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Q4 2023 Credit Markets Outlook

October 2023

Performance

Overview

Fixed Income Market YTD Performance as of 30 Sep 2023

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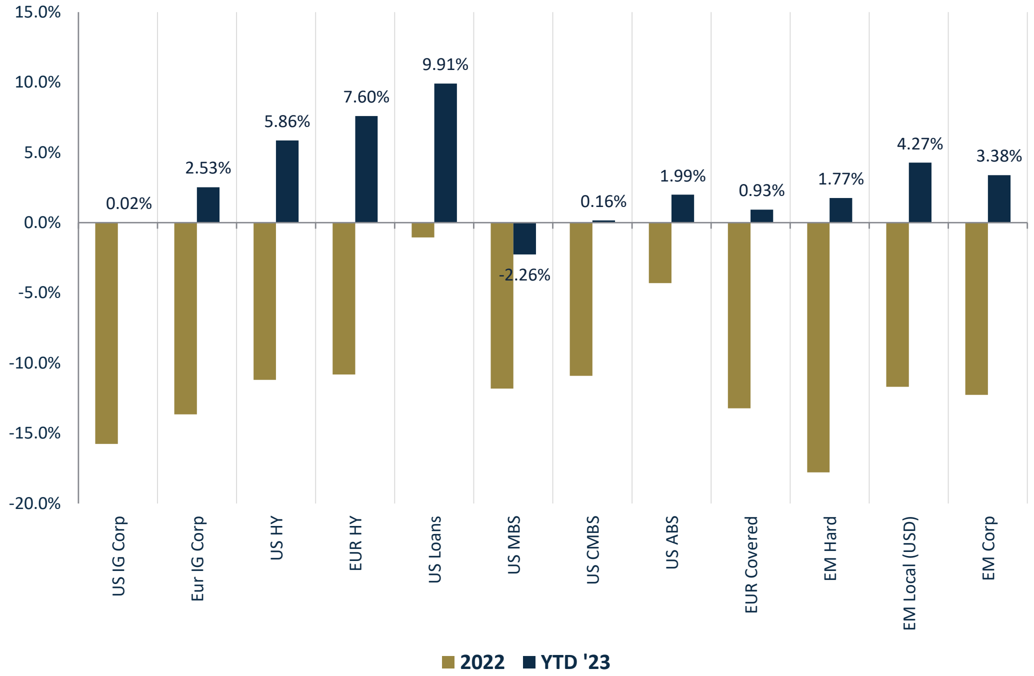
- YTD performance across fixed income asset classes reduced significantly as Treasury rates sold-off in September due to:
  - Potential for a U.S. government shutdown
  - Still relatively resilient economy with the Fed & other central banks continuing hawkish stance, signaling potential for at least one more hike in 2023
  - Energy prices rose on decreased supply, raising concerns that higher costs would dampen potential for a soft landing
- YTD performance remains positive in all except Investment Grade Corporates & Commercial Mortgage-Backed Securities (CMBS) that were just about flat on the year and Residential Mortgage-Backed Securities (RMBS), the only asset class to post YTD negative returns.
- Except for RMBS/CMBS, spreads narrowed YoY.



	Dec '22	Mar '23	Jun '23	Sep '23	QoQ Δ	YoY Δ
US IG Corp	130	138	122	120	-1	-9
Eur IG Corp	167	169	162	152	-10	-15
US HY	468	452	392	395	3	-73
EUR HY	537	520	478	458	-20	-80
US Loans	652	609	581	551	-30	-101
US MBS	51	63	51	66	14	14
US CMBS	119	143	134	131	-3	12
US ABS	75	85	68	66	-2	-9
EUR Covered	84	88	87	84	-3	1
EM Hard	452	484	432	430	-2	-22
EM Corp	322	347	309	301	-8	-21

