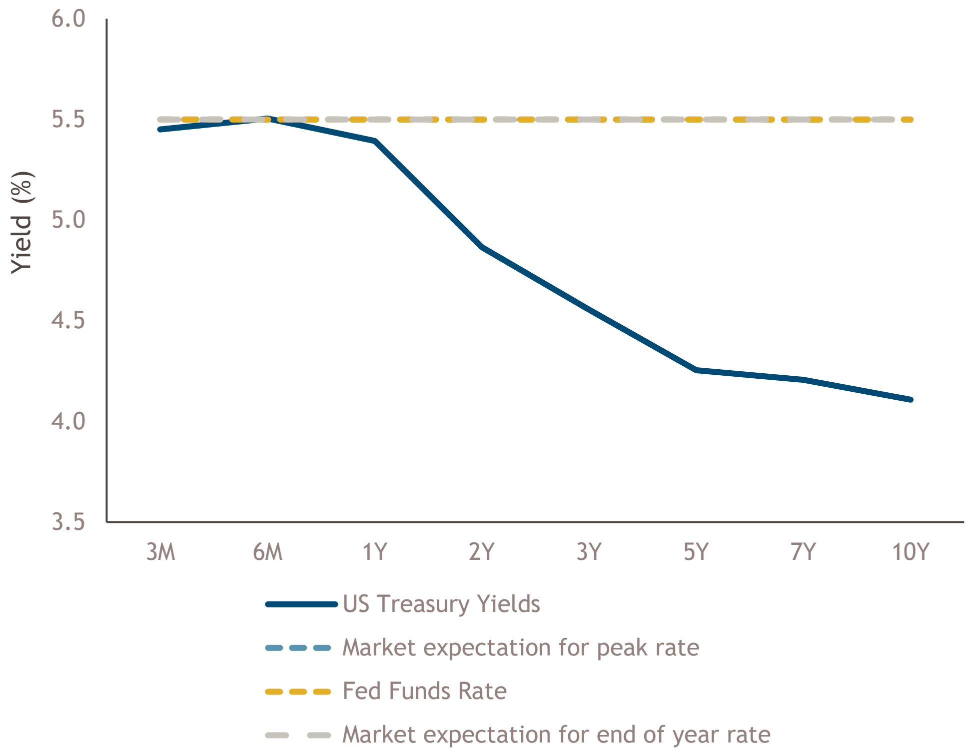
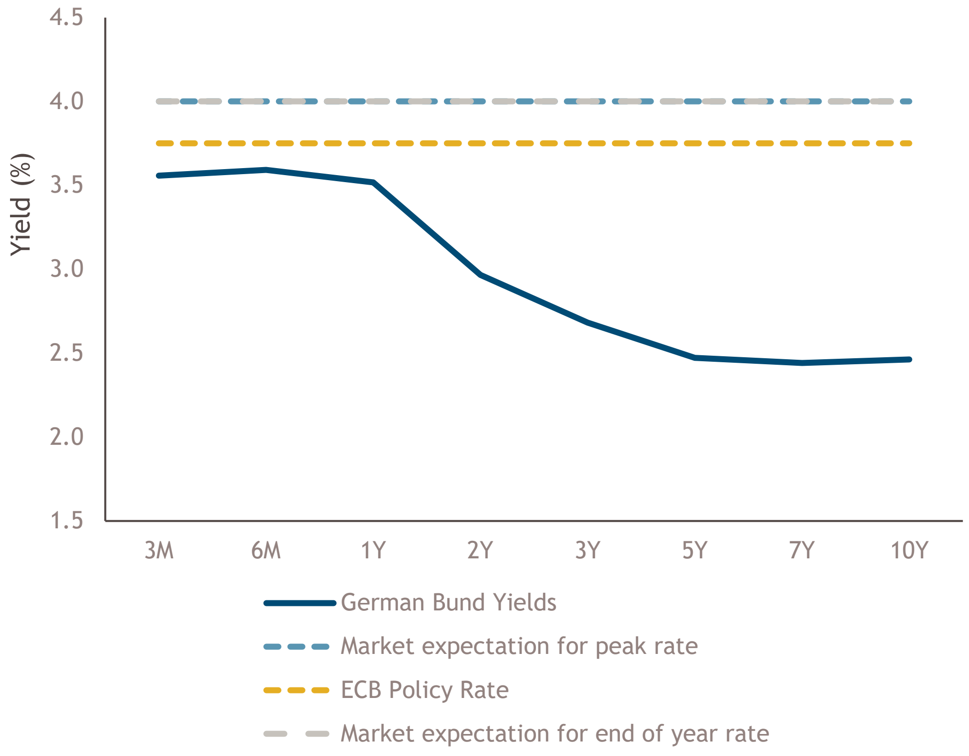
US Treasury Yield Curve - August 2023:



German Bund Yield Curve – August 2023:



- The shape of the rates curve(s) will be affected by how much further policy rates rise and, importantly, how long they are maintained at those levels
- The market is currently pricing two divergent paths in terms of policy rates from the Fed and ECB over 2023

Source: Bloomberg data as of August 31st, 2023. Muzinich views and opinion for illustrative purposes only, not to be construed as investment advice.

Why Own Short Duration Bonds in a Rising Rate Environment?

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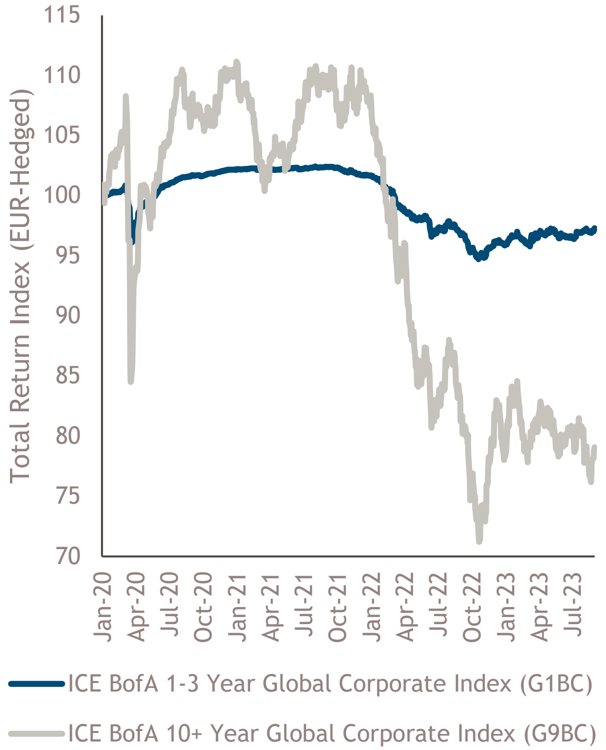
We view the benefits of short duration bonds as;

