# Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZCSX  Institutional: MZCIX  Class A: MZCRX

December 2018

## Fund

Muzinich Credit Opportunities Fund

## Portfolio Commentary

Global risk assets experienced significant declines this December—with the exception of Emerging Market high yield—on Federal Reserve (Fed) tightening, political uncertainty and weaker economic data. In this risk-off environment, global fixed income generally performed as expected with governments like Treasuries attracting assets (and rallying in price) in a flight to quality and outperforming all other segments of the bond market. While the Federal Reserve had clearly telegraphed that it would raise rates at the December meeting, an equity market swoon in early December and public remarks from President Trump pressing the Fed not to raise rates gave some investors the (false) impression the Fed might pause. While the Fed did raise rates in December, markets (as per Bloomberg data) are now forecasting a 0% probability that the Fed raises rates in March. Political uncertainty in the US (border wall, government shutdown, trade tensions with China) as well as in Europe (Brexit and Italy) also pushed investors to out of risk assets. Finally, weaker economic data has some investors questioning whether an economic slowdown will turn into a recession. While it is difficult to forecast a recession, we believe valuations have certainly become more attractive as investors question economic strength. Whether valuations become even more attractive, stabilize, or tighten depends largely on if the markets see some resolutions to political issues, Federal Reserve direction, and the strength of the economy.

## Strategy and Outlook

In this challenging environment, the fund generated positive performance. The fund's defensive positioning, specifically a significant allocation to US Treasury notes continued to be the largest contributor to positive returns this month as Treasuries rallied in the wake of market volatility and investors looked for safe havens. On an absolute sector basis, the fund benefitted from allocations to cable/satellite TV, while allocations to the healthcare sector detracted from returns. The fund's limited exposure to the energy and banking sectors also benefitted fund performance. By region, the fund benefitted from predominantly high quality US positioning and high quality EM holdings, especially in Asia (ex-Japan). The fund also further reduced European exposure as market volatility continued due to geopolitical headwinds (Brexit and Italy) in that region. Entering January, we believe that we are well positioned with a higher than average cash position to take advantage of opportunities as they present themselves.

We believe 2018's challenges were driven by global central bank tightening (the European Central Bank and the Federal Reserve), geopolitical uncertainty and concerns about economic growth. So what about 2019? Historically, negative years in high yield have been followed by positive years – however – in those years spreads[1] were wider than current spread levels. We believe valuations are at their most attractive in years but is this a screaming buy? We believe that if some of the political uncertainty is lifted (easing of trade tensions, soft Brexit), markets could snap back very quickly given significant levels of cash sitting on the sidelines and limited dealer inventories. In our view, the snapback should be quick and likely dramatic, and the most attractive gains should be made in the inflection. Risks remain though. We are late cycle and spreads could certainly widen from here. We believe managers focused on credit analysis should do well for investors looking to opportunistically take advantage of more attractive valuations even in a period of more mixed economic data.

*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.*

**Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. These risks are fully disclosed in the prospectus. Floating rate loans may not be fully collateralized and therefore may decline significantly in value. The fund will bear its share of the fees and expenses of investments in underlying funds or ETFs. Shareholders will pay higher expenses than would be the case if making direct investments in underlying funds or ETFs. Because the fund invests in ETFs, it is subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Please note that while the fund's prospectus states that the fund may use leverage, and that it may make short sales of securities, which involves the risk that losses may exceed the original amount invested, the Fund's portfolio managers do not anticipate engaging in either practice. The Fund invests in high yield debt instruments which tend to be less liquid than higher quality debt instruments**

*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Summary Prospectus and Statutory Prospectus contains this and other important information about the investment company, and it may be obtained by calling 1-855-Muzinich, or visiting www.MuzinichUSfunds.com. Read it carefully before investing.*

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