Sources: FTSE, BarCap, Credit Suisse and JP Morgan

Spreads as of 30 Sep 2023

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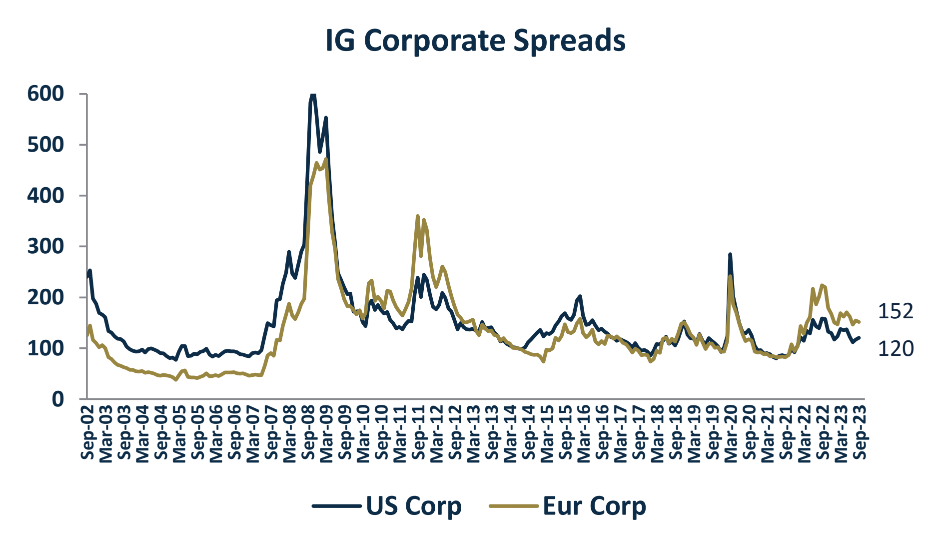
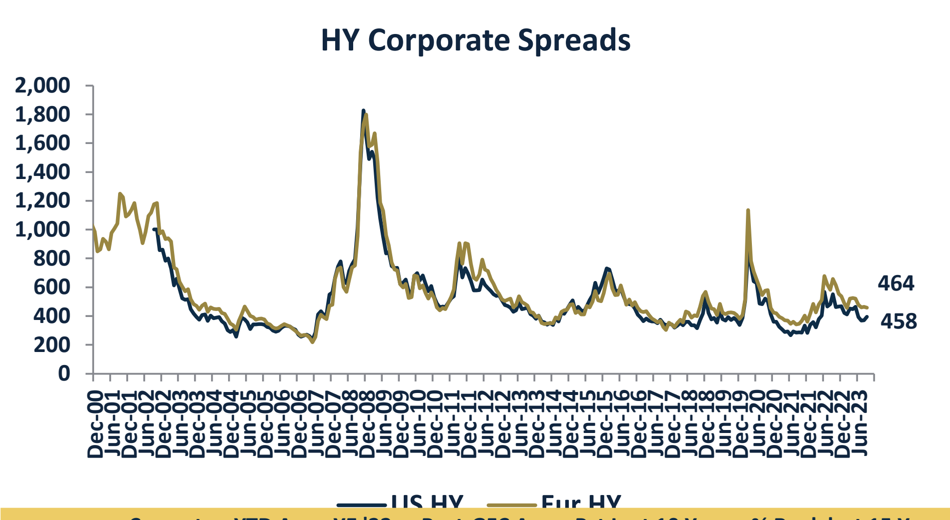
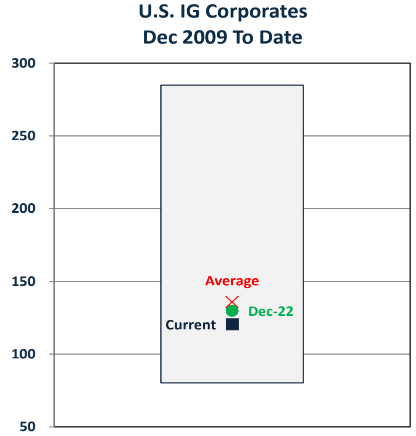
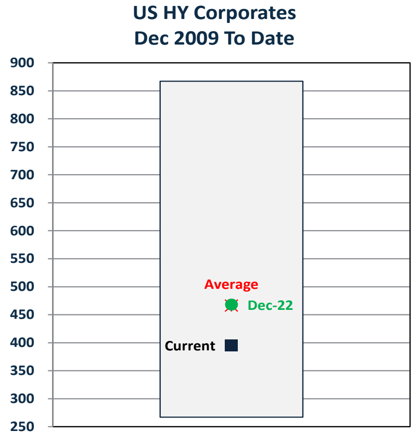


US Corp	120	(10)	130	136	51%	34%
Eur Corp	152	(15)	167	143	86%	61%



	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
US HY	395	(73)	468	466	51%	34%
Eur HY	458	(80)	537	503	57%	40%





Sources: BarCap, Credit Suisse, JP Morgan

Spreads as of 30 Sep 2023

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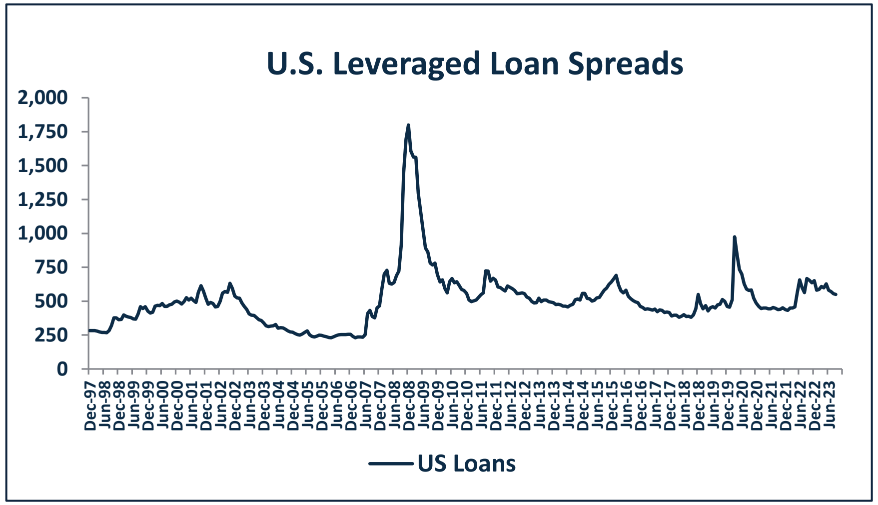
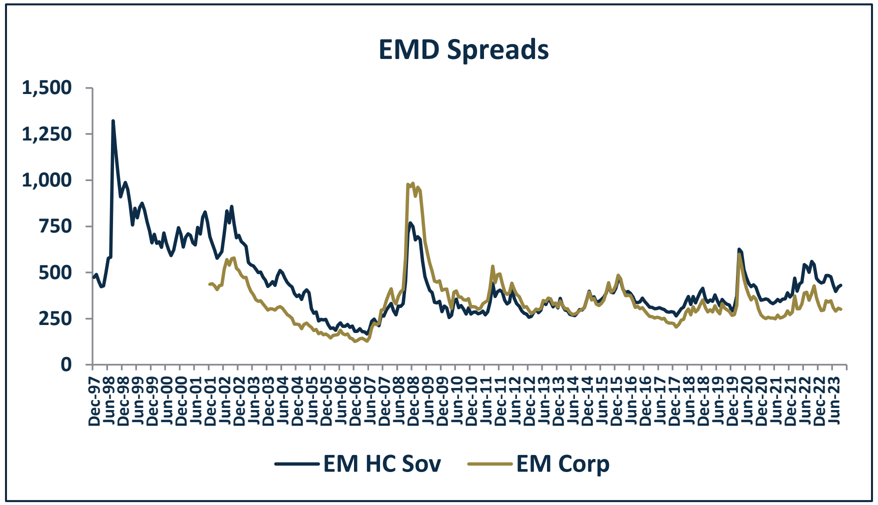
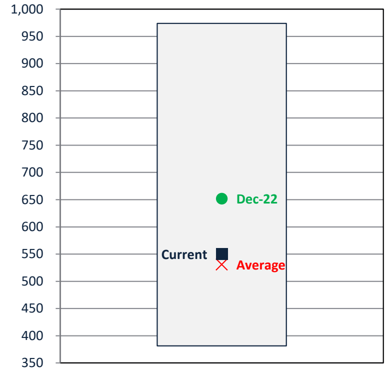




