

Asset Allocation View: Multi-Asset Credit

September 2025

Key takeaways

- ▶ We are cautious in our tactical positioning, waiting for spreads to widen and to see more dispersion. In this environment, we are focused on diversification as chasing tighter spreads at these levels may prove uncomfortable.
- ▶ We like the yield carry of credit markets, particularly given fundamentals remain healthy. Our cash ratio has increased ahead of the expected rise in supply in September. We intend to deploy this cash in the primary market to take advantage of new issue premia.
- ▶ We are normalizing our regional exposure, with our longstanding overweight to EUR credit trimmed to take advantage of new momentum in US credit where short rates are likely to be cut meaningfully. Falling EUR/USD hedging costs, flows out of money markets into short-duration credit and negative political headlines in parts of Europe should help US credit outperform on a relative-value basis over the next quarter.
- ▶ We maintain our focus on carry roll-down and see value emerging in the US curve for such strategies, particularly in short-duration credit.
- ▶ We are reducing our sectorial risk budget, EUR subordinated bank exposure versus senior debt, and autos overweight, which has served us well. We have also cut US chemicals holdings and kept our moderate cyclical and energy exposure.
- ▶ We maintain our high yield overweight with a quality bias. Lower-quality credits may suffer in a higher yield environment and from tepid growth in Q4.



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Market Themes - Watchlist

Fundamentals:



Fundamentals are stable with less macro volatility than expected. However, uncertainty has not disappeared, and vigilance is warranted.

Technicals:



Technicals remain strong, but September typically sees large supply. We will look to take advantage of new issue premia.

Tail risks:



Tariff tail risks remain constant, namely: inflation risk in the US, weaker growth globally and fiscal premia in yield curves.

Valuations:



Yields are still attracting credit inflows despite tight spreads. We will wait for wider spreads to increase our overall risk budget.

Scoring - Fundamentals, Valuations, Technicals

	F	T	V	Avg.
US Loans (S&P UBS LLI)	0	1	-1	0.33
European Loans (S&P UBS WELLI)	0	1	0	0.33
US IG (C0A4)	1	2	-1	0.66
US HY (J0A0)	0	1	0	0.33
European IG (ER00)	1	1	0	0.66
European HY (HEC0)	0	2	-1	0.33
Emerging Market (EMCL)	2	-1	0	0.33

Red / Green:

downgrade/upgrade vs. last month

Muzinich Score Analysis.

Scale runs from -2 to +2 (-2 is the worst score, +2 is the best score). Internal calculations. Results of Muzinich's investment team's appreciation of different economic and statistical data such as economic cycle, leverage, interest coverage ratios etc.