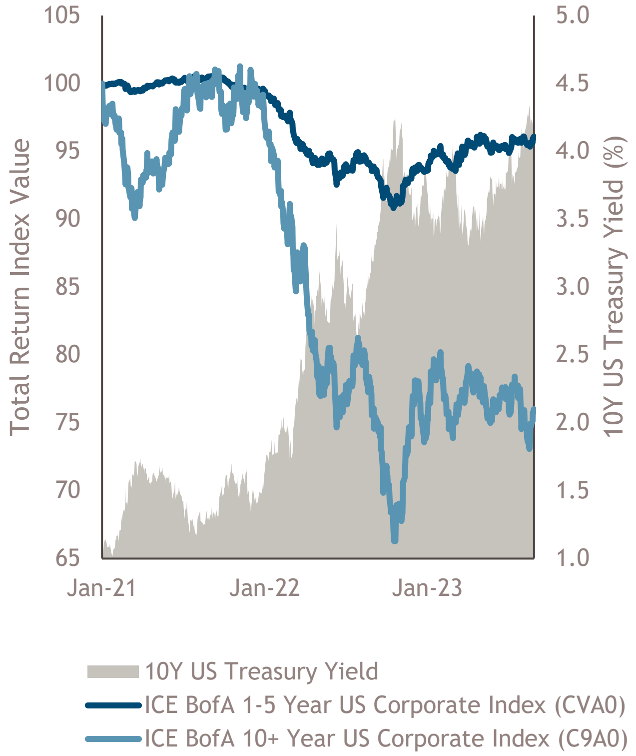
Lower volatility

Example: global investment grade corporates cumulative return[1]



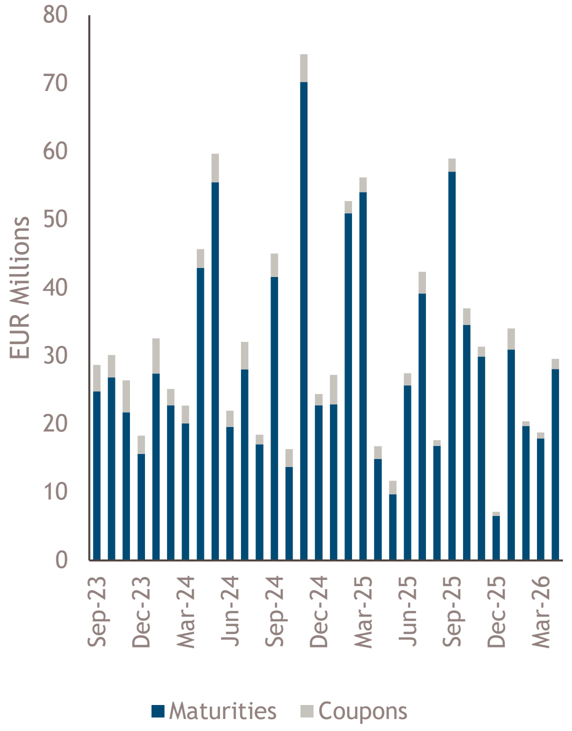
Less sensitivity to rising rates

Price performance of short vs long dated corporates with rising rates[2]



Frequent maturities allow steady reinvestment at higher yields

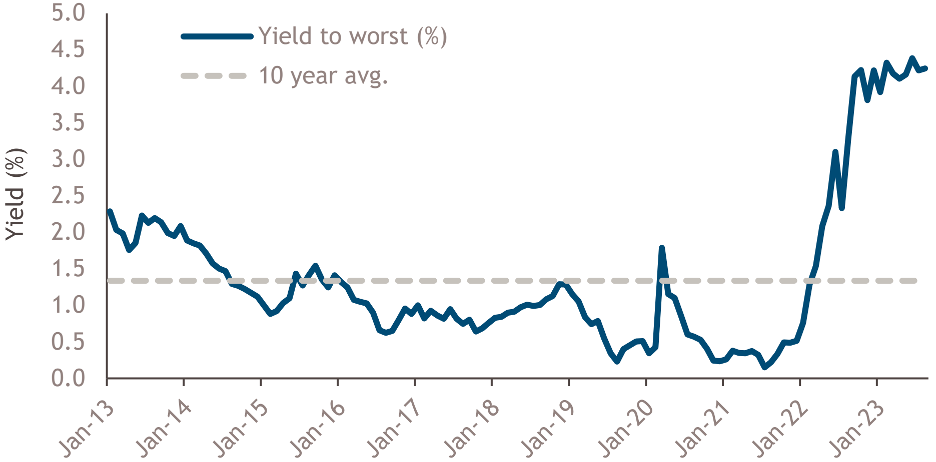
Muzinich Global Short Duration Investment Grade Fund cash flow profile (€m)[3]