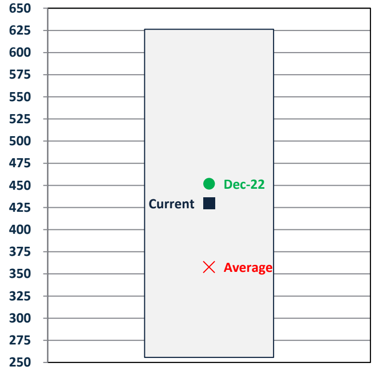
	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
US Loans	551	(101)	652	531	69%	54%

	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
EM HC Sov	430	(22)	452	358	79%	80%
EM Corp	301	(21)	322	331	45%	32%

US Loans
Dec 2009 To Date



EMD HC Sov
Dec 2009 To Date



Sources: BarCap, Credit Suisse and JP Morgan

Yields By Credit Asset Class

After the base rates sell-off in Aug/Sep, nominal yields across all fixed income asset classes rose and remain at attractive entry points relative to history, while corporate fundamentals show modest deterioration so far

Yields								
	Current	2022	2021	2020	2019	2018	2017	2016
US HY	8.88%	8.96%	4.21%	4.18%	5.19%	7.95%	5.72%	6.12%
US Loans	10.11%	10.76%	5.26%	5.10%	6.27%	8.09%	6.33%	6.30%
Eur HY	8.01%	8.27%	3.42%	3.79%	3.81%	6.05%	3.67%	4.65%
EM Local	6.76%	6.86%	5.72%	4.22%	5.22%	6.46%	6.14%	6.79%
EM Hard	9.03%	8.55%	5.27%	4.53%	4.91%	6.86%	5.26%	5.79%
EM Corp	7.75%	7.28%	4.11%	3.42%	4.51%	6.14%	4.53%	5.05%
US IG Corp	6.04%	5.42%	2.33%	1.74%	2.84%	4.20%	3.25%	3.37%
Eur IG Corp	4.52%	4.32%	0.52%	0.24%	0.51%	1.30%	0.75%	0.87%
US MBS	5.57%	4.71%	1.98%	1.25%	2.54%	3.39%	2.91%	2.85%
US CMBS	6.12%	5.30%	1.88%	1.28%	2.48%	3.44%	2.87%	2.78%
US ABS	5.75%	5.14%	1.13%	0.45%	2.05%	3.06%	2.26%	1.86%

Corporate Yield Percentile Ranks as of 3Q23					
	US IG Corp	European IG	US HY	European HY	US Loans
Current Yields	6.0%	4.5%	8.9%	8.0%	10.1%
Last 20 Years	94.1%	86.1%	83.2%	77.4%	89.9%
Last 15 Years	95.5%	92.7%	84.9%	81.0%	89.3%
Last 10 Years	100.0%	100.0%	94.1%	93.2%	93.2%

EMD Yield Percentile Ranks as of 3Q23			
	EMD HC	EMD Local	EM Corp
Current Yields	9.0%	6.8%	7.8%
Last 15 Years	95.5%	69.8%	92.7%
Last 10 Years	98.3%	78.1%	98.3%

Sources: BarCap, Credit Suisse, JP Morgan

Factors Driving Our Fixed Income / Private Credit Outlooks

- **Macroeconomic Environment**
  - Recent geopolitical situation with potential to escalate to other countries heightens risk of disruptions and price surges in the energy and other commodity markets
  - On the other hand, recent dovish commentary from Fed members signals potential end to the QT cycle, but everyone expects rates to be higher for longer
- **Valuations & Relative Value**
  - YTD spreads narrowed versus YE 22, primarily in High Yield and Loans, less for IG
  - Nominal yield levels across Fixed Income at very attractive entry points, yield levels at >90^{th} percentile over last 10 years. Even IG at 6% is very attractive relative to history
- **Credit Fundamentals**
  - Higher interest expense continues to run through the economy; revenue growth moderated across IG, HY and Loan companies since 2021, but profitability remains relatively stable
  - Leverage in IG & HY have recently ticked up modestly
  - Interest coverage continues to fall; except for loans, are still higher than pre-COVID levels
  - Defaults expected to rise but not to levels seen during GFC due to stronger corporate balance sheets post-COVID
  - Bonds/Loans pricing at distressed levels fell to 7.1% and 6.2% of the market, respectively
- **Capital Markets**
  - Banks expect to continue tightening standards for the remainder of 2023
- **Market Technicals**
  - YTD new supply across Fixed Income asset classes are beginning to pick up
  - Headwinds remain as outflows across HY, Loans and EMD funds continue

Outlook for Risk Premia

- **Macroeconomic**
  - Fed is signaling a pause in hiking in the short-term, which may provide some temporary stability and reduce volatility in the bond markets
  - But the war in Israel/Palestine will have the opposite effect
- **Credit Spreads** still rich relative to history and further compression less likely in the short-term
  - Economy may potentially hit the “pothole” in 4Q when consumer savings may become depleted due to higher costs of living and also when student loan repayments are restarted, but employment and wage data supports the strength in consumers
  - Corporations are also starting from stronger balance sheets heading into this downturn and default rates are not expected to rise significantly
  - JPM projects 3.25% and 4% default rates in 2024 for bonds & loans, respectively
  - In the short-term spreads may trade range bound while the Fed is on hold
- **Capital Markets** will continue to be the major headwind as the banking community, in particular, regional banks in the U.S. continue tightening lending standards
  - It will take time to address $1.5tn in Commercial Real Estate debt maturing in next few years
  - Hearing anecdotal evidence from our real estate managers that capital access even for the best properties remains constrained, thus limiting opportunities for exits, but also banks are happy to kick the can down the road for these properties
  - Pullback of commercial banks will increase opportunities for alterative lenders, e.g., Direct Lending or Private Credit
  - But clearly, borrowers are now pressured to come up with more equity to fill the gap in the capital stack when their loans mature and they refinance into higher rates as well as lower Loan To Values

Catalysts That May Change Our Outlook and Why?