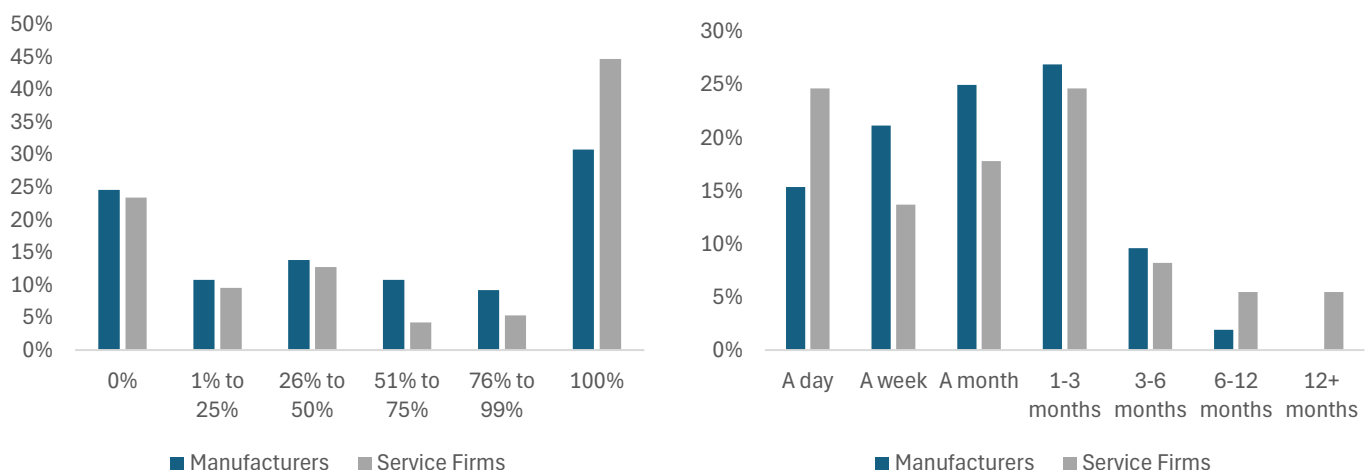
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Indices used: J4CS - ICE BofA 0-3 Year Duration-To-Worst BB-B Cash Pay US High Yield Constrained Index. S&P UBS LLI -S&P UBS Leveraged Loan Index. S&P UBS WELLI -S&P UBS Western European Leveraged Loan Index. C0A4 -ICE BofA BBB US Corporate Index. J0A0 - ICE BofA US Cash Pay High Yield Index. ER00 - ICE BofA Euro Corporate Index. HEC0 - ICE BofA Euro High Yield Constrained Index. EMCL - ICE BofA US Emerging Markets Liquid Corporate Plus Index. ADOL - ICE BoFA Asia Dollar Index. Please see Market Index Descriptions in the Appendix.

Macro uncertainty has not diminished despite trade deals

- It was widely expected that once trade deals with the US were struck, global macro uncertainty would ease, and markets would be comfortable to cash in the risk premium. Traditional uncertainty indices have halved but could stabilise at still elevated levels. The outcome of tariff negotiations surprised many. The arguments for tariff decisions have broadened from goods trade balance issues to international political arguments or indirect trade consequences, such as Canada and India. Some deadlines have been extended, such as with China, while other agreements could be revisited, including with Canada and possibly the European Union.¹ The use of the International Emergency Economic Powers Act to impose tariffs is subject to legal proceedings, reaching the US Supreme Court.² The positive news, for now, is that the risk of escalation has not materialised, alleviating the threat of unbearable global supply shocks and recession.
- Current assessments of the tariff impact on inflation are milder than feared. The absence of retaliation by US trade partners means their domestic inflation will reflect a lower contribution to growth from exports and not the consequences of retaliatory measures on US imports. Within the US, a report by the NY Federal Reserve conducted in May³ shows US companies expect some pass-through to consumers, albeit at varying rates and timing. This helped the US bond market outperform peers over the summer as inflation signals, while emerging more recently, remained moderate. The US Federal Reserve must make up its mind on the transitory impact of tariff-induced inflation versus weakening signals in the jobs market, which bends but has not broken yet.
- In Europe, the hope of a relatively quick resolution of the Russia-Ukraine conflict vanished this summer. What hasn't disappeared is the need for Europe to increase defence spending, a clear condition of the US maintaining its commitment to NATO. As we approach year end, national budget discussions are as difficult as could be expected in such a low growth environment and given political turbulence in countries such as France. The United Kingdom also faces a difficult budget in November, with the fiscal balance equation becoming more fragile due to rising yields and inflationary pressures slowing the expected easing by the Bank of England. June's announcement of German fiscal stimulus has positively impacted business sentiment surveys,⁴ but hard data has yet to improve meaningfully.
- The bottom line from a macro perspective is that uncertainty has not diminished after trade deals. With tepid growth expected in the short term, this is no time for policy mistakes.

