Bond Market Contact Group

Primary Market Dynamics - Non-Public Sector

June 2022

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European Primary Issuance Volumes – Investment Grade and High Yield

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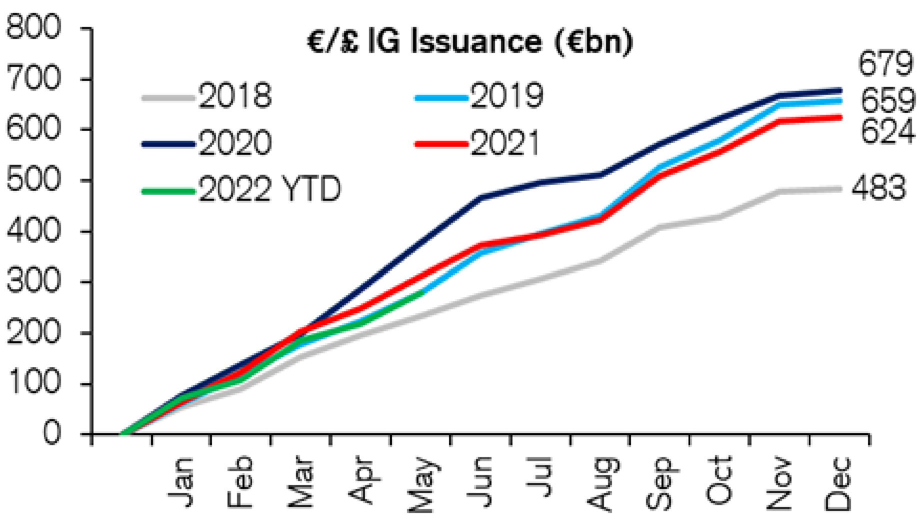
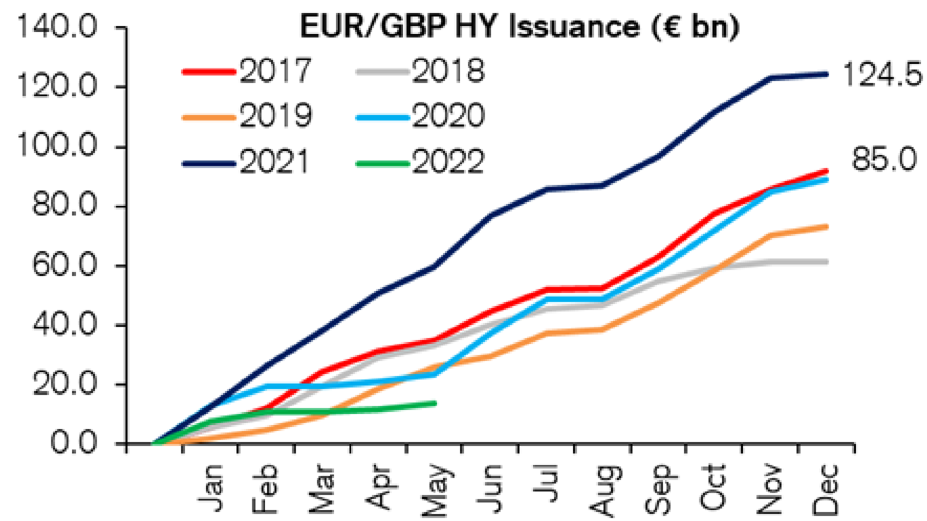
EUR/GBP Investment Grade New Issuance (*incl. financials*):



- Investment Grade new issue volumes remain robust
- Differentiation in weekly volumes is masked in monthly data
- New issue market not open to all issuers
- Issuance biased to well-known issuers, those willing to pay the required new issue premium
- US market has followed similar trends

EUR/GBP High Yield New Issuance (*incl. financials*):



- The High Yield market has remained closed for significant parts of 2022, particularly since the end of February
- New issuance has been biased to BB-rated issuers
- Heavy new issuance in 2021 allowed maturities to be extended
- US market has followed similar trends – volumes notably down on recent years amid market volatility

Source: Credit Suisse Credit Strategy Daily as of June 17th, 2022. Muzinich views and opinions are for illustrative purposes only and not to be construed as investment advice.