- Geopolitical situation in Israel/Palestine escalates and other countries, including the U.S. are fully drawn into the fray
- 4Q turns out to be more than just a “pothole” and economy does, in fact, fall into a deeper recession than expected

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Outlook Summary

Source: Ares

Tactical Recommendations

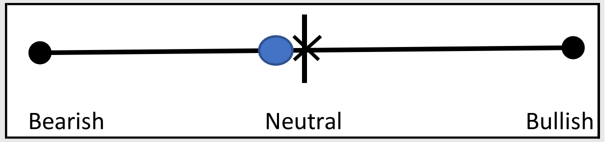
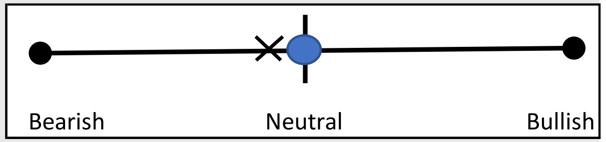
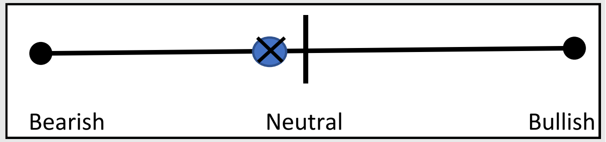
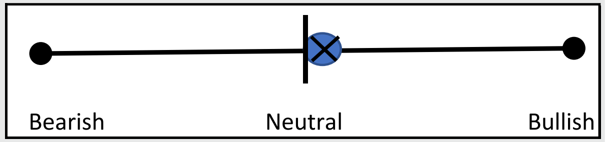
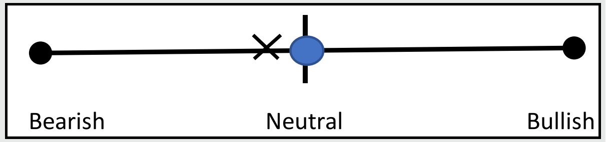
To summarize:

- Not much has changed from fundamental standpoint, economy seems to be resilient so far
- Spreads are still rich to history and haven't changed significantly since 2Q (except for HC EMD, which widened about 20 bps)
- Nominal yields have risen in 3Q due to the Treasury sell-off
- And with the Fed on hold, we may get temporary relief from some of the volatility that we've seen since it started hiking

Thus, while it's not clear we're out of the woods yet with respect to further rate hikes or whether the slowly deteriorating fundamental picture will accelerate, on top of the additional tail risk due to recent geopolitical events, we recommend:

- Be neutral across credit asset classes
- Be neutral on duration
- Maintain and up-in-quality bias

U.S. High Yield – Summary

Factors	Comments	Historical Range
Valuations	• Spreads off their tights over the LTM, but still very tight relative to history, except for US MBS which have widened over the last couple of months as base rates rose significantly • But if economy stays resilient, spreads and valuations may potentially compress further	
Fundamentals	• While still relatively strong, credit metrics continue to deteriorate • Market expect defaults rates go to 3-3.5%, far below levels reached during pandemic and GFC	
Technicals	• YTD flows in leveraged finance and EMD markets remain negative • Back-ended maturity wall in HY protects against near term refi risk; loans will experience higher refi risk relative to bonds but so far have weathered the rise in base rates • HY/Loan issuance has been muted since 2021, especially causing the HY market to shrink by $200bn thus providing some positive technical support	
Macro Impact	• End of US hiking cycle seems closer than anticipated last quarter • Fed potentially on a temporary pause creates some stability and spreads may trade in a range over a short period • Full impact of 300-500 bps rise in funding costs and reduced capital market access slower to work through the high yield market; refinance shocks not expected until market hit the maturity wall in 2025	
● Current Quarter X Last Quarter	9 – 12 Month View	

EMD – Summary

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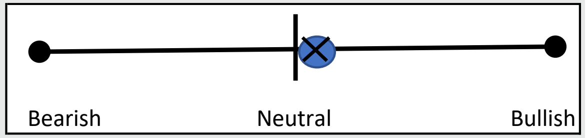
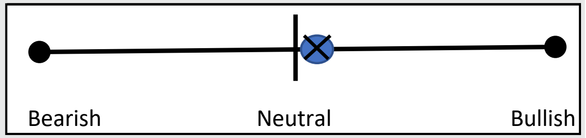
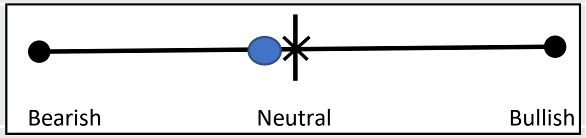
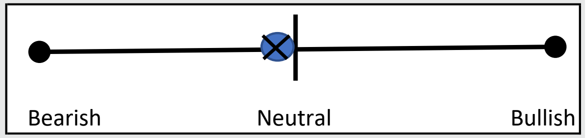
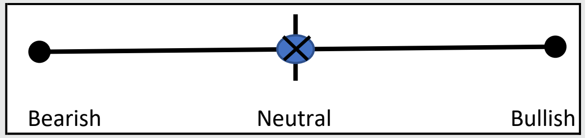
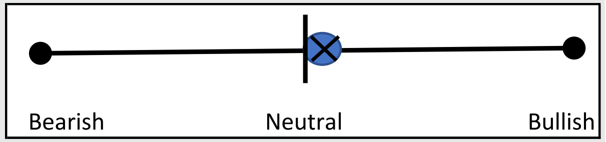
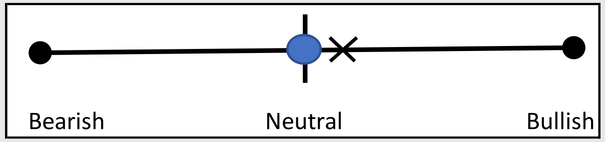
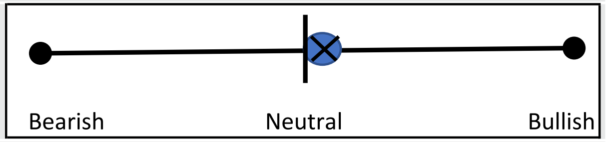
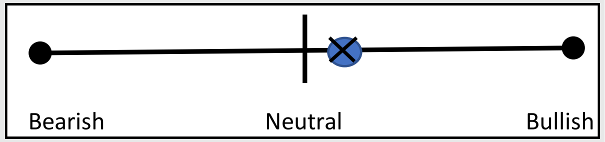
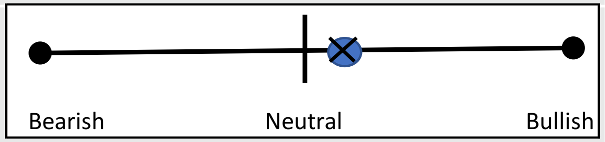
Factors	Comments	Historical Range
Valuations	• Absolute EMD HC absolute yields remain near peaks since the GFC, and although universe is 50% IG, EMD HC yields at 9% are now modestly higher than US High Yield's current 8.9% yield • Spreads did widen more than other fixed income asset classes during the September sell-off	
Fundamentals	• EM growth, despite softness in China re-opening is still expected to outperform DM growth • Inflation expected to trend lower due to lower commodity prices and continues to benefit oil importers	
Technicals	• Despite strong returns in EM markets YTD 2023, fund flows are negative YTD, particularly for EMD HC	
Macro Impact	• Slower global growth as financial conditions remain tight across the world • War in Israel, if spreads to other Middle Eastern countries, could be headwind for EM markets • EM countries, esp. LatAm, acted earlier than DM to fight high inflation with rate hikes; potentially poised to ease rates earlier than DM as inflation rates, commodity prices have come down	
	9 – 12 Month View	