Figure 1: Share of business pass through tariff costs and time to pass through costs increase



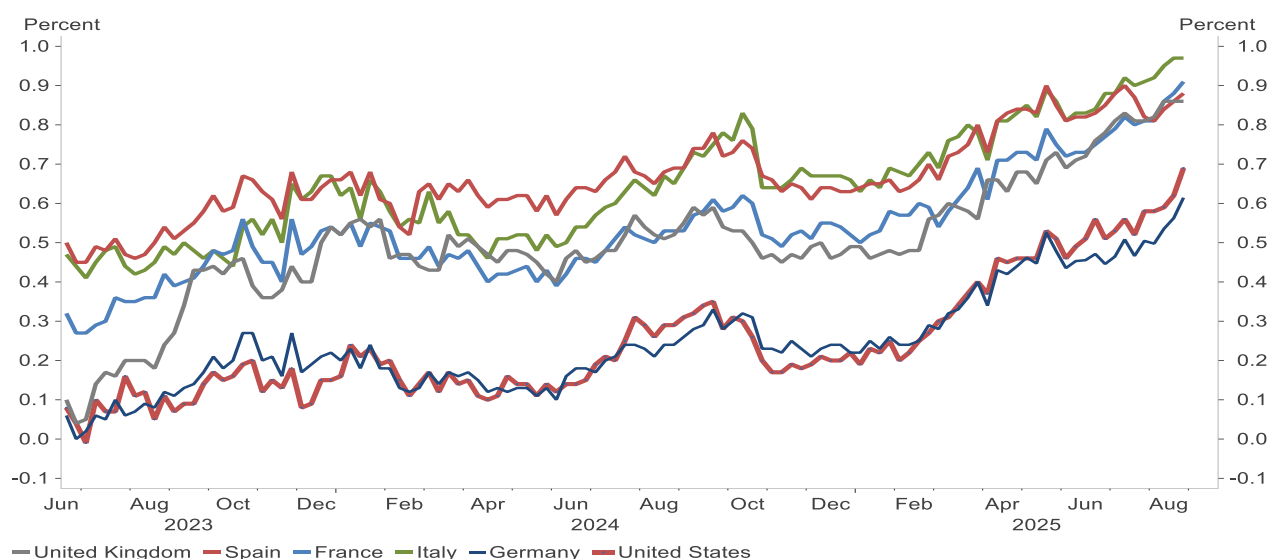
Source: New York Federal Reserve, as of June 6, 2025. For illustrative purposes only.

- Reed Smith, 'Trump 2.0 tariff tracker,' as of September 8, 2025
- Politico, 'Federal appeals court strikes down major chunk of Trump's tariffs,' August 29, 2025
- Liberty Street Economics blog, New York Fed June 4, 2025
- Ifo Institute, 'ifo Business Climate Rises Slightly,' August 25, 2025

Loss of fiscal compass steepens long end of yield curves

- The underperformance of the EUR bond market paused in July, allowing European credit to outperform US peers. But August saw the resumption of tighter Bund-Treasury spreads *en force*. The reasons for this ranged from monetary policy expectations to fiscal uncertainties and local political turmoil.
- US Federal Reserve Chair Jerome Powell opened the door to resuming rate cuts at his Jackson Hole Symposium speech,⁵ suggesting the Fed is ready to look through tariff-related inflation and focus on whether the job market deteriorates further. Discussions on a new distribution of voting seats at the Federal Open Market Committee has not altered the terminal level in the Fed Funds rate, which is expected to stay around 3% over the next twelve months.⁶
- In parallel, the European Central Bank seems equally comfortable with its stance. We see little convergence of views within the Governing Council to cut rates before the December meeting. As a result, the hedging cost premium in favour of European credit markets has already retraced from 2.4% in June to 2.2% but could fall further should US jobs data soften, reducing at the margin the appeal of the EUR bond market versus the US.
- Discussing next year's budgets is often a source of volatility in bond markets. This year is no exception. While Germany's plan was unveiled in June, French discussions took an unexpected turn when Prime Minister Bayrou called for a confidence vote on September 8, a vote he lost. Our baseline scenario is that Sebastien Lecornu, the new PM, will lower the deficit reduction ambition to match the EU's Excessive Deficit Procedure requirement of cutting the deficit by 0.5% instead of the 0.9% proposed by Bayrou. This would enlarge its support at the Assembly with the risk of slightly higher taxation or removing loopholes for wealthy individuals and companies. The French Treasury has financed c.85% of its borrowing needs for the year and 2025 budget numbers were converging to targets by late July.⁷ Additional pressure on the OAT-Bund spread beyond 80 basis points would require more unbalanced measures, such as relying on tax increases or missing the EU's deficit convergence target to 3% by 2029. The UK has its own issues ahead of the Autumn Statement in November, with significant pressure on long-dated gilt yields over the last few weeks.
- The major rise in European bond yields this summer was magnified by the general widening of premia between 10 year and 30-year bonds. Spreads between these two maturities have gained between 30 to 40bps since early 2025 and now stand around 90 to 100bps. This also impacted the US bond market, despite the more constructive dynamic in absolute yield levels. Such steepening of long end curves is a worrying signal of the loss of a fiscal compass in advanced economies, which must not happen alongside an inflation compass loss.