EUR Investment Grade Corporate Primary - Setting the Scene: 1

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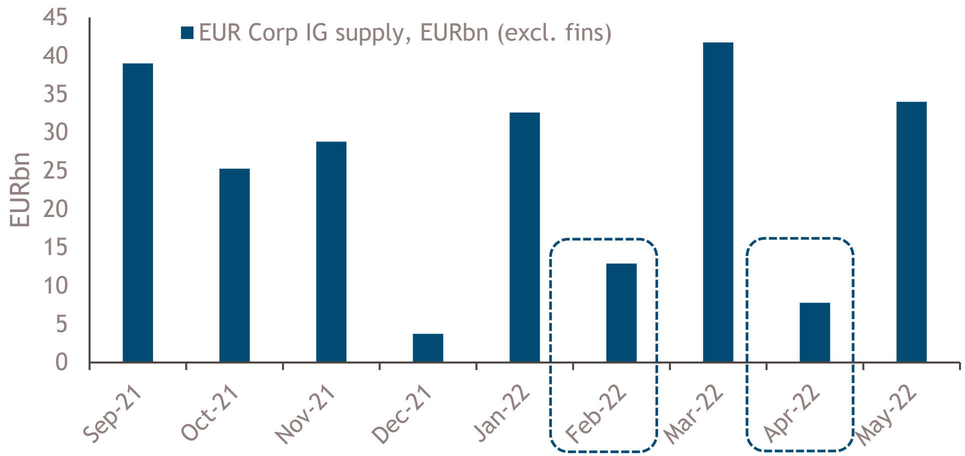
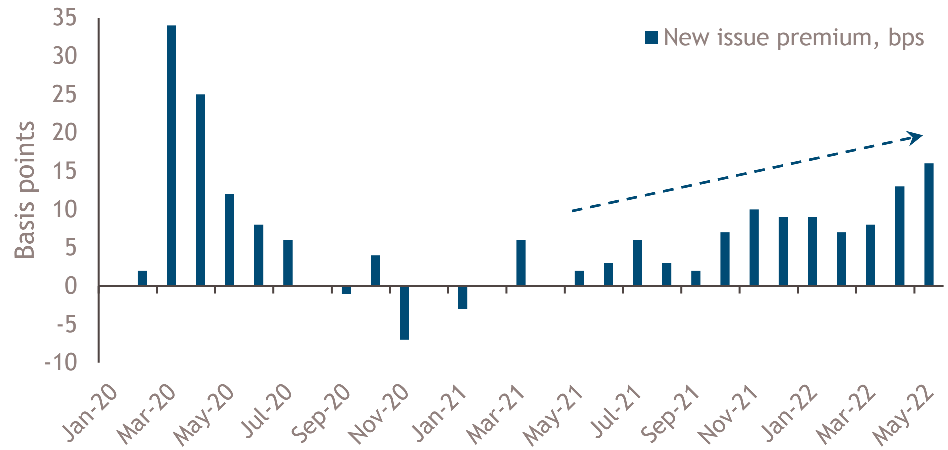
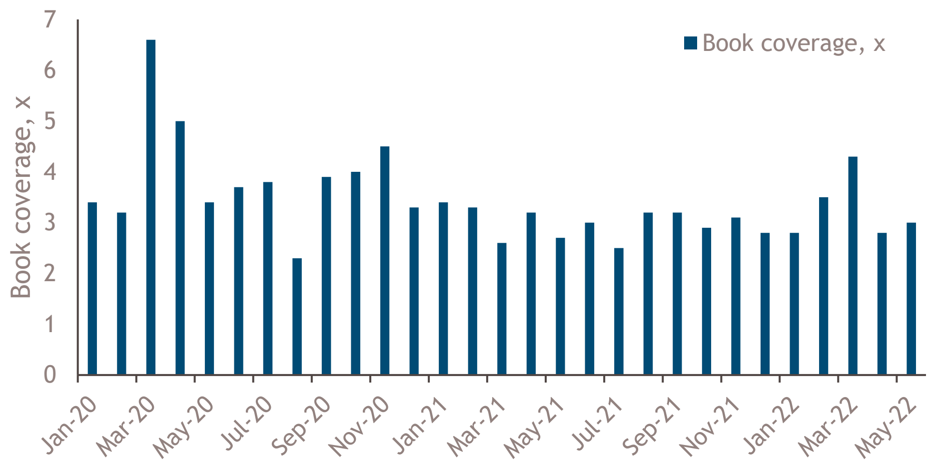
Primary market periodically 'closed' due to exogenous shocks:



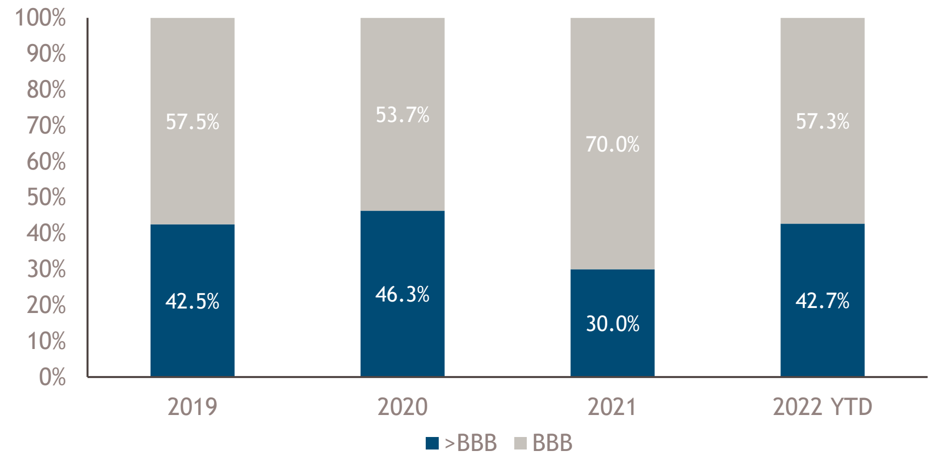
Cautious investors are demanding higher new issue premiums (bps):



Books healthy, but biased to well-known issuers:



Credit quality has normalised after deteriorating in 2021:



Source: HSBC: Corporate Euro and Sterling Market Dashboard published June 1st, 2022. For illustrative purposes only.