● Current Quarter

X Last Quarter

Private Credit – Summary

Factors	Comments	Historical Range
Valuations	• As higher interest rates have taken effect across financial markets, PC valuations have fallen but forward-looking returns have repriced 400-500 bps higher and lower LTVs • Particularly in real estate, debt with less leverage is pricing extremely attractive to equity returns	
Fundamentals	• Credit fundamentals, while still relatively strong, continue to deteriorate; in ST expect defaults rates go to 3-3.5%. • Given these conditions, spreads likely to widen. Dispersion in leveraged finance markets should widen and opportunities for non-traditional direct lending, opportunistic credit, special situations should increase	
Technicals	• Bank retrenchment that has been a headwind to refinancing is a tailwind in private credit, particularly for direct lend or other non-traditional lending opportunities	
Macro Impact	• As credit metrics deteriorate, stressed/distressed will provide increased recapitalization/restructuring opportunities in Private Credit • Expect next few years to be very good vintages in PC given today's entry points; buying at much lower bases than pre-2022	
	9 – 12 Month View	

● Current Quarter
X Last Quarter

APPENDIX

Appendix - Performance

YTD Performance By Quality Sector as of 30 Sep 2023

Credit Asset Class Returns by Quality Rating					
		2020	2021	2022	YTD '23
US Corp	Corporates	9.9%	-1.0%	-15.8%	0.0%
	AAA	12.3%	-2.3%	-20.3%	-2.6%
	AA	9.0%	-1.5%	-17.3%	-1.2%
	A	10.1%	-1.9%	-15.1%	-0.4%
	BBB	9.9%	-0.2%	-15.9%	0.7%
US HY	High Yield	7.1%	5.3%	-11.2%	5.9%
	BB	10.2%	4.6%	-10.8%	3.9%
	B	4.6%	4.8%	-10.3%	6.3%
	CCC	2.3%	8.6%	-16.3%	12.1%
EMD Hard	EMD Hard	5.6%	-2.2%	-17.4%	0.6%
	EMD Hard IG	10.1%	-1.6%	-20.8%	-2.0%
	EMD Hard HY	0.0%	-2.7%	-12.8%	3.9%
EMD Local	EMD Local	5.3%	-1.6%	-8.4%	0.0%
	EMD Local IG	7.5%	-0.8%	-9.5%	0.0%
	EMD Local HY	-9.4%	-10.8%	7.6%	-0.5%
EM Corp	EMD Corp	7.4%	-1.1%	-13.6%	1.1%
	EMD Corp IG	5.9%	-0.2%	-14.4%	0.8%
	EMD Corp HY	10.0%	-3.2%	-11.6%	1.8%