Figure 2: 10-30-year government bond spreads across US – major Euro countries



Past performance is not a reliable indicator of current or future results.

Source: Macrobond, Government bond yield curves, as of September 5, 2025. For illustrative purposes only.

5. Federal Reserve, 'Speech by Chair Powell on the economic outlook and framework review,' August 22, 2025

6. Bloomberg, World interest rate probabilities, as of September 5, 2025

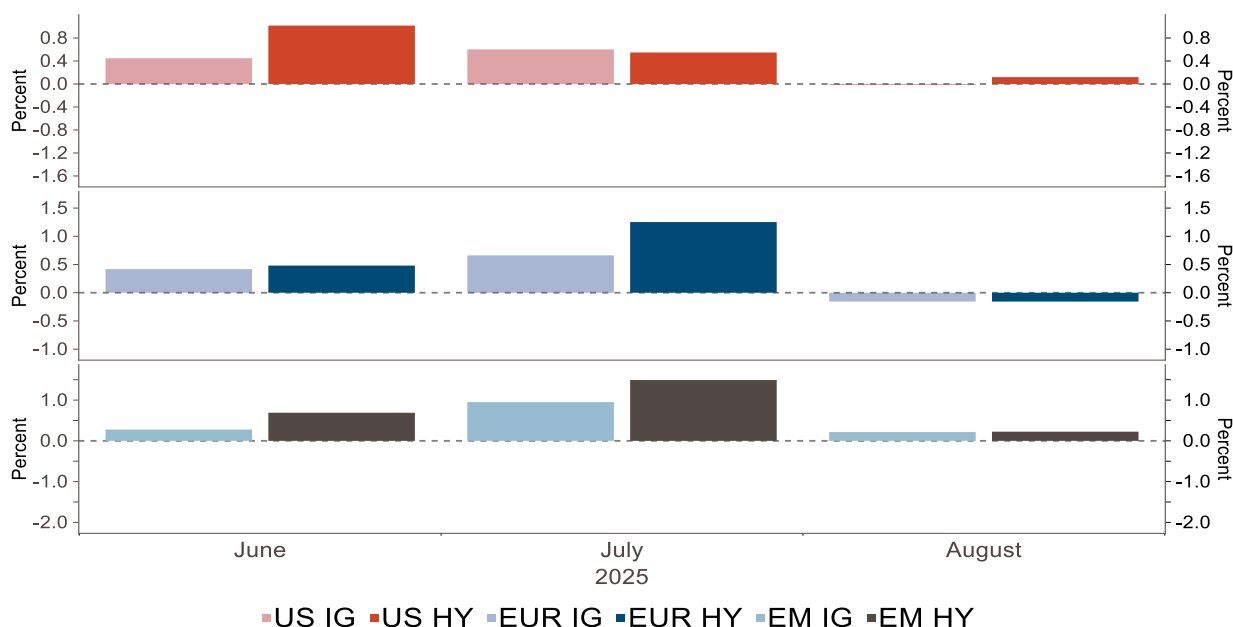
7. Agence France Tresor, Monthly bulletin, August 2025

