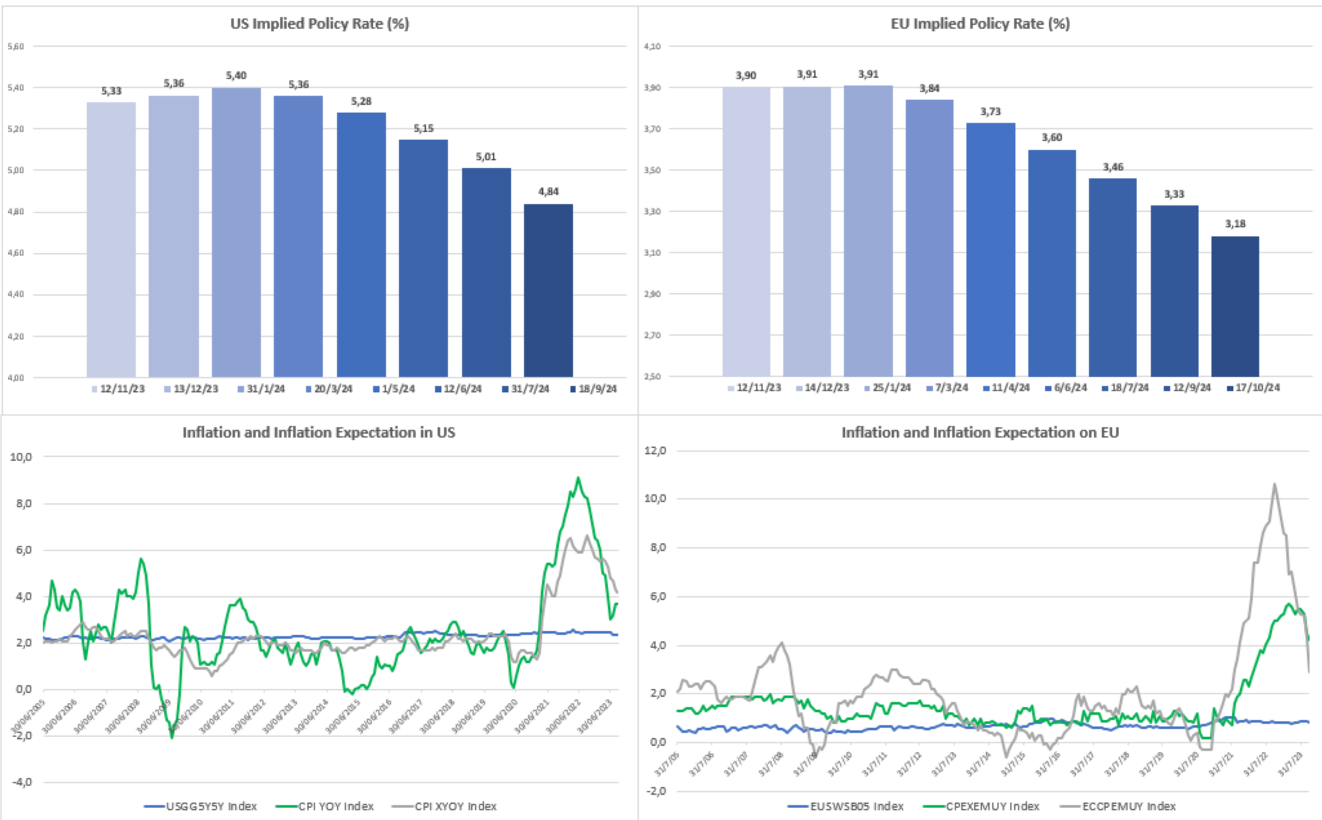
Macroeconomic Scenario

This week, investors' attention is mainly focused on upcoming macro data, in particular US inflation on Tuesday and the Biden-Xi Jinping meeting (Wednesday) on the sidelines of the APEC event.

Last week's statements on both sides of the Atlantic by several central bankers have, in fact, reaffirmed the Fed's and ECB's data-dependent approach. Powell said that further progress in the process of slowing price increases is uncertain, and that the Fed is not convinced that it has already reached a sufficiently restrictive level of monetary policy. In this context, next Tuesday's statistics on US inflation in October are of crucial importance for assessing possible new moves by the Fed, starting with the meeting on 13 December. Consensus estimates compiled by Bloomberg indicate an increase in consumer prices for October at 3.3% y/y, down from 3.7% in September, with the core component stable at 4.1%. Overall, the numbers are improving, but far from the 2% target.

In the fight against inflation, the Eurozone is only apparently better off than the US. The decline of the headline to 2.9% y/y from 4.3% in September and of the core to 4.2% from 4.5%, in a near-zero growth scenario for the coming quarters, prompted many investors to believe that the price race was over. However, over the next 12 months prices are expected to rise by 4% y/y from 3.5% in August. The IMF points out that Europe, more than the US mainly due to different demographic trends, also needs to grow productivity to reduce inflationary pressures from the labour market and to increase long-term growth potential.