Source: Barclays

High Yield YTD Returns by Industry as of 30 Sep 2023

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	High Yield									
	US					W. Europe				
	2020	2021	2022	YTD '23	Last 3 Yrs	2020	2021	2022	YTD '23	Last 3 Yrs
Total Market	5.5%	5.5%	-10.6%	6.3%	2.1%	0.3%	6.2%	-10.8%	7.6%	2.2%
Aerospace	-4.2%	7.2%	-6.1%	3.8%	4.7%	-7.4%	9.7%	-6.3%	7.2%	6.1%
Chemicals	7.7%	5.9%	-11.4%	4.5%	0.9%	2.1%	4.9%	-13.9%	8.0%	0.1%
Consumer Products	4.2%	3.9%	-13.2%	5.6%	-0.3%	2.4%	5.4%	-11.0%	8.1%	1.7%
Energy	-5.2%	14.0%	-3.9%	7.7%	9.8%	-6.8%	11.3%	-9.3%	15.0%	7.8%
Financials	5.9%	7.0%	-10.7%	7.6%	2.6%	2.5%	6.3%	-13.3%	8.9%	2.1%
Food And Drug	17.1%	6.0%	-12.9%	7.5%	1.8%	-1.0%	5.2%	-15.3%	16.6%	3.2%
Food/Tobacco	6.8%	4.8%	-9.1%	4.9%	1.4%	3.4%	4.7%	-13.4%	8.8%	0.8%
Forest Prod/Containers	6.6%	2.9%	-7.2%	4.9%	1.2%	0.0%	3.6%	-8.9%	5.9%	1.0%
Gaming/Leisure	3.3%	4.5%	-7.6%	7.6%	3.6%	-2.7%	11.0%	-6.7%	12.4%	7.9%
Healthcare	9.1%	3.1%	-14.1%	5.4%	-0.6%	1.7%	3.6%	-10.0%	5.0%	0.2%
Housing	7.7%	3.9%	-12.7%	7.4%	0.7%	0.5%	1.7%	-16.8%	5.0%	-2.3%
Info Technology	8.9%	4.0%	-13.3%	8.9%	0.6%	4.4%	6.4%	-6.5%	4.3%	2.1%
Manufacturing	9.4%	5.0%	-10.1%	9.3%	2.9%	1.1%	5.5%	-6.8%	8.7%	4.3%
Media/Telecom	5.7%	2.3%	-14.6%	4.9%	-1.1%	-1.5%	4.4%	-11.4%	5.6%	-0.1%
Metals/Minerals	7.4%	6.9%	-6.3%	6.2%	4.5%	-0.7%	10.9%	-11.6%	7.1%	3.6%
Retail	4.6%	5.9%	-14.4%	5.9%	1.2%	-3.0%	9.4%	-10.5%	8.3%	4.4%
Services	4.6%	6.8%	-9.5%	5.1%	2.0%	-0.9%	6.3%	-10.0%	8.1%	3.1%
Transportation	10.5%	5.2%	-10.6%	8.3%	2.5%	3.3%	10.3%	-8.9%	6.7%	4.3%
Utilities	9.3%	1.8%	-8.6%	3.9%	0.3%	-0.6%	5.2%	-8.5%	5.3%	1.3%

Sources: Credit Suisse Leveraged Finance indices

Leveraged Loans YTD Returns by Industry as of 30 Sep 2023

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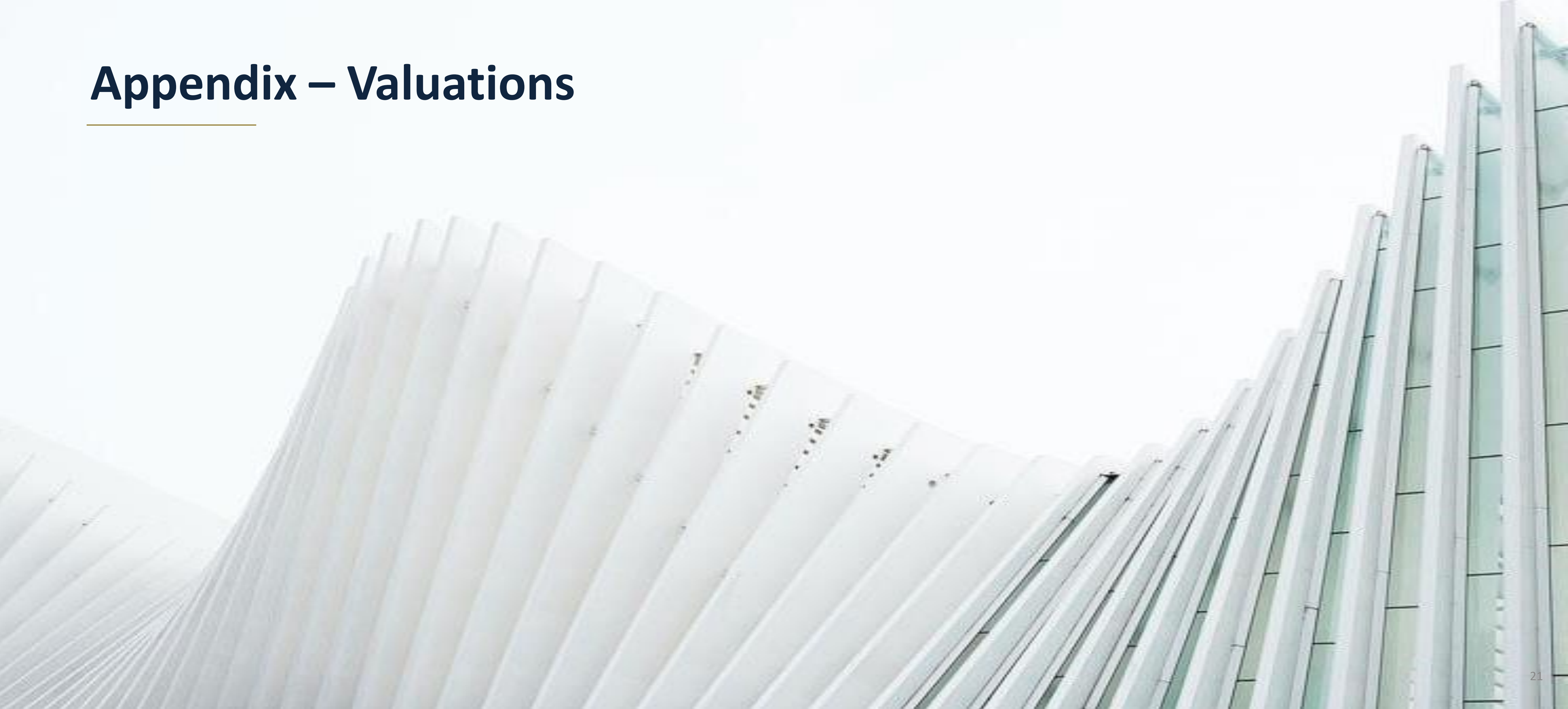
	Leveraged Loans									
	US					W. Europe				
	2020	2021	2022	YTD '23	Last 3 Yrs	2020	2021	2022	YTD 23	Last 3 Yrs
Total Market	2.8%	5.4%	-1.1%	9.9%	5.9%	0.5%	7.1%	-1.0%	n/a	n/a
Aerospace	-0.1%	6.7%	3.5%	9.3%	9.0%	2.1%	9.2%	3.3%	n/a	n/a
Chemicals	4.6%	4.7%	0.1%	9.6%	5.7%	0.0%	7.6%	2.7%	n/a	n/a
Consumer Durables	0.9%	6.1%	-7.1%	11.1%	4.9%	5.0%	8.6%	-10.9%	n/a	n/a
Consumer Non-Durables	1.2%	7.3%	-1.7%	10.0%	7.2%	2.0%	8.7%	-0.4%	n/a	n/a
Energy	-7.3%	14.0%	6.3%	10.2%	12.5%	-8.8%	13.8%	13.0%	n/a	n/a
Financials	4.0%	4.2%	1.2%	10.2%	5.9%	1.4%	7.8%	2.0%	n/a	n/a
Food And Drug	17.6%	4.4%	4.0%	9.3%	7.0%	n/a	n/a	n/a	n/a	n/a
Food/Tobacco	3.6%	3.3%	0.9%	9.6%	5.8%	-1.0%	5.5%	-2.9%	n/a	n/a
Forest Prod/Containers	4.5%	4.7%	1.1%	9.8%	6.0%	4.7%	6.3%	-3.0%	n/a	n/a
Gaming/Leisure	1.5%	6.9%	-2.6%	11.0%	7.1%	-0.2%	10.1%	-9.5%	n/a	n/a
Healthcare	5.2%	4.9%	-3.9%	9.5%	4.6%	1.6%	5.6%	-1.2%	n/a	n/a
Housing	3.5%	4.4%	-1.1%	11.5%	5.9%	4.2%	4.5%	-7.2%	n/a	n/a
Info Technology	5.2%	5.3%	-3.2%	11.3%	5.3%	1.9%	7.6%	-2.6%	n/a	n/a
Manufacturing	3.9%	6.7%	-0.6%	10.4%	6.8%	-0.3%	8.5%	-0.4%	n/a	n/a
Media/Telecom	1.3%	4.1%	-1.9%	7.4%	4.3%	-4.3%	7.0%	3.6%	n/a	n/a
Metals/Minerals	1.8%	12.4%	-2.2%	9.8%	8.5%	-0.7%	5.4%	2.8%	n/a	n/a
Retail	-2.0%	5.5%	-1.6%	8.5%	4.8%	3.9%	9.9%	-3.4%	n/a	n/a
Service	2.6%	6.0%	0.5%	9.9%	6.5%	1.6%	6.6%	-0.6%	n/a	n/a
Transportation	4.1%	5.7%	0.1%	11.1%	7.0%	1.9%	6.5%	3.0%	n/a	n/a
Utility	1.4%	1.7%	4.8%	8.8%	5.8%	n/a	n/a	n/a	n/a	n/a

