# Monthly Fund Commentary

Muzinich & Co

**Supra Institutional: MZHSX**

April 2019

## Fund

Muzinich US High Yield Corporate Bond Fund

## Portfolio Commentary

US corporate credit continued its positive run with another strong month in April. Risk-on sentiment dominated, as evidenced by strong equity, high yield and loan returns. Investment grade corporates also generated positive performance while Treasuries declined. Risk-on sentiment was bolstered by solid US economic data (Gross Domestic Product beat expectations), good earnings, progress on US/China trade negotiations, and an accommodative Federal Reserve. Technicals were positive for both investment grade and high yield given limited new issuance (many companies were in their mandated blackout periods given earnings releases and therefore not able to come to market) and solid inflows. Defaults remain at historic lows. We believe going forward, credit is largely a carry trade. In a world of low government yields, investors will generally take the spread[1] where they can get it.

## Strategy and Outlook

In this environment, the fund generated a positive return. On a duration[2] basis, mid duration (3-5 years) bonds were the greatest contributors to absolute performance. On a sector basis, the greatest contributions came from energy and automotive & auto parts bonds, while no sector detracted from returns. On a ratings basis, the fund benefitted most from B bucket bonds. We spent most of 2018 worried about rates. We are now more focused on capturing income of the asset class with an eye towards minimizing sensitivity to spread duration/negative beta[3] to potentially adverse macro developments.

Developed market inflation remains low despite unprecedented global central bank stimulus and, in the US, a strong jobs picture and solid economic growth. One explanation for low US inflation is that while the US economy is at full employment, this has not been accompanied by a rise in wages. Some argue that globalization and technology have put a damper on inflation and that we may never see inflation again. Several factors, however, could lead to an increase in inflation: increasing budget deficits (US and select European countries), rising commodity prices, continued loose monetary policy, and an increase in the US minimum wage (higher wages without an increase in productivity). What does it mean for fixed income? A little inflation is good because it could signify a solid economy and that companies have pricing power. If inflation is too high, however, this can be problematic – particularly for rates. Central banks would be forced to raise interest rates, a headwind for fixed income investors. In an inflationary environment, spread product would likely outperform more rate-sensitive investment grade.

*All references to market performance are sourced from Bloomberg. [1]Spread is the difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality. [2]Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. [3]Beta is a measure of the volatility or systematic risk of an individual stock or bond in comparison to the unsystematic risk of the entire market.*

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