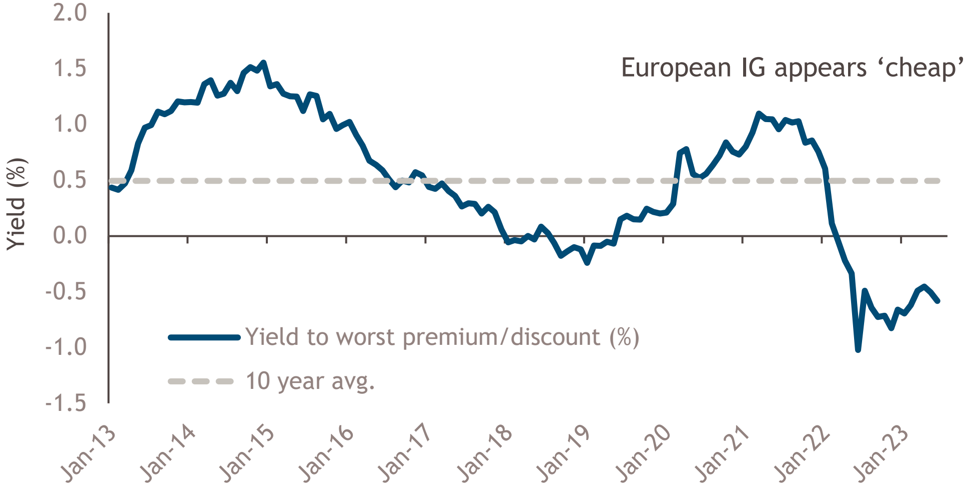
Past performance is not a reliable indicator of current or future results.
Muzinich views and opinion for illustrative purposes only, not to be construed as investment advice. The time periods shown above were selected to demonstrate performance during periods of both falling rates (pandemic response) and rising rates (2022 inflation response). Index performance is for illustrative purposes only. You cannot invest directly in the index. 1: ICE Index Platform data as of August 31st, 2023. 2: ICE Index Platform and Bloomberg data as of August 31st, 2023. 10Y US Treasury: Bloomberg USGG10YR Index. 3: Bloomberg data as of August 31st, 2023.

Historic Yields in US and European Investment Grade Markets

European Investment Grade (IG):



Yield premium/discount – US and European Investment Grade:



US Investment Grade (IG):

Comments:

- European Investment Grade currently looks 'cheap' versus US Investment Grade on a spread and yield basis.
- This reflects several factors including (i) demand for US Investment Grade ahead of anticipated rate cuts; and (ii) a continued European premium reflecting the Russia-Ukraine conflict.

Source: ICE Index Platform data as of 31st August, 2023. European IG: ICE BofA Euro Corporate Index (ER00). US UG: ICE BofA US Corporate Index (C0A0). USD figures are hedged using the Bloomberg USDEUR 12 Month Hedging Cost Index (FXHCUE12). Muzinich views and opinion for illustrative purposes only, not to be construed as investment advice.

Historic Credit Spreads in US and European Investment Grade Markets

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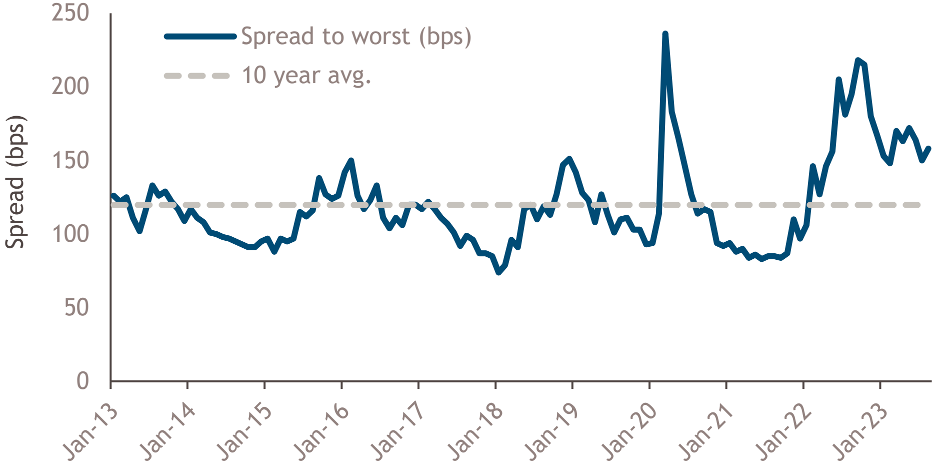
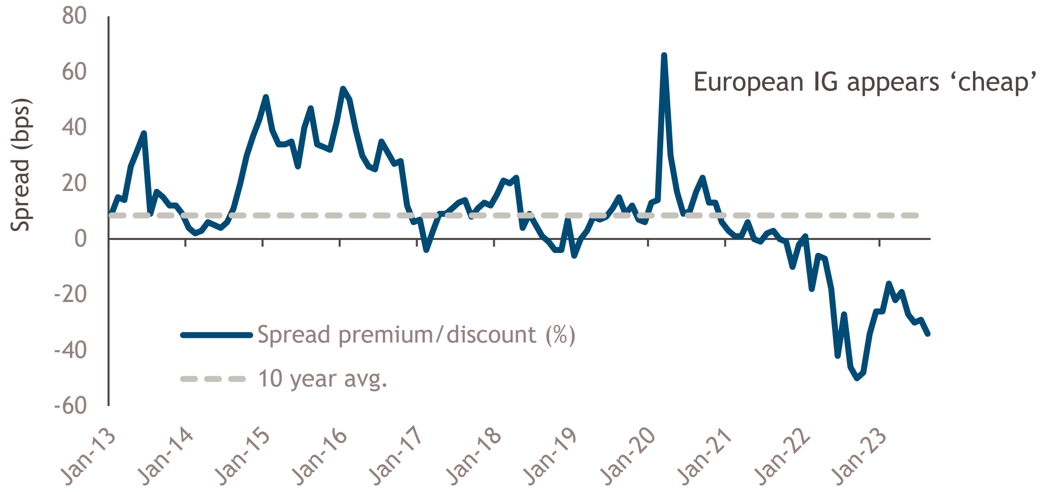
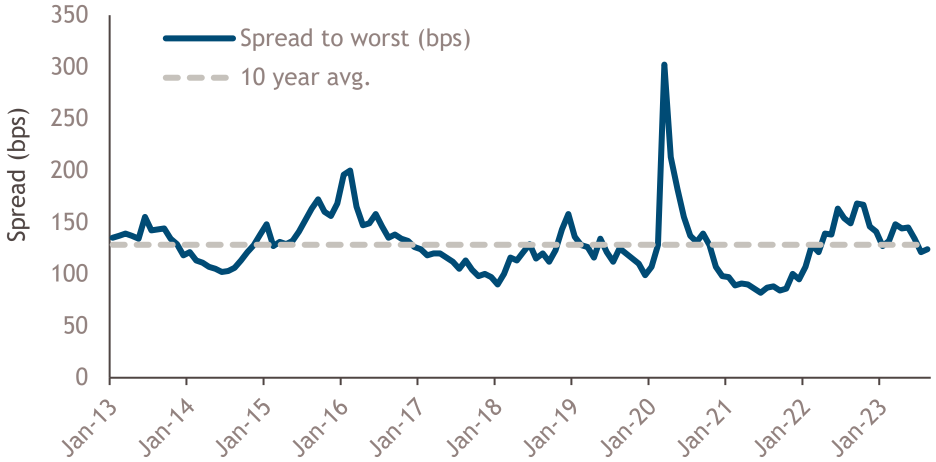
European Investment Grade (IG):