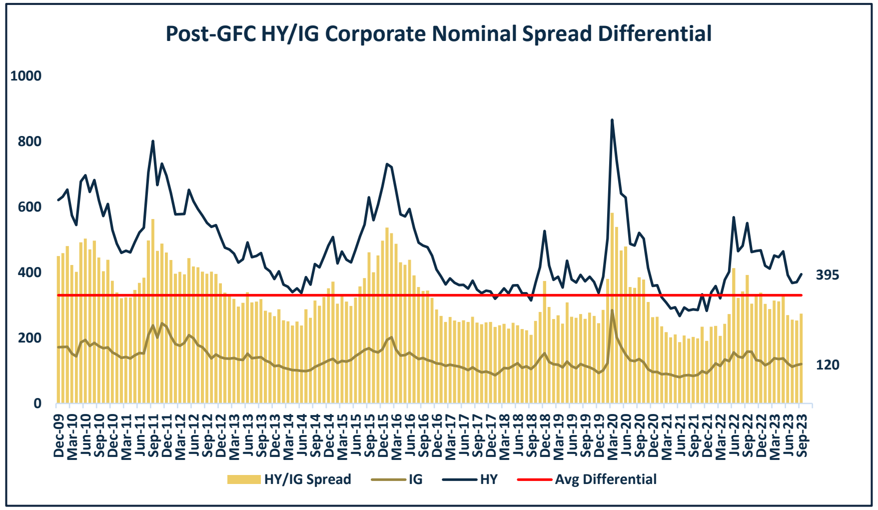
Sources: Credit Suisse Leveraged Finance indices

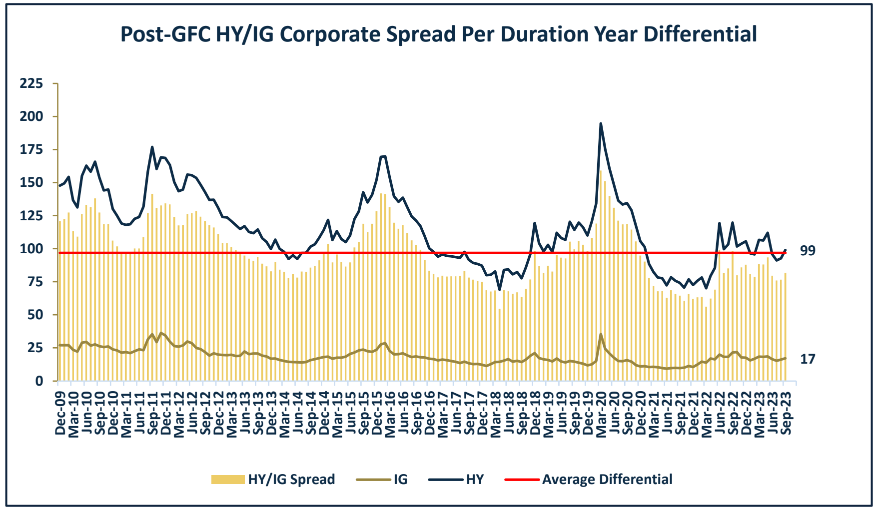
Appendix – Valuations



US HY vs US IG Corporates as of 30 Sep 2023

- No changes since last quarter; spreads across credit have maintained spread differentials
- Continue to expect deterioration in non-IG credit metrics as higher interest rates continue to be absorbed and the economy slows down; should result in widening of the spread differential, i.e., HY should widen relative to IG





