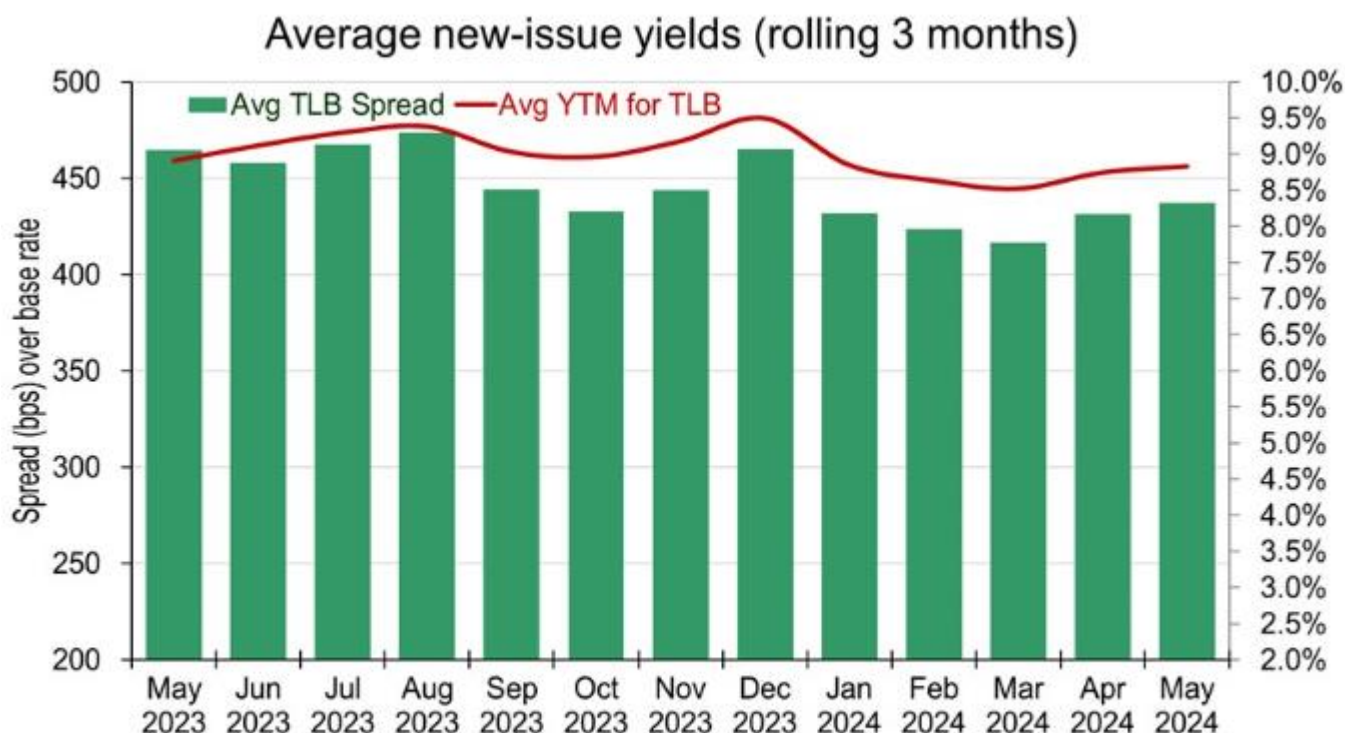


Macroeconomic Scenario

The most recent FED meeting (1st of May) ended with the central bank maintaining an easing bias (a predisposition to cut rates) but having to qualify it better in terms of timing (the reference to rate cuts 'this year' was removed) and preconditions (recognition that further evidence is needed on the inflation front). In fact, to date the data are still contradictory: new job announcements at three-year lows, high labour costs, weak consumer confidence and manufacturing ISM but, at the same time, rising price expectations, even if the April data have shown a slightly lower than expected headline inflation print. While Governor Powell called it unlikely that a hike would be the next move, he believes that rates should be at this level for a longer period than expected. In fact, inflation remains supported by global geopolitical competition, which will continue to provoke an arms race, and by an equally costly energy transition that will be timed more by strategic concerns than environmental reasons. In early January, the market had come to expect 163 basis points of US rate cuts by December, while today the futures markets are currently pricing in 46 basis points of Federal Reserve rate cuts by the end of this year.

In the Eurozone, although a first cut by the ECB in June is practically certain, doubts are rising concerning subsequent moves during 2024, due to a possible stall in the disinflation process. Expectations of ECB cuts in 2024 have fallen to around 70bps due also to the indications of the last FED meeting, although cyclical conditions are very different between the two areas. Indeed, Eurozone PMIs suggest an attempt to change course, with first-quarter 2024 GDP unexpectedly growing by 0.3% q/q and inflation stable at 2.4% y/y in April.