Spread premium/discount – US and European Investment Grade:



US Investment Grade (IG):



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The Appeal of Short-Dated Bonds in the Current Environment

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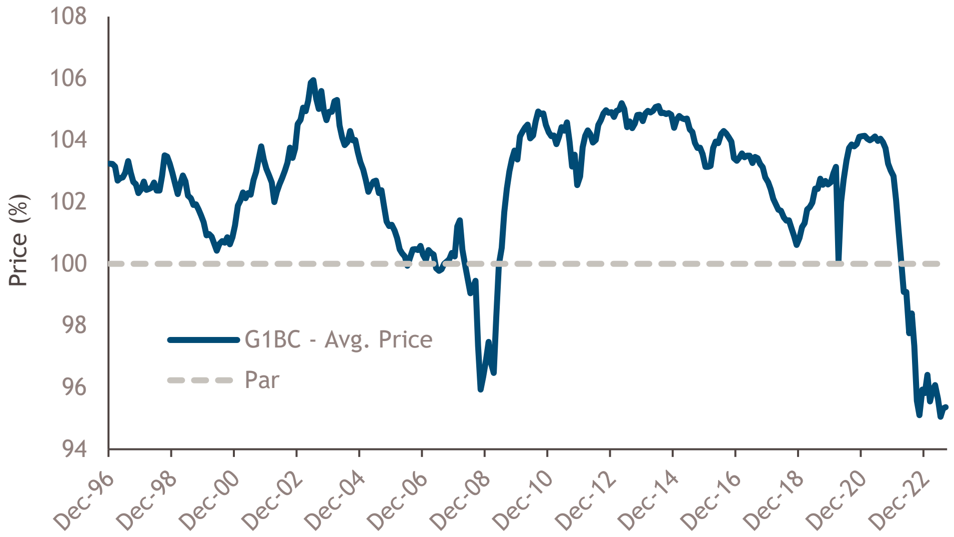
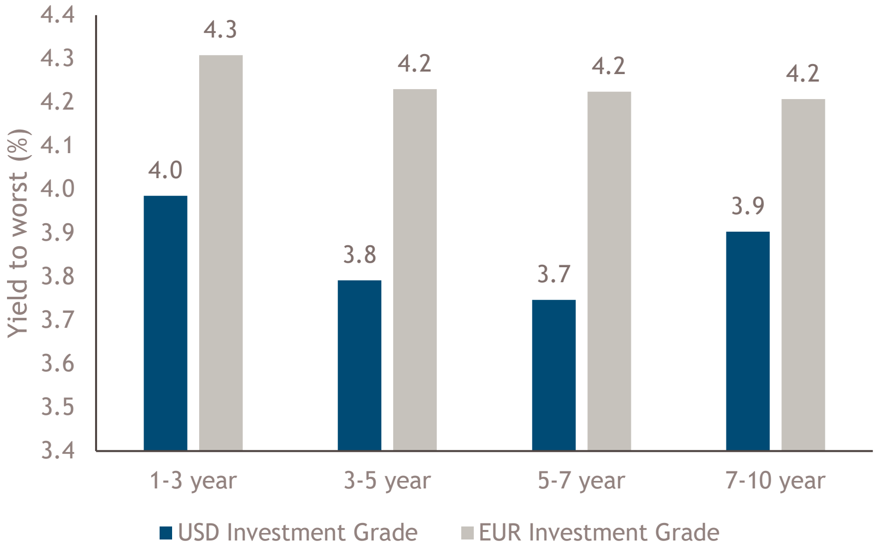
Short-dated bonds don't tend to trade below par often, or for very long:



Yield curves are relatively flat, offering a premium in shorter-dated bonds:



- Short dated credit benefits from the pull-to-par effect
- Shorter duration bonds tend to be less affected by changes in interest rates
- Investors can have greater visibility around repayment of bonds, given the shorter time to maturity
- We believe that ongoing rates uncertainty could continue to drive volatility in longer duration bonds
- The self-maturing nature of a short-dated bond portfolio is beneficial in periods of low liquidity and high trading costs

Source: ICE Index Platform and Bloomberg data as of 31st August, 2023. G1BC: ICE BofA 1-3 Year Global Corporate Index. EUR IG: ICE BofA Euro Corporate Index (ER00). USD IG: ICE BofA US Corporate Index (C0A0). Yields shown in the right hand graph are EUR-hedged. USD figures are hedged using the Bloomberg USDEUR 12 Month Hedging Cost Index (FXHCUE12). Muzinich views and opinion for illustrative purposes only, not to be construed as investment advice.