EUR Investment Grade Corporate Primary - Setting the Scene: 2

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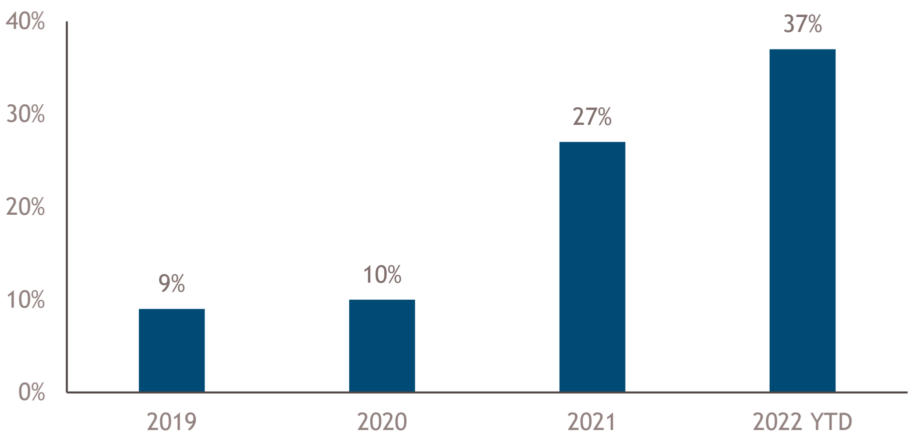
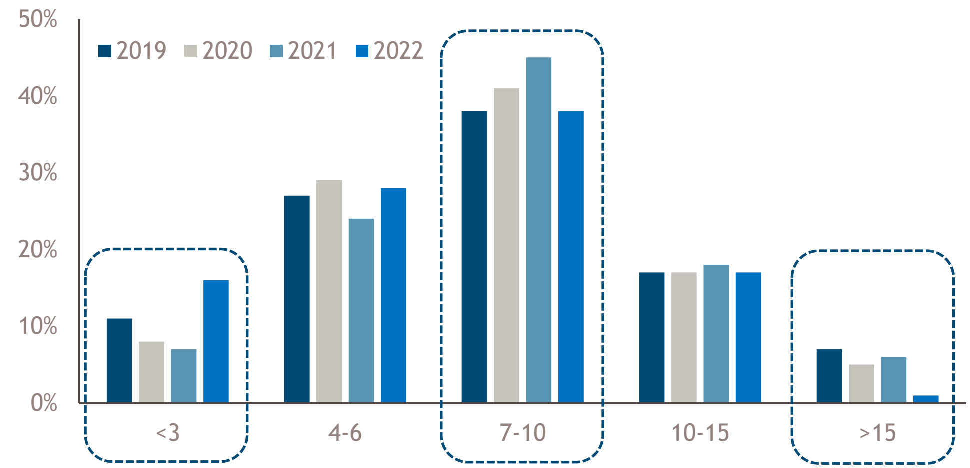
Significant increase in ESG issuance (% of new issue volume):



Investors have not welcomed longer-dated issuance in 2022:



Summary – 2022 Year-to-Date:

- Primary markets have been open, but not consistently and not for all issuers
- Books remain healthy, however investors are demanding higher new issue premiums
