Continued Resilience in the Face of Volatility

> Loans produced healthy returns in the first quarter, despite macro volatility and retail outflows. The JP Morgan Leveraged Loan Index saw a return of 3.26%. Collateralized loan obligation (CLO) issuance activity remained resilient despite being down year-over-year. On balance, the index saw an uplift in price/ yield tightening.

> The high yield market bounced back in the 1Q23 following a difficult 2022. The ICE BofA US High Yield Index returned 3.72%. The market was led by CCC's, which returned 4.85% as measured by the ICE BofA CCC & Lower US High Yield Index. B's increased 3.81% as measured by the ICE BofA Single-B US High Yield Index and BB's returned 3.37% as measured by the ICE BofA BB US High Yield Index.

LEVERAGED LOANS

Technicals Remain Strong

Technicals remained strong as the CLO machine continued to print about $10 billion a month of new issuance, more than offsetting the retail outflows. We also continued to see healthy repayments from companies that are generating good free cash flow. Case in point: Consol Energy, which recently paid off the balance of its $275 million issue loan instead of refinancing. The company also paid off over 80% of a bond deal, emblematic of the good behavior of the majority of corporate America, which we hope will continue. With leveraged buyouts scarce, refinancings accounted for a significant part of the leveraged loan market in the first quarter of 2023, with mergers & acquisitions a distant second.

While the year got off to a promising start, rising fears of recession and banking turmoil roiled the markets. After Silicon Valley Bank collapsed, outflows from loan mutual funds and ETFs spiked with expected volatility in the secondary loan market, according to Morningstar.

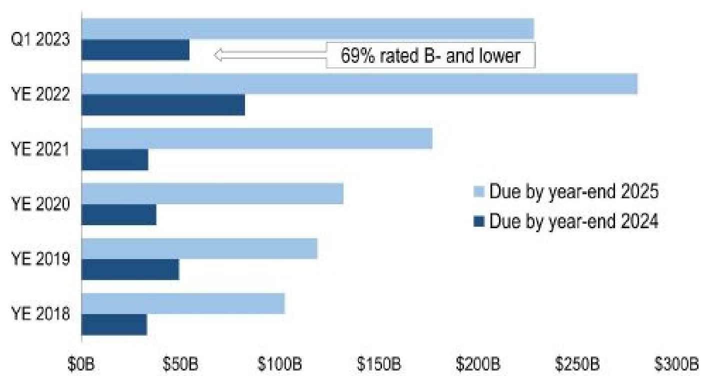
Q4 earnings overall were decent, albeit with some weak spots, and we believe Q1 results could follow suit. However, keep in mind that some of the private companies actually get 120 days to report year-end, and we have not heard from everyone yet.

In the meantime, until the new issue calendar really picks up, we would expect that secondary pricing will continue to be well bid. The first leveraged buyout in some time was announced on April 11, and it appeared to be a high-quality single-B credit of about $1 billion.

We have seen a good chunk of 2024 and 2025 maturities addressed. There still are some lower quality companies that would like to tap the markets and refinance, but it is unclear if they will be able to do so. However, we have begun to see single B rated companies that might have been off limits a couple of months ago successfully come to market.

Against that backdrop, CLO manager consolidation should continue, but we do not believe that will have an impact on the amount of CLO issuance. It is just going to be more concentrated. More Asian buyers are likely to enter the market. Their fiscal years typically end March 31, and their budgets typically get replenished in April. So, the next three to six months may be when they are the most active.

U.S. LEVERAGED LOAN MATURITY WALL



Data through March 24, 2023
Source: PitchBook/LCD; Morningstar LSTA US Leveraged Loan Index

1Q 2023 BANK LOAN TRENDS

Takeaway: The loan product experienced continued retail outflows, a decline in collateralized loan obligation (CLO) activity, albeit more resilient, and a subdued loan issuance profile. On balance, the JP Morgan Leveraged Loan index saw an uplift in price/yield tightening.

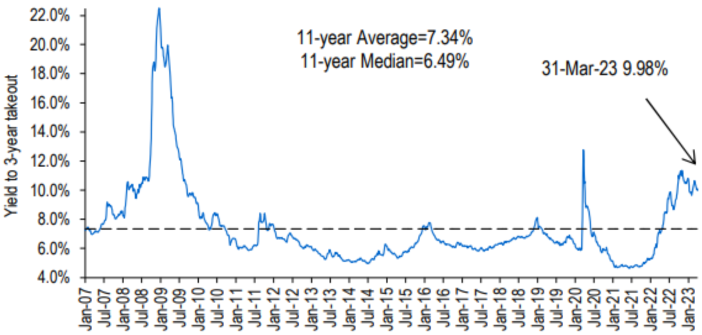
Performance: For 1Q, the JP Morgan Leveraged Loan Index saw a return of 3.26%.

