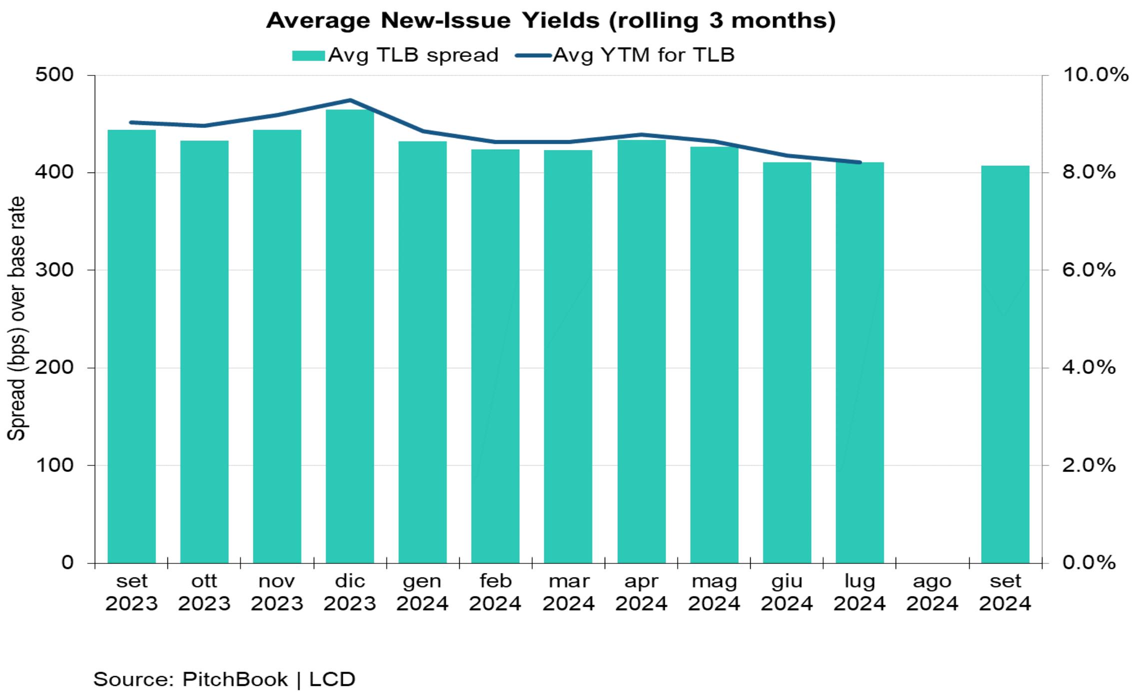
Macroeconomic Scenario

The long-awaited Fed meeting concluded with the institution announcing a 50bps rate cut, which seems like a compensatory move for a cycle of cuts that, according to Powell, could have begun as early as July. The decision, passed by a strong majority (11 to 1), was explained as necessary to recalibrate monetary policy, given the downward adjustment to inflation forecasts and the upward revision of unemployment estimates. However, during the press conference, Governor Powell downplayed expectations by emphasizing that the 50bps cut should not be interpreted as the pace for future cuts, as the labor market remains robust and the economy is in good shape.

A more cautious tone was also reflected in the dot plot, where the median projection of members anticipates another 50bps cut by year-end, followed by an additional 100bps in 2025, totaling 150bps. The market, however, is pricing in 200bps by the end of 2025. Some disappointment is likely. We believe the market will need to adjust its expectations, as we don’t foresee significant deterioration in the labor market before the end of the year. In summary, the Fed has opted for a risk management approach to avoid falling "behind the curve" in case of further weakening in the labor market, which remains the key focus.

In the Euro area, we still expect solid real income growth and reduced monetary policy drag to support growth in the coming quarters. Core inflation is projected to slow further, driven by continued declines in services inflation, wage growth returning to normal levels, and fading energy-related impacts. The ECB is expected to deliver 25bp cuts in September and December, followed by additional 25bp cuts until the policy rate reaches 2% by July 2025.