- As a proportion of total volumes, we have seen a drop in long-dated issuance and a rise in short-dated issuance
- Credit quality is in line with prior years, after deteriorating in 2021
- The proportion of new issues with an ESG label continues to grow

Source: HSBC: Corporate Euro and Sterling Market Dashboard published June 1st, 2022. Muzinich views and opinions are for illustrative purposes only and not to be construed as investment advice.

Net Purchases Under CSPP and PEPP, Versus European IG spreads

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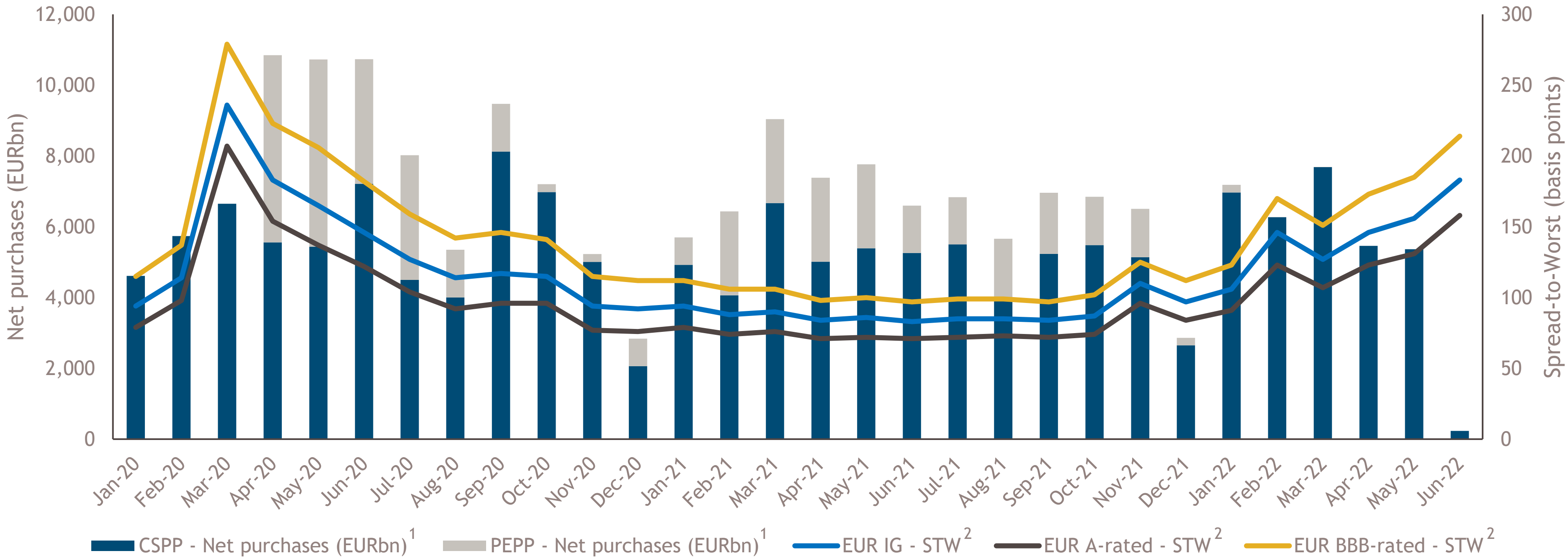