Top Down: Macro Credit View

Diversification and roll-down could compensate for tight spreads

- Our constructive views on credit markets and preference for strategies to take advantage of high yield carry over the summer proved beneficial. Global credit spreads continued to tighten regardless of diverging bond yields across regions. Technicals remained supportive, as did fundamentals, with Q2 earnings showing resilience to tariff headwinds.
- While sticking with carry strategies, a few factors call for tactical caution. The rise in EUR bond yields and muted economic growth prospects in H2 introduce new risks for companies with rising leverage. Lower-quality credits have rallied in the US over the past couple of months but not in EUR. We remain concerned about companies with poor balance sheets when yields are rising, including in the US.
- Spreads remain incredibly tight, even after the small widening in early September. There is also very low dispersion, limiting opportunities to generate alpha through security selection when focusing on companies with strong balance sheets. We continue to believe yields are sufficiently attractive to attract inflows, both in IG and HY, but spreads do not justify a meaningful increase in portfolio beta unless further widening happens. As such, we believe the right approach is to look for value in new issue markets, which remain active with some concessions, and ensure portfolios are well diversified.
- Roll-down is also a growing theme in our portfolios. As short rates have come down in EUR markets and are expected to do so in the US, yield curve steepening provides new opportunities through capturing roll-down. In normal, positive-shaped yield curves, there is a benefit to holding a bond for longer with the yield falling as time goes on. This generates positive price appreciation as yields and prices move in opposite directions. In periods where curves are flatter, as we have experienced in recent years, the contribution of roll-down to returns is, at best neutral, sometimes negative. Steeper curves add value, especially for short-dated credit strategies, where the contribution of roll-down is becoming significant to total return expectations. This is already true in EUR, and we expect lower short rates to provide similar value in the US.

Figure 3: USD, EUR and EM IG and HY monthly excess returns, June - August 2025



Past performance is not a reliable indicator of current or future results.

Source: Macrobond, ICE Data Platform. ICE BofA Index US Corporate Index (C0A0), US High Yield Index (H0A0), Euro Corporate Index (ER00), Euro High Yield (HEC0), Emerging Corporate Liquid Plus Index (EMIB), Emerging High Yield (EMHB). As of August 31, 2025. Indices selected represent best proxies for respective markets. Index performance is for illustrative purposes only. You cannot invest directly in an index, which also does not take into account trading commissions or costs. For illustrative purposes only.

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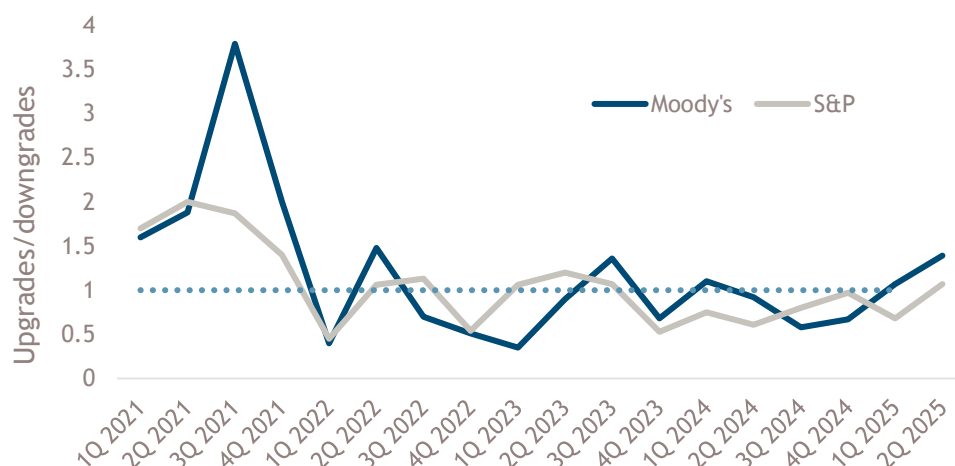
	US		Europe		EM
	IG	HY	IG	HY	IG
Fund.	1	0	1	0	2