For 1Q, top contributors by industry were, Housing +4.33%, metals & mining +4.18% and diversified media +4.04%. Telecommunications was a detractor at -0.44% while broadcasting +1.79% and utility +2.46% contributed the least.

Single-B rated loans returned +3.88% compared to returns of +2.30% and +3.80% for BB and Split B/CCC rated loans, respectively.

As of 3/31/23: The yield to 3-year takeout was 9.98% (Q4: 10.83%), down 85 bps for the quarter. The price on the JP Morgan Leveraged Loan Index was $93.77, up $0.95 for the quarter, despite a $0.75 decline in March.

YIELD TO 3-YEAR TAKEOUT



Source: J.P. Morgan, IHS Markit

LEVERAGED LOAN INDEX PROFILE

Summary profile of J.P. Morgan Leveraged Loan Indices as of March 31, 2023

	Leveraged Loan	Liquid	Second Lien	BB/B	EUR/GBP
Market Value ($mn)	1,369,966	485,363	59,731	1,242,218	302,178
Number of Loans	1,596	196	224	1,341	469
Number of Borrowers	1,373	196	217	1,151	375
Average Rating	B	Split BB	Split B/CCC	Split BB	B
Margin	L+367	L+332	L+722	L+353	L+387
Current Yield	9.28%	8.82%	14.61%	8.95%	7.34%
Years to Maturity	4.45 yrs	4.57 yrs	5.29 yrs	4.52 yrs	4.24 yrs
Price	93.77	94.58	83.63	95.58	92.87
Yield	9.98%	9.11%	17.98%	9.14%	10.05%
Spread	610bp	525bp	1406bp	528bp	679bp
DM	480bp	392bp	1274bp	396bp	671bp

Note: Yield, spread and DM are to 3-year takeout and based on forward curve analytics. Source: J.P. Morgan; IHS Markit

Issuance: 1Q23 gross issuance remained subdued totaling $70.3 billion or $14.0 billion net of refi/repricing, reflecting the impact of higher rates and most recently increased volatility related to turmoil in the banking industry. Gross issuance declined 42% compared to the same period last year.

Demand: 1Q23 fund outflows totaled $9.3 billion, which compared to inflows of $19.6 billion for 1Q22.

1Q23 CLO volume at $33.9 billion compared to $51.3 billion in 1Q22. Notably, March volume remained resilient at $11.3 billion.

Default Rates: The loan par-weighted default rate including distressed exchanges ended March at 2.22%, deteriorating 58 bps for the quarter. For context, the long-term average default rate for leveraged loans is 3.1%.

HIGH YIELD

Pre-SVB and Post-SVB

The high yield market bounced back in the first quarter of 2023 following a difficult 2022. The ICE BofA US High Yield Index (H0A0) returned 3.72%. The market was led by CCC's, which returned 4.85% as measured by the ICE BofA CCC & Lower US High Yield Index (H0A3). This was followed by B's that increased 3.81% as measured by the ICE BofA Single-B US High Yield Index (H0A2) and BB's, which returned 3.37% as measured by the ICE BofA BB US High Yield Index (H0A1). A notable segment of outperformance was in distressed high yield that increased 4.51% as measured by the ICE BofA US Distressed High Yield Index (H0DI).

While the 1Q23 returns show outperformance of the lower-quality segments of the market, a look beneath the surface shows two very distinct periods during the quarter – pre- and post-Silicon Valley Bank (SVB) concerns/failure. Pre-SVB, which we define as year-to-date up to March 7, CCC's (H0A3) returned 7.11%, B's (H0A1) returned 3.33%, and BB's (H0A1) returned 1.70%, and distressed high yield (H0DI) returned 9.82%. Post-SVB, which is defined as March 7 to the end of the quarter, BB's returned 1.64%, B's increased 0.46%, CCC's declined 2.12%, and distressed high yield dropped 4.83%.

The high yield market began the year with a yield-to-worst (YTW) of 8.99% and an option adjusted spread (OAS) of 481 bps. OAS tightened to just inside of 400 bps in early February and then again in early March. We ended the quarter with a spread of 458 bps and a YTW of 8.5%.