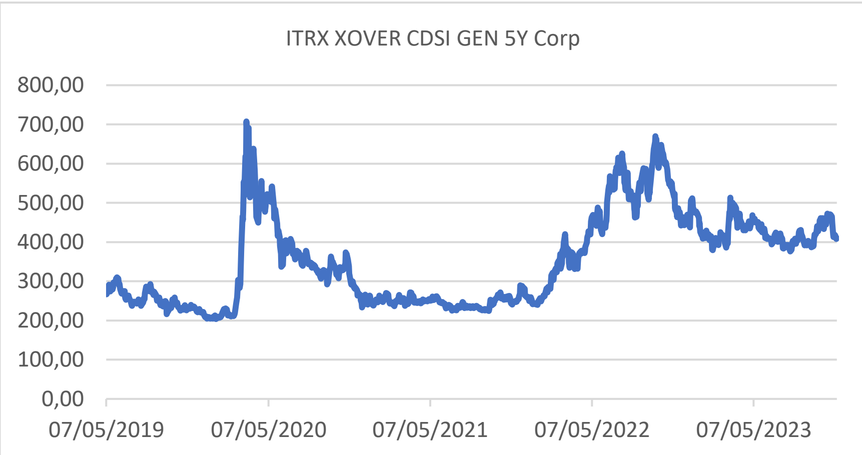
Bloomberg Data

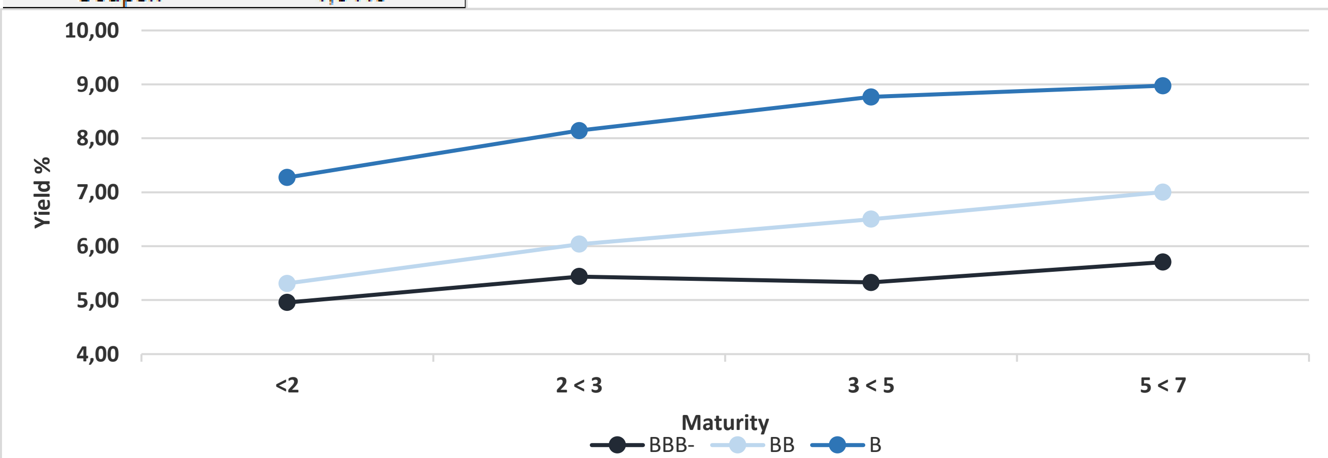
EU HY Credit Market

European high-yield issuance year-to-date stood at €35.2 billion ($37.3 billion), compared with €23.9 billion for the same period in 2022 (Bloomberg Data). Default rates in corporate credit markets have remained low in the face of a significant tightening in financial conditions and the expectations for defaults that remain under control. The HY universe has made pretty good progress on the refinancing of the debt maturing in 2023 and 2024. Shareholders have been supportive so far by injecting fresh equity in the companies for the refinancing, while lenders have remained supportive in favoring amend and extend transactions to improve liquidity by 1- 2 years. High Yield firms in Europe have €220 billion in bonds and loans coming due between 2025 and 2026, however the most is rated BB, the highest rating in the high yield market. Investors are analyzing the sustainability of capital structure for these issuers and the capacity to maintain adequate interest coverage ratio. Many issuers are focusing on deleveraging, notably through asset disposal. Good examples are United Group and Telecom Italia, which raised proceeds from asset sales and new financings for debt repayments. The EU HY Market registered an excellent performance in the last 10 years and is still positioned to exploit opportunities in the market given current market conditions through active management of the investors. However, defaults are likely to increase in the next year and the credit selection progress will be the key for future performance. The Euro HY market is now offering an average YTW of 7.87% with BBs yielding at 6.5%, Single Bs at 8.5%.

Performance HY Index TR	
YTD	6,98%
1 year	7,48%
3 year	2,78%
5 Year	8,89%
10 Year	36,01%

High Yield (Euro) Index	
Duration	2,84
Maturity	5,56
YTM	7,87%
PX_Medio	90,86
Rating Medio	BB-
Coupon	4,04%





Bloomberg Data

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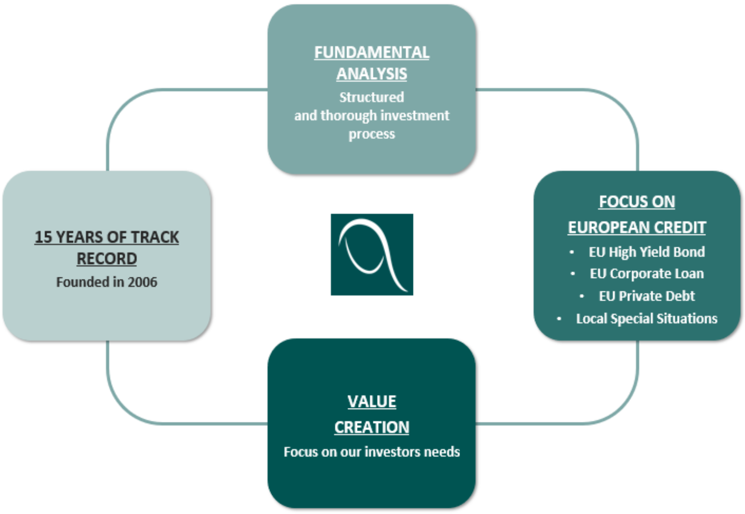

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