Key ECB dates:

- **March 2020:** Launch of PEPP in response to Covid-19
- **December 2021:** Wind-down of PEPP over Q1 2022 announced
- **March 2022:** Initial guidance for end of APP in Q3 2022

Key non-ECB dates:

- **November 2021:** Powell retires transitory inflation language, Omicron variant
- **February 2022:** Russian military enters Ukraine
- **March 2022:** Federal Reserve ends Quantitative Easing, hikes rates for the first time

Source: (1) ECB as at 10th June 2022 and (2) ICE Index Platform as at 16th June 2022. ICE BofA Euro Corporate Index (ER00), ICE BofA Single-A Euro Corporate Index (ER30) and ICE BofA BBB Euro Corporate Index (ER40). Muzinich views and opinions are for illustrative purposes only and not to be construed as investment advice.

US and European Investment Grade Credit Spreads

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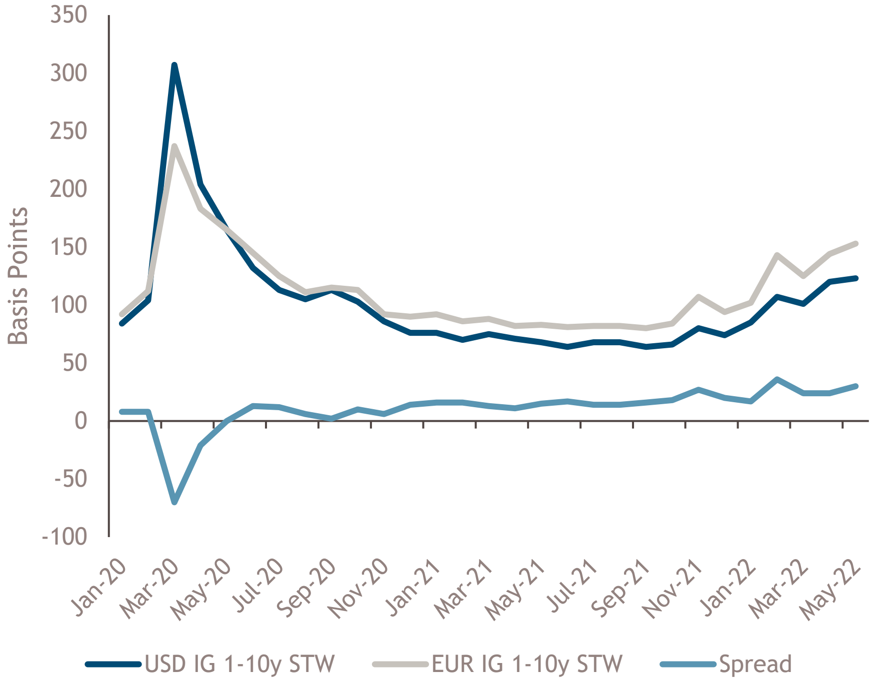
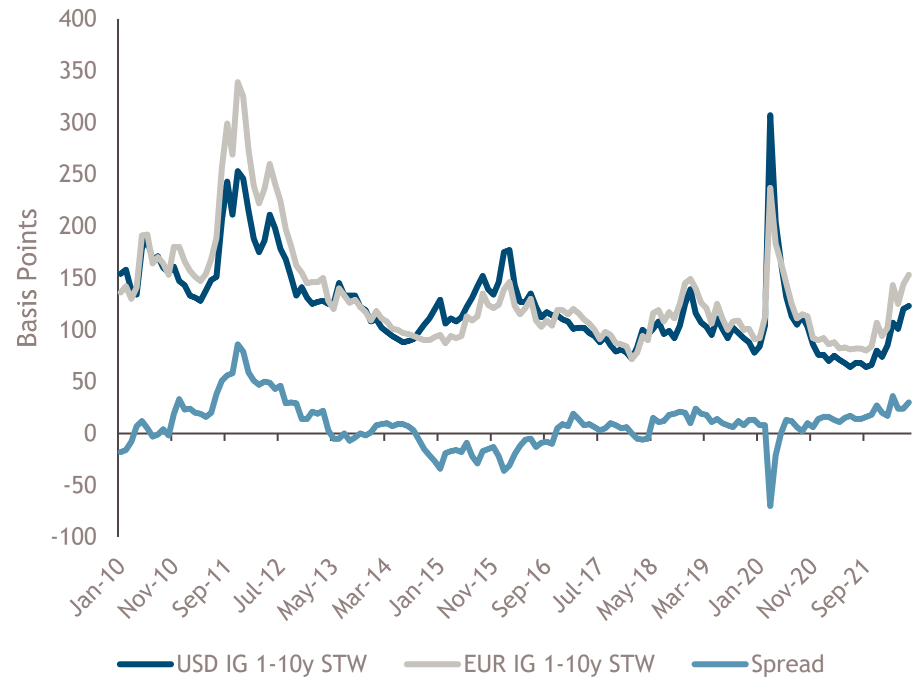
European spreads underperforming since mid-2020:



Europe-US spread premium at highest since 2012:



- European credit spreads trading at a premium to the US since mid-2020
- Notable growth in premium through Q4 2020 and Q1 2021

- Historic relationship between European and US spreads reflects the European periphery crisis of 2011-12, and the energy crisis of 2015
- European spread premium currently close to highest since 2012

Source: ICE Index Platform as at 16th June 2022. ICE BofA 1-10 Year Euro Corporate Index (ER05) and ICE BofA 1-10 Year US Corporate Index (C5A0). Muzinich views and opinions are for illustrative purposes only and not to be construed as investment advice.

Discussion Questions

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Can we allocate the current European risk premium to various coincidental risk factors?

- Persistently high inflation
- Rates volatility and ECB communication
- Winding down of ECB bond purchases
- Russia-Ukraine crisis and ongoing high energy prices
- Other macro factors such as supply chain disruption, Covid cases, raw material costs/supply, etc.

What is needed for new issue premia to fall, and new issue markets to be consistently open?

- Lower rates volatility and signs of inflation easing?
- Reduced competition between sovereign debt and corporate debt?
- Broad improvement in corporate visibility, particularly in key cost lines such as energy?

For lower-rated issuers, does the fragility of the new issue market present significant risks to refinancing?

- Is there an upcoming maturity wall - if so, when?
- Do issuers have other financing options?
- Can lower-rated issuers afford to refinance if interest rates/spreads continue to move higher/wider?

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