Red / Green: downgrade/upgrade vs. last month

Modest downward revision to US fundamentals, stable elsewhere

- The macro picture has proved more resilient than expected in the US, Europe and emerging markets. While contributions from exports have been volatile, domestic demand has proved robust and real GDP forecasts for 2025 have been revised slightly higher. The modest downgrade to our US fundamentals score does not reflect expectations of broad-based balance sheet stress but is due to the likelihood of weaker demand over the next few quarters in certain sectors, such as chemicals, or weaker earnings in sectors such as energy and healthcare. On the flip side, there are signs of strength in sectors like airlines and infrastructure. We also wait for the impact of tariffs to filter through to sales prices and consumer demand.
- Fundamental scores were unchanged for Europe and emerging markets. With little change in the EM outlook, there is no trigger for a downgrade. Of course, national idiosyncratic developments are happening, which may cause a reappraisal of scores at the corporate level. For now, we feel earnings are solid, and the outlook remains positive for EM companies.
- If anything, the European macro backdrop was probably stronger than we had factored into our fundamental scores. The fundamentals score was lower than in the US, reflecting tariff stress, although the outlook for both regions is starting to converge as there may be a higher risk of a soft Q4 in the US than for Europe, where lower short rates should help. Equally, the negative impact of difficult budget discussions in France and the UK is capping any improvement to scores, despite stronger H1 GDP than forecast.⁸
- Default activity was slightly higher in US bonds in August, but the overall trend is not concerning. Meanwhile, loan defaults are stabilising.⁹ In Europe, we expect the default rate to start to recede after the rise earlier this year and note the upgrade/downgrade ratio for both Moody's and S&P has rebounded over the past two quarters, a comforting sign. However, we remain vigilant as Q2 earnings saw weakness in some consumer-driven businesses.¹⁰

Figure 4. Upgrade/downgrade ratio from Moody's and S&P, EUR high yield



Source: Bloomberg data, from S&P and Moody's rating actions, as of June 30, 2025. For illustrative purposes only.

8. Eurostat, GDP growth in the euro area and EU, August 14, 2025

9. JP Morgan, Default Monitor, August 31, 2025

10. LSEG, 'STOXX 600 Earnings Outlook 25Q2,' August 26, 2025



Technicals

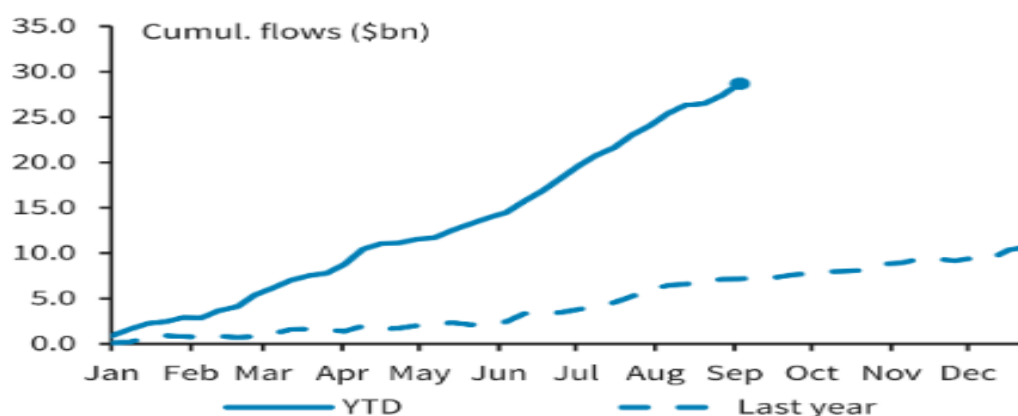
	US		Europe		EM
	IG	HY	IG	HY	IG/HY
Tech.	2	1	1	2	-1