Top performing sectors in high yield for the quarter included leisure (8.32%), building materials (5.35%) and lodging (5.08%). The weakest sectors of the market included telecom (0.47%), cable & satellite (0.73%) and diversified financials (3.44%). No sector of high yield showed a negative return for the entire quarter.

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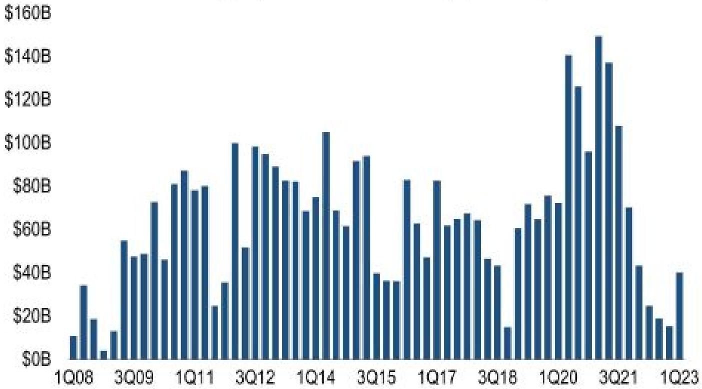
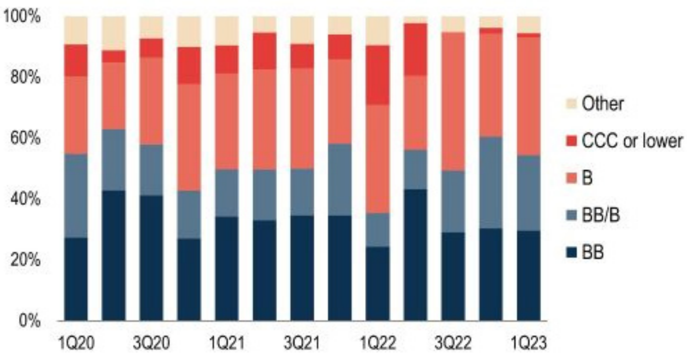
U.S. HIGH-YIELD BOND VOLUME, QUARTERLY



Data through March 20, 2023. Source: PitchBook/LCD.

HIGH-YIELD BOND RATING (BY VOLUME)



Data through March 20, 2023. Source: PitchBook/LCD

HIGH YIELD TRENDS

Market Return: Declining Treasury rates, an increase in risk appetite, moderate supply, and low cash balances were the primary drivers of the positive high yield return in 1Q23. The overall ICE BofA High Yield Index returned 3.72% in the quarter, and the ICE BofA US High Yield Index Constrained Index had a 3.55% return. BBs had a 3.37% return, Bs returned 3.81%, and CCC's returned 4.85%.

Spread Changes: The ICE BofA High Yield Index started the quarter with an 8.99% yield to worst and ended 4Q22 with an 8.50% yield. The ICE BofA High Yield Index started the first quarter at an option adjusted spread (OAS) of 481 bps and ended the quarter with an OAS of 458 bps.

The BB index started the quarter with a yield of 7.26% and ended with a yield of 6.79%. The index's OAS tightened from 308 bps to 288 bps during the quarter.

The yield to worst on the single-B index started the quarter at 9.34% and ended at 8.87%. The OAS on the single-B index tightened from a 515 bps OAS to 491 bps.

CCC's yields fell from 15.87% to 15.17% during the quarter. The OAS on the CCC index tightened from 1170 bps to 1130 bps.

Default Activity: According to JP Morgan, the high yield default rate increased 26 bps for the quarter to 1.91 %. Year to date, $7.4 billion in bonds have defaulted. There were $2.2 billion in distressed exchanges for 1Q23.

Supply for the quarter/year: For the quarter there was $40.5 billion in gross supply, $11.8 billion ex-refi. This supply number was up 14% versus 1Q22. So far in 2023, refinancing activity has led in terms of use of proceeds totaling $28.7 billion (71%), while acquisition financing totaled $3.3 billion (8%), general corporate financing totaled $8.5bn (21%).

Flows: Retail outflows for high yield bond funds YTD are $16 billion.

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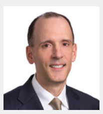
Authored by:

Leveraged Loans



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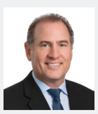

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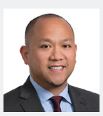

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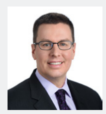
High Yield



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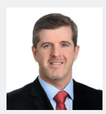

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A **Basis Point (bp)** is equal to 0.01%.

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