Source: PitchBook | LCD

BSL Credit Market

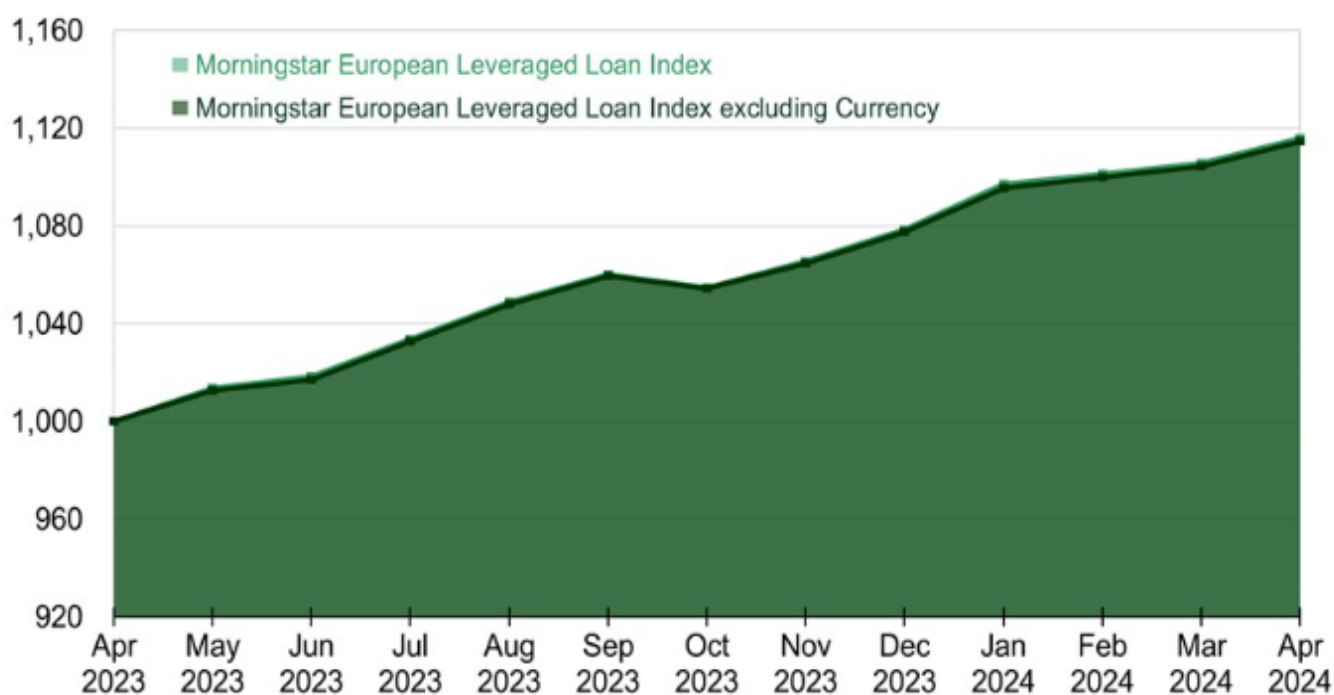
European primary Broadly Syndicated Loan market issuances since the beginning of the year have reached €46.08 billion, a massive increase compared to €16.78 billion in the same period of 2023.

Early May loan activity slowed in a shortened holiday week after April's burst of activity. The slowdown, however, should be no more than temporary and conditions heading into the summer appear increasingly hot. In fact, the BSL credit market is performing very strongly, and even difficult issuances are able to be placed successfully in the market at a borrower friendly price. Loans demand is strong also in the secondary market, which has rallied since mid- April and is now trading at levels last seen in April 2022, mainly because CLO activity is continuing to outpace new-money loan supply.

The Euro BSL market is now offering an average YTM of 8.64% on the secondary market, while the average YTM of the new issuances of the last 3 months is equal to 8.83% on average.

April has been a good month for the BSL market in term of return (+0.91%), and May is on track to match the performance of the previous month, with a MTD return of (+0.63%). The total return of the European BSL market since the beginning of the year stood at +4.06% at mid-May, showing not only a remarkable absolute performance, but also in relative terms compared to EU Investment Grade, which was negative by 0.75% in the same timeframe, and to EU HY (+2.25%) as of May 16, 2024.

Index Levels



Sources: PitchBook | LCD; Morningstar European Leveraged Loan Index



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