Red / Green: downgrade/upgrade vs. last month

Supply surpasses expectations but demand equally strong

- There is little evidence to suggest supportive technical factors are weakening. This is reflected in our technical scores, with one exception in EM. This is a tactical downgrade to reflect large supply after many dry months, which could temporarily overwhelm demand for EM bonds, rather than a structural issue. More broadly, August was a busier month than expected for primary activity, particularly late on in the month.
- USIG saw around US\$100 billion of gross issuance (US\$29 billion net), bringing the YTD total to around US\$1.1 trillion. Lower rates over the period helped 30-year issuance pick up to around US\$14 billion, while USHY saw US\$26 billion of gross issuance (US\$10 billion net).¹¹ September is likely to be another busy month.
- Meanwhile, EUR credit saw new issue volumes of €39 billion, busy by historical standards.¹² Financials were particularly active thanks to compressed spreads in subordinated securities after the July rally. There was also more issuance of 10-15-year bonds by non-financial corporates, just before the acceleration of long-end steepening in late August and early September. Several French issuers came to market, including financials, ahead of the fall of the government after the September 8 confidence vote. Major corporate names were prepared to pay a new issue premium of 10-15bps to ensure funding needs are met ahead of what could be a volatile period for French issuers. EUR HY issuance was unsurprisingly low in August before a strong start to September, with most deals well absorbed.
- Investor demand for yield remains strong and inflows were reported in all credit asset classes, both in USD and EUR markets, although demand for HY has been slightly more erratic.¹³ In Europe, there was no pause in inflows into IG, although the focus was on short-duration strategies, while demand stalled for long duration as bond yields moved higher. EUR HY saw good inflows in the early part of August but had slowed by the end of the month.¹⁴
- We expect substantial new issuance in September. While this could weigh on spreads, we see no reason to believe that the technical picture will weaken so long as bond yields remain stable.

Figure 5. Inflows into EUR short-duration funds



Source: Barclays, EPFR, European Corporate Credit Flows, September 5, 2025. For illustrative purposes only.

11. JP Morgan, US Corporate Credit Issuance Review, September 3, 2025

12. Deutsche Bank, Credit Supply Monitor, August 2025

13. JP Morgan, US Credit Daily, September 5, 2025

14. Barclays, European Corporate Credit Flows September 5, 2025

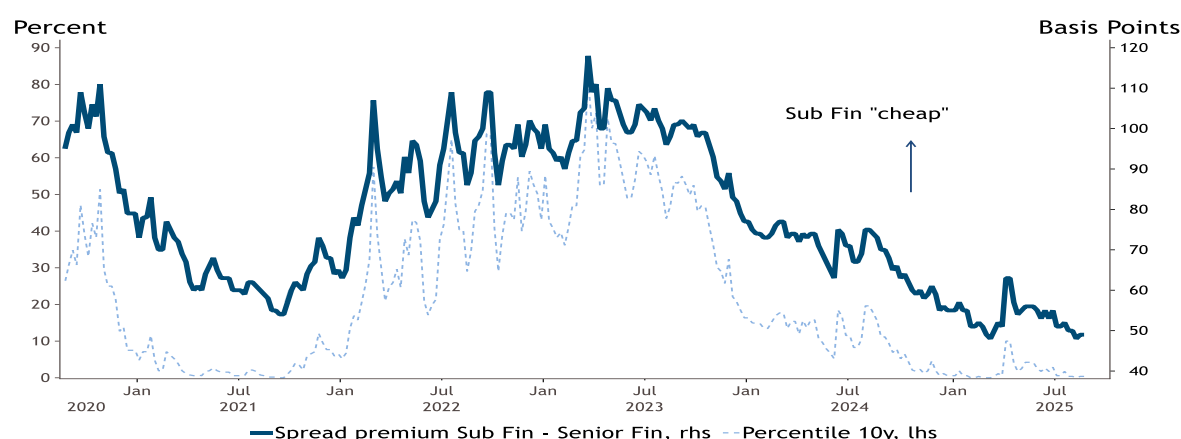
	US		Europe		EM
	IG	HY	IG	HY	IG/HY
Val.	-1	0	0	-1	0