We continue to see the risk of recession as limited, given generally solid economic data, an absence of major financial imbalances, and substantial room for the Fed to act if necessary. Uncertainty remains high around the November US election, with potential policy shifts in trade, immigration, and fiscal matters depending on the outcome. Additionally, heightened geopolitical risks—stemming from ongoing Middle East tensions, the Russia-Ukraine conflict, and strained US-China relations—could significantly impact markets.



EU BSL Credit Market

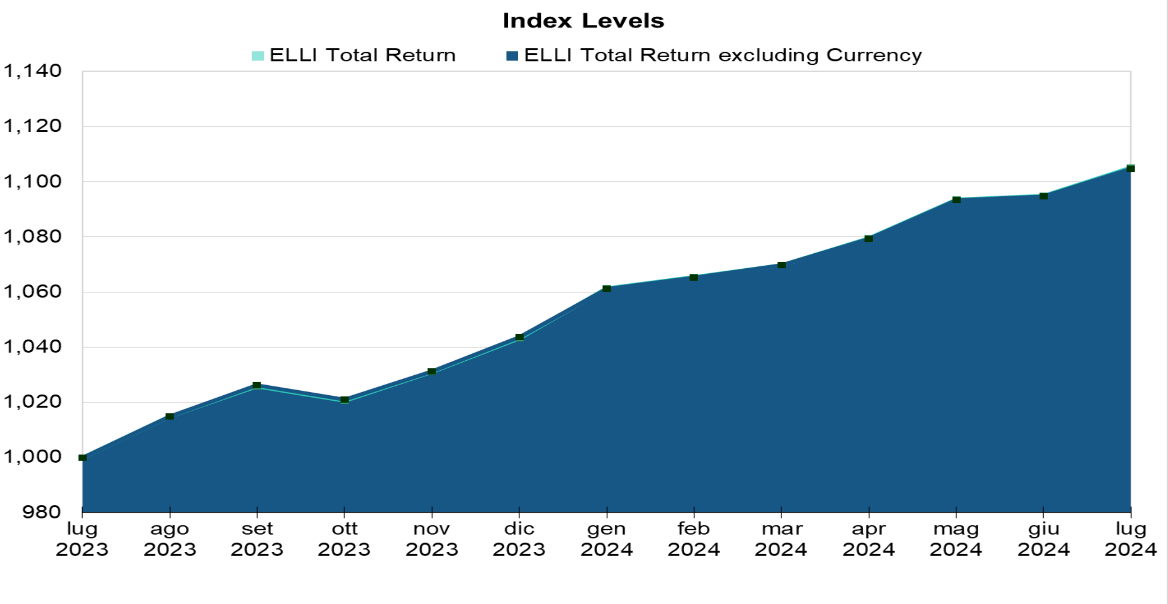
European primary Broadly Syndicated Loan market issuances have reached €72.64 billion since the beginning of the year, a massive increase compared to €26.29 billion in the same period of 2023.

Although the European leveraged loan primary market cooled down substantially in August, the price trend over the summer months suggests that there is a widespread appetite for new deals in the coming autumn season. Market participants expect that activity in the European leveraged loan market will pick up between the end of September and the beginning of Q4 due to the rich pipeline. On the other hand, the European CLO market remained active with some primary issuances especially in the first half of August. CLO players tended to think rate cuts can only be good news for CLOs, arguing that the Fed's rate cut is supportive for the market as investors will look to chase higher-yielding areas in credit such as CLOs. Moreover, the uncertainties prior to the Fed decision have now been cleared and should allow the CLO market to perform well.

The Euro BSL market is now offering an average YTM of 8.27% on the secondary market, while the average YTM of the new issuances of the last 3 months is equal to 8.17% on average.

August has been a good month for the BSL market in term of return (+0.52%), and September is on track to report a positive performance again, with a MTD return of (+0.27%). The total return of the European BSL market since the beginning of the year stood at +6.71% at the end of the third week of September, showing not only a very good absolute performance, but also very low volatility compared to other asset classes.

Overall, EU BSL market appears to be in good shape. Despite some concerns last week following US payrolls, the EU loan market has remained stable, with the average bid in the Morningstar European Leveraged Loan Index (ELLI) holding steady around 97.73 through the end of the third week of September.



Sources: PitchBook | LCD; Morningstar European Leveraged Loan Index

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