Current Themes: Duration and Credit Quality

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Chart 1: Duration

Divergence seen in US and European short-term rates, driven by various factors

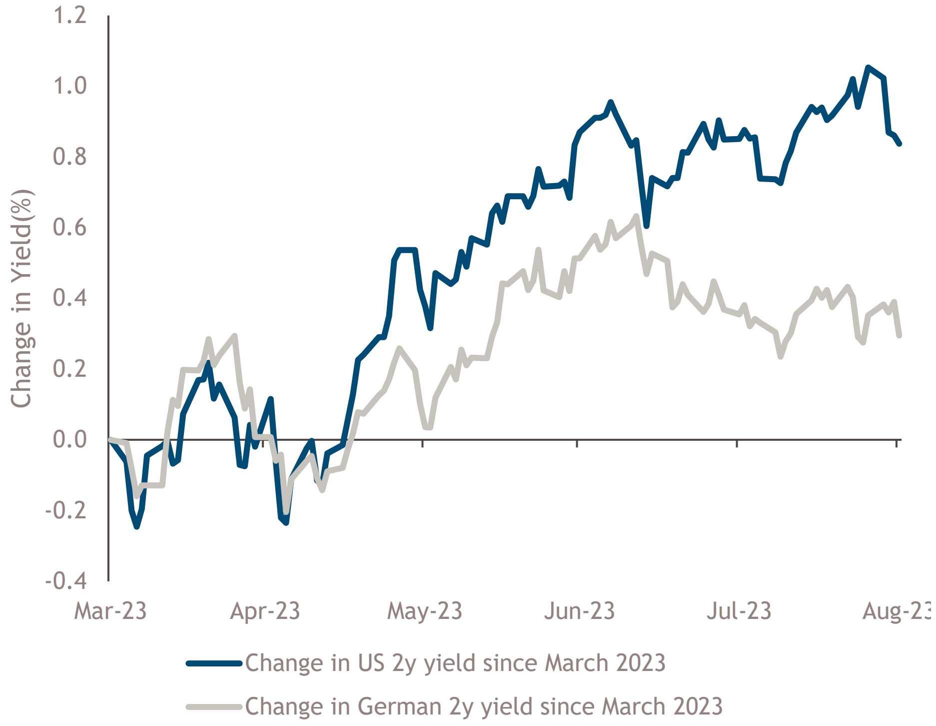
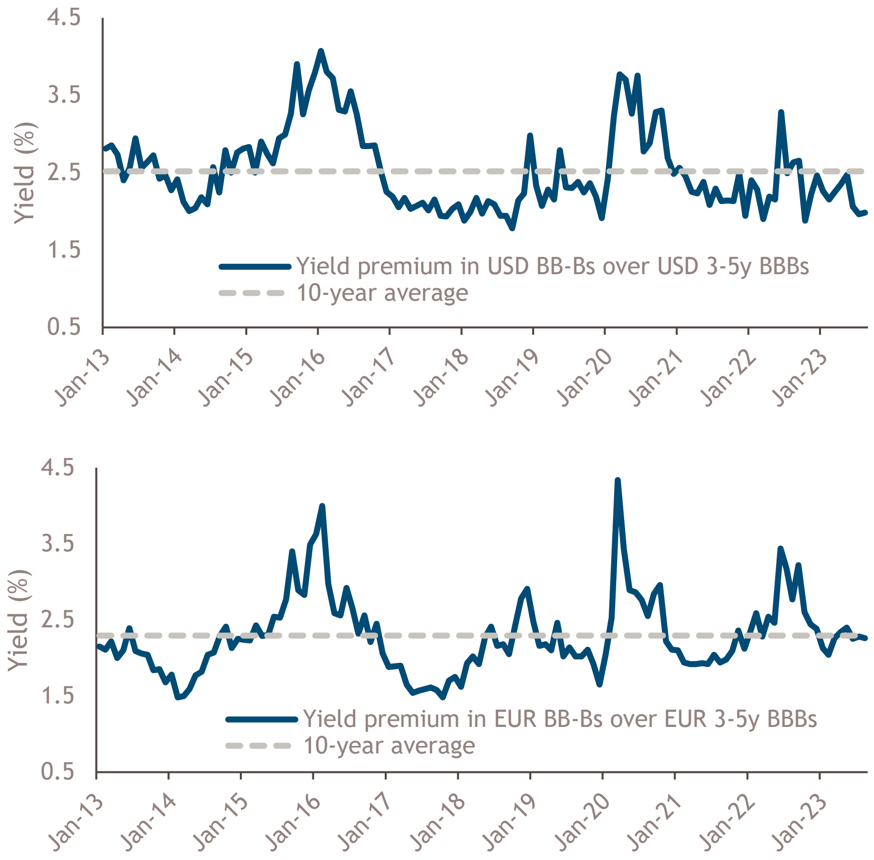


Chart 2: Credit Quality

Yield premium in High Yield supports a rotation into higher quality credit



Sources:
Chart 1: Bloomberg, USGG2YR Index and GDBR2 Index. Data as of August 31st, 2023.
Chart 2: ICE Index Platform. Data as of August 31st, 2023. ICE BofA BB-B US Cash Pay High Yield Index (J0A4); ICE BofA US Corp BBB 3-5yr Index (C2A4); ICE BofA BB-B Euro High Yield Index (HE40); ICE BofA 3-5 Year BBB Euro Corporate Index (ER42).
For illustrative purposes only, not to be construed as investment advice.