Red / Green: downgrade/upgrade vs. last month

Less beta, focus on carry roll-down, wait for dispersion

- Another weak non-farm payroll number in August increased the odds of the Fed resuming rate cuts. We expect a sequence of 25bps cuts starting this month rather than a jumbo cut. The contrast with Europe regarding short rates is evident. This has prompted us to revisit our longstanding overweight to EUR credit, something we expressed over the past three months mostly in the short-to-medium part of the curve to take advantage of superior roll-down terms. With at least 100 bps of cuts likely in the US over the next few FOMC meetings, we expect the US curve to steepen further in the 2-5-year area, also providing competitive terms for our roll-down exposure in USD. With lower FX hedging costs and more momentum from US short rates, we have rebalanced our regional exposure by reducing our US IG credit underweight to a more neutral position versus EUR IG.
- We also expect Europe's experience over the past 2 years to provide a blueprint for what could happen in the US, with large cuts in short rates resulting in a reallocation out of money market funds into short duration credit. As described in the Technicals section, we are still seeing inflows into short-duration EUR IG credit while inflows are stalling in the longer end.
- Regarding duration, we expressed our view by being shorter EUR duration and slightly longer US duration. Given market pricing in early September and after August payroll data, we feel it makes sense to reduce US duration and extend EUR duration to a more neutral stance in absolute and relative terms. Over the long run, EUR yields may grind higher but there is less visibility over what could happen in the near term. In our short-duration strategies, average duration was kept close to the maximum to take advantage of roll-down terms, and we will maintain such exposure.
- From a sector perspective, we see less value in EUR subordinated banking spreads after the tightening over the summer. Subordinated versus senior spreads are at historical tight and we see little potential of further tightening. Higher yields could put real estate under pressure and, while we keep a constructive view on IG autos, we think the near-term potential is limited. Tight spreads calls for higher diversification rather than a large deviation from benchmarks.

Figure 6. Little value left in EUR subordinated bank debt



Past performance is not a reliable indicator of current or future results.

Source: Macrobond, Bloomberg, ICE Index Platform, Euro Subordinated financial index (EBSU), Euro Unsubordinated financial index (EBXS), as of August 31, 2025. Indices selected represent best proxies for respective markets. Index performance is for illustrative purposes only. You cannot invest directly in an index, which also does not take into account trading commissions or costs.

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Index Descriptions

J4CS: The ICE BofA 0-3 Year Duration-To-Worst BB-B Cash Pay US High Yield Constrained Index tracks the performance of short maturity US dollar denominated below investment grade corporate debt, currently in a coupon paying period that is publicly issued in the US domestic market. Qualifying securities must be rated B3 or higher (based on an average of Moody's, S&P and Fitch) but caps issuer exposure at 2%, have a duration-to-worst of 3 years or less.

S&P UBS LLI: The S&P UBS Leveraged Loan Index is designed to mirror the investible universe of the \$US-denominated leveraged loan market.

S&P UBS WELLI: The S&P UBS Western European Leveraged Loan Index is designed to mirror the investible universe of the Western European leveraged loan market.

C0A4: The ICE BofA ML BBB US Corporate Index is a subset of the ICE BofA ML US Corporate Index (C0A0) including all securities rated BBB1 through BBB3, inclusive.

J0A0: The ICE BofA ML US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt, currently in a coupon paying period that is publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$250 million.

ER00: The ICE BofA Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 250 million.

HEC0: The ICE BofA ML Euro High Yield Constrained Index contains all securities in the ICE BofA ML Euro High Yield Index (HE00) but caps issuance exposure at 3%.

EMCL: The ICE BofA US Emerging Markets Liquid Corporate Plus Index tracks the performance of the U.S. dollar denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets. Qualifying issuers must have risk exposure to countries other than members of the FX G10, all Western European countries, and territories of the U.S. and Western European countries.

ADOL: The ICE BofA Asian Dollar Index tracks the performance of U.S. dollar denominated sovereign, quasi-government, corporate, securitized and collateralized debt publicly issued in the U.S. domestic and eurobond markets by Asian issuers.

H0A0: The ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$250 million.

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