Source BBG/Barclay US HY and US IG Corp Indices

Spread Changes as of 30 Sep 2023

- Despite Treasury yields spiking late in September, credit spreads were stable or in the case of Eur IG Corporates, Eur HY and US Loans, spreads continued to narrow.
- For the year, credit spreads have narrowed across Leveraged Finance and EMD markets

	Dec '22	Mar '23	Jun '23	Sep '23	QoQ Δ	YoY Δ
US IG Corp	130	138	122	120	-1	-9
Eur IG Corp	167	169	162	152	-10	-15
US HY	468	452	392	395	3	-73
EUR HY	537	520	478	458	-20	-80
US Loans	652	609	581	551	-30	-101
US MBS	51	63	51	66	14	14
US CMBS	119	143	134	131	-3	12
US ABS	75	85	68	66	-2	-9
EUR Covered	84	88	87	84	-3	1
EM Hard	452	484	432	430	-2	-22
EM Corp	322	347	309	301	-8	-21

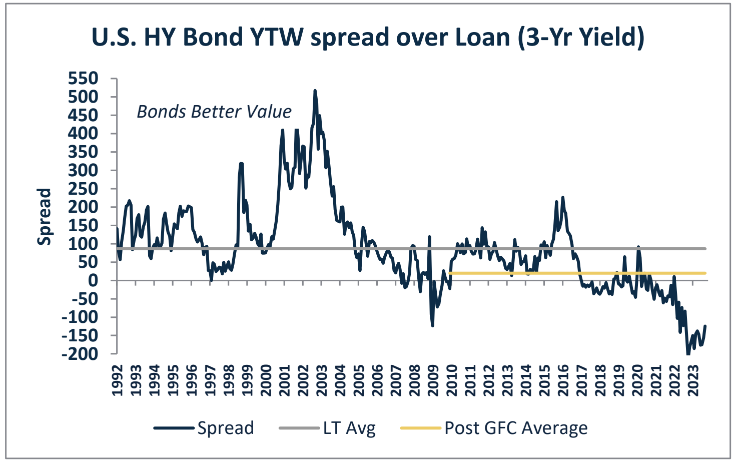
Sources: BBG/Barclays, Credit Suisse and J.P. Morgan fixed income indices

Appendix – Cross Sector Relative Value

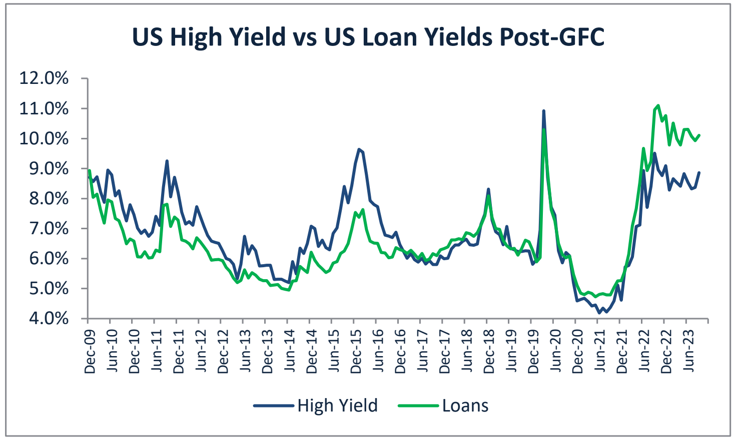
High Yield Bond versus Leveraged Loans

as of 30 Sep 2023

- Loans have richened relative to Bonds over the quarter by 52 bps; last quarter spread between bonds and loans was -177 bps.



Current Spread	-125
LT Average	86
Post-GFC Average	20
Post-GFC Minimum	-214
Post-GFC Maximum	226
Post-GFC STDEV	83
Z-Score	(2.54)



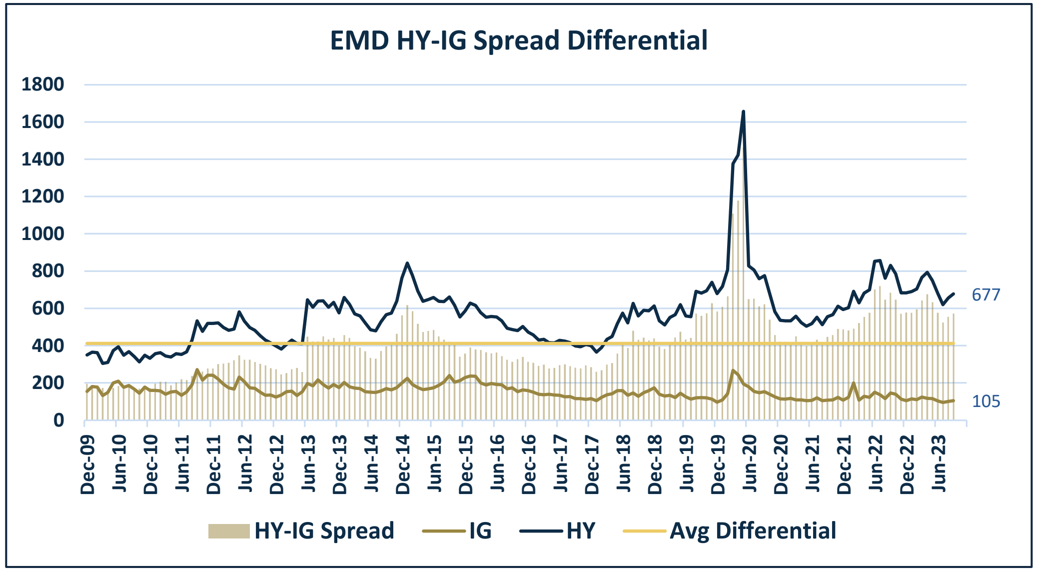
- Loan yields continue to surpass bond yields since the Fed began QT, yielding just over 10% versus 8.9% for Bonds as higher interest rates work through Loans more rapidly than Bonds