Current Themes: Emerging Markets and Financials

Chart 1: Emerging Markets

No obvious spread premium in Emerging Markets – need to be selective here

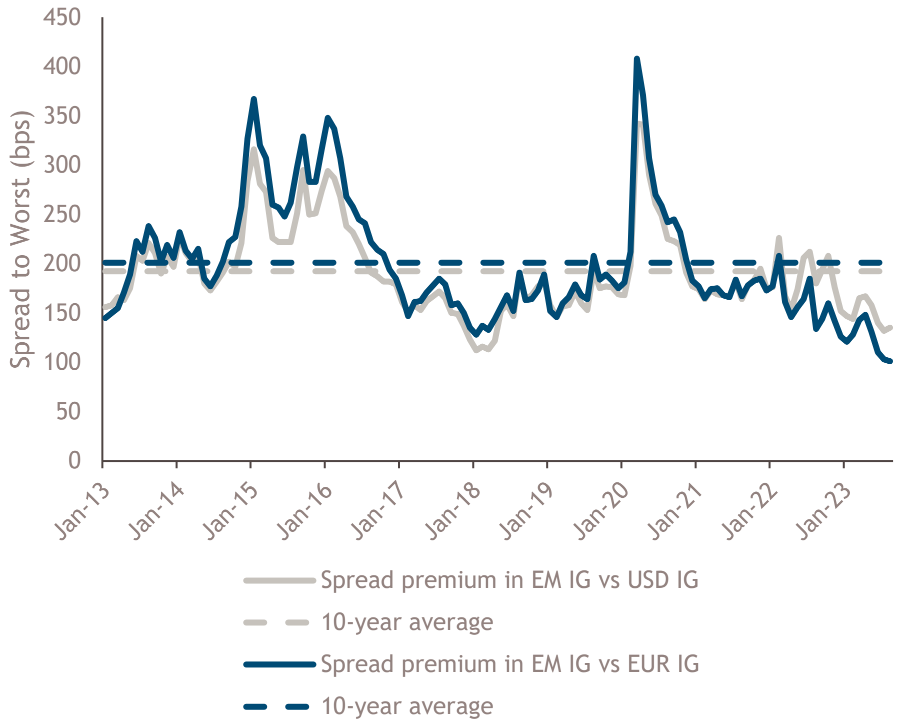
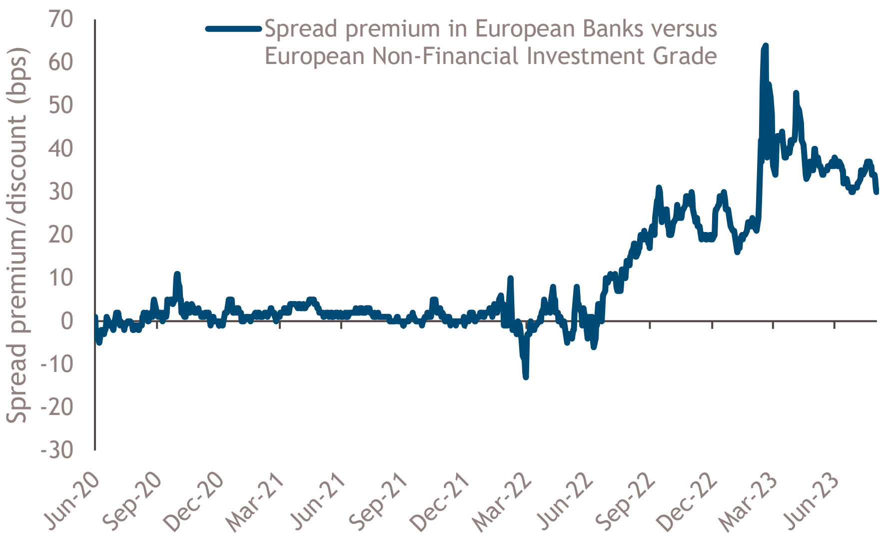


Chart 2: Financials versus Corporates

Significant premium in European Banks despite apparent containment of Credit Suisse crisis



Sources:

Chart 1: ICE Index Platform. Data as of August 31st, 2023. ICE BofA US Corporate Index (C0A0); ICE BofA European Corporate Index (ER00); ICE BofA US Emerging Markets Liquid Corporate Plus Index (EMCL)

Chart 2: ICE Index Platform. Data as of August 31st, 2023. ICE BofA Euro Non-Financial Index (EN00); ICE BofA Euro Financial Index (EB00)

For illustrative purposes only, not to be construed as investment advice. Indices selected as best available proxies for their respective markets.

Breakeven Returns Have Increased Substantially, Particularly in Short Duration

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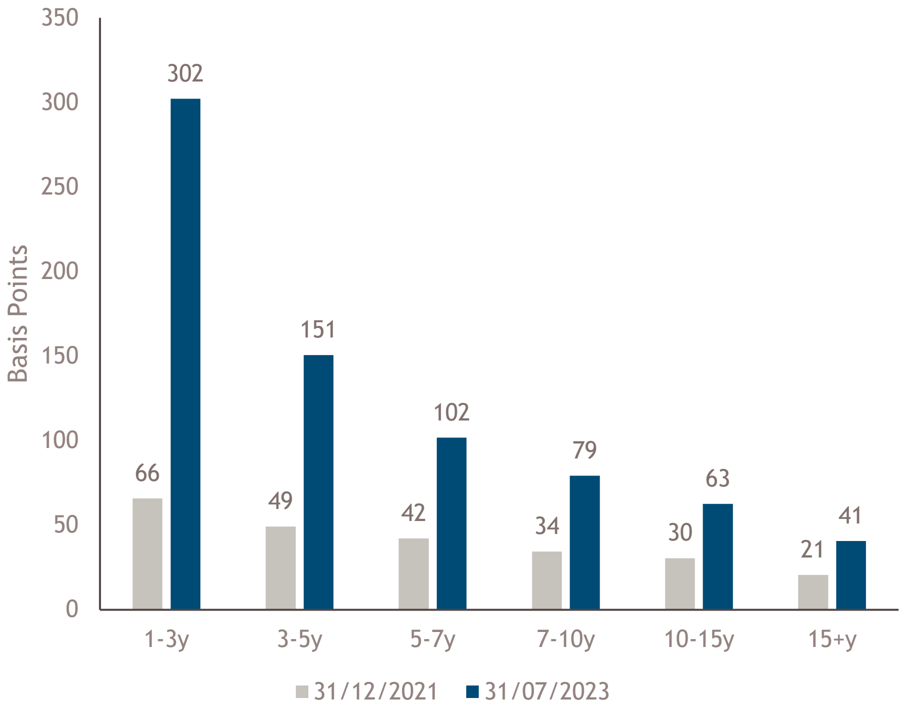
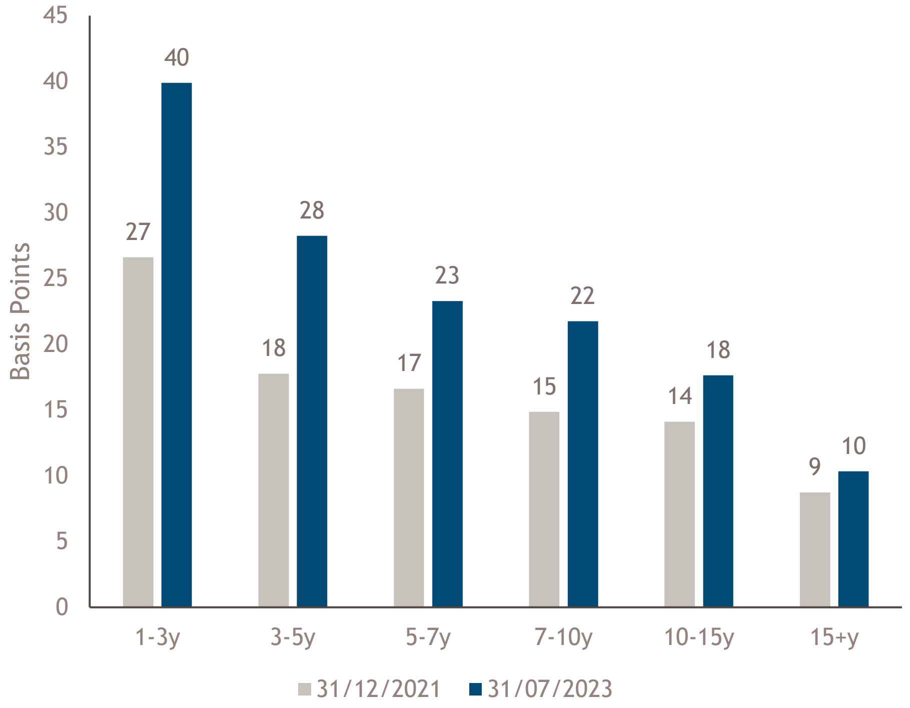
US IG Total Return Breakeven



US IG Excess Return Breakeven



Source: ICE Index Platform, data as of July 31st, 2023. ICE BofA 1-3 Year US Corporate Index (C1A0), ICE BofA 3-5 Year US Corporate Index (C2A0), ICE BofA 5-7 Year US Corporate Index (C3A0), ICE BofA 7-10 Year US Corporate Index (C4A0), ICE BofA 10-15 Year US Corporate Index (C7A0), ICE BofA 15+ Year US Corporate Index (C8A0). Muzinich views and opinion for illustrative purposes only, not to be construed as investment advice. Indices selected as best available proxy to measure relative performance of IG classes. Index performance is for illustrative purposes only. You cannot invest directly in the index.

The Opportunity in Short End Rates

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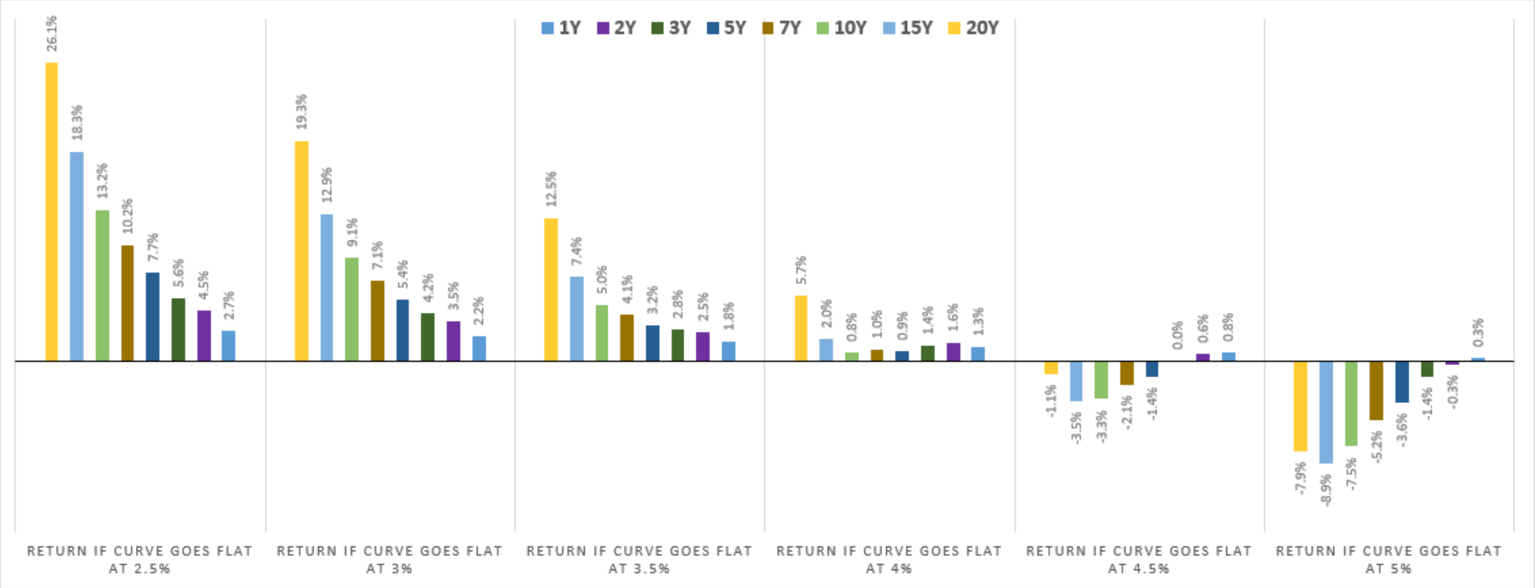
Assumption: the US curve will go flat before normalising into an upward sloping curve



- Conclusion: if the US curve next flattens at 3.5% or below, there is most likely a case for longer rates exposure

Tenor	Current Yield (%)	Duration	Return if curve goes flat at 5%	Return if curve goes flat at 4.5%	Return if curve goes flat at 4%	Return if curve goes flat at 3.5%	Return if curve goes flat at 3%	Return if curve goes flat at 2.5%
1Y	5.4%	0.95	0.3%	0.8%	1.3%	1.8%	2.2%	2.7%
2Y	4.8%	1.91	-0.3%	0.6%	1.6%	2.5%	3.5%	4.5%
3Y	4.5%	2.77	-1.4%	0.0%	1.4%	2.8%	4.2%	5.6%
5Y	4.2%	4.54	-3.6%	-1.4%	0.9%	3.2%	5.4%	7.7%
7Y	4.2%	6.14	-5.2%	-2.1%	1.0%	4.1%	7.1%	10.2%
10Y	4.1%	8.28	-7.5%	-3.3%	0.8%	5.0%	9.1%	13.2%
15Y	4.2%	10.91	-8.9%	-3.5%	2.0%	7.4%	12.9%	18.3%
20Y	4.4%	13.61	-7.9%	-1.1%	5.7%	12.5%	19.3%	26.1%

Source: Muzinich as of July 31st, 2023. The views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity, they are for information purposes only, are as of the date of publication and are subject to change without reference or notification. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Forecasts mentioned are not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy.

Yield to Worst or Yield to Best?

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Yield to Worst calculation assumptions may underestimate the potential realised return for bond investors.

The Power of Pull to Par

Issuers refinance usually at least one year before the bond maturity to reduce risk around market access: this could lead to a higher total return than the yield to worst.

When the price of callable bonds is below 100, the yield to worst is equivalent to the yield to maturity since the call option is out of the money.

Example Callable Industrials Company Bond

Rating	B1/B+
Maturity	July 15th, 2025
Price	96
Coupon	2.00%

Yield to	Date	Price	Yield
1 Year Before Maturity	15/07/2024	100	4.79
Maturity, Worst	15/07/2025	100	3.35

Source: Bloomberg data as of August 7th, 2023. Muzinich views and opinion for illustrative purposes only, not to be construed as investment advice.

Active vs Passive Management

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Active management		ETF
Active management seeks to outperform Benchmark	Performance	ETF seeks to replicate Benchmark
Active management investments are based on top down and bottom-up expertise	Investment	ETF investments are based on liquidity and correlation metrics
Active management seeks to reduce volatility through dynamic diversification	Volatility	ETF volatility is exacerbated by premium and discount, especially in a more volatile environment
Active management has flexibility to opportunistically hold off benchmark valuable investments	Flexibility	ETF follows strict and inefficient investment rules

Key Information for Investors – Key Risks

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Credit Risk

Issuers of bonds, loans and other fixed income investments (“Investments”) held in the portfolio may default on their obligations or have their credit rating downgraded, possibly resulting in a temporary or permanent decrease in the value of those Investments. Investments in the portfolio may be below investment grade, meaning that they may produce a higher level of income but also carry greater risk of default than higher-rated Investments.

Liquidity Risk

The Fund may face difficulties in purchasing or selling its assets, although it endeavors to invest in liquid securities.

Interest Rate Risk

Fixed-rate bonds held in the Fund may fall in price with an increase in the prevailing level of interest rates in the economy. This risk usually decreases for bonds of lower rating and shorter duration-to-worst.

Currency Risk

Fluctuations in exchange rates may cause the value of your currencies other than the one in which the unit class is denominated. Although the Manager endeavors to protect the Fund against currency risk, such hedging, achieved through derivative instruments (see "Derivative Risk" below), is at the Manager's discretion and it may not be possible or practical to protect the Fund or individual unit classes against all currency risk.

Derivative Risk

The Fund may use derivative instruments to protect against perceived risks as described under the other headings in this section. Derivative instruments may rise or fall in price or may be subject to risk of non-payment or non-delivery by a counterparty. There is no guarantee that derivatives will provide the anticipated protection.

Operational Risk

Operational processes, including those relating to the safekeeping of assets, may fail, resulting in losses.

Additional information about these and other risks may be found in the prospectus and supplement for the Fund, both of which are available at www.muzinich.com.

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The prices of fixed income securities fluctuate in response to perceptions of the issuer’s creditworthiness and also tend to vary inversely with market interest rates. The value of such securities is likely to decline in times of rising interest rates. Conversely, when rates fall, the value of these investments is likely to rise. Typically, the longer the time to maturity the greater are such variations. A Fund investing in fixed income securities will be subject to credit risk (i.e. the risk that an issuer of securities will be unable or unwilling to pay principal and interest when due, or that the value of a security will suffer because investors believe the issuer is less able or willing to pay).

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Muzinich & Co., Inc.

Muzinich & Co., Inc.
New York

450 Park Avenue
New York
NY 10022, U.S.A

+1 212 888 3413

Muzinich & Co. (Ireland) Limited
Frankfurt Branch

Neue Mainzer Strasse 20
60311 Frankfurt am Main
Germany

+49 (69) 153 25 70 0

Muzinich & Co. Limited
London

8 Hanover Street
London
W1S 1YQ, UK

+44 (0) 207 612 8755

Muzinich & Co. (Ireland) Limited
Dublin

5th Floor Kildress House,
Pembroke Row
Dublin 2
Ireland

+353 (1) 683 4300

Muzinich & Co. (Switzerland) AG
Geneva

Passage des Lions, 6
1204 Geneva
Switzerland

+41 (0) 22 545 17 00

Muzinich & Co. (Ireland) Limited
Madrid Branch

Paseo Eduardo Dato
18 28010 Madrid
Spain

+34 91 084 8895

Muzinich & Co. Limited
Manchester

No. 1 Spinningfields
Quay Street
Manchester, M3 3JE, UK

+44 (0) 161 509 1560

Muzinich & Co. (Ireland) Limited
Milan Branch

Via Senato 12
20121 Milan
Italy

+39 02 8342 7300

Muzinich & Co. (Ireland) Limited
Paris Branch

37/39 Avenue de Friedland
75008 Paris
France

+33 (0) 1 7306 3700

Muzinich & Co. (Singapore) Pte. Limited
Singapore

Six Battery Road
#26-05 Singapore
049909

+65 6983-7200

Muzinich & Co., Inc.
Palm Beach (Florida)

230, Royal Palm Way
Suite 303
Palm Beach, Florida 33480

+1 561 619 5470

Muzinich & Co. (Switzerland) AG
Zurich

Tödistrasse 5
8002 Zurich
Switzerland

+41 (0) 44 218 14 14

Muzinich & Co. Limited
Sydney

Suite 30.2
Governor Macquarie Tower
1 Farrer Place
Sydney, NSW, 2000

Muzinich & Co. (Singapore) Pte. Limited
Hong Kong – Rep Office

One International Finance Centre
1 Harbour View Street
Central, Hong Kong

+852 3899 6640

Muzinich & Co. SGR S.p.A
Milan

5th Floor Via Senato 12
20121 Milan
Italy

+39 02 0068 5170

Muzinich & Co., (Japan) Pte. Limited
Japan

Level 3, Marunouchi Nijubashi Building
2-2, Marunouchi 3-chome Chiyoda-ku
Tokyo 100-0005 Japan

+81 3 6632 7535

email: info@muzinich.com

web: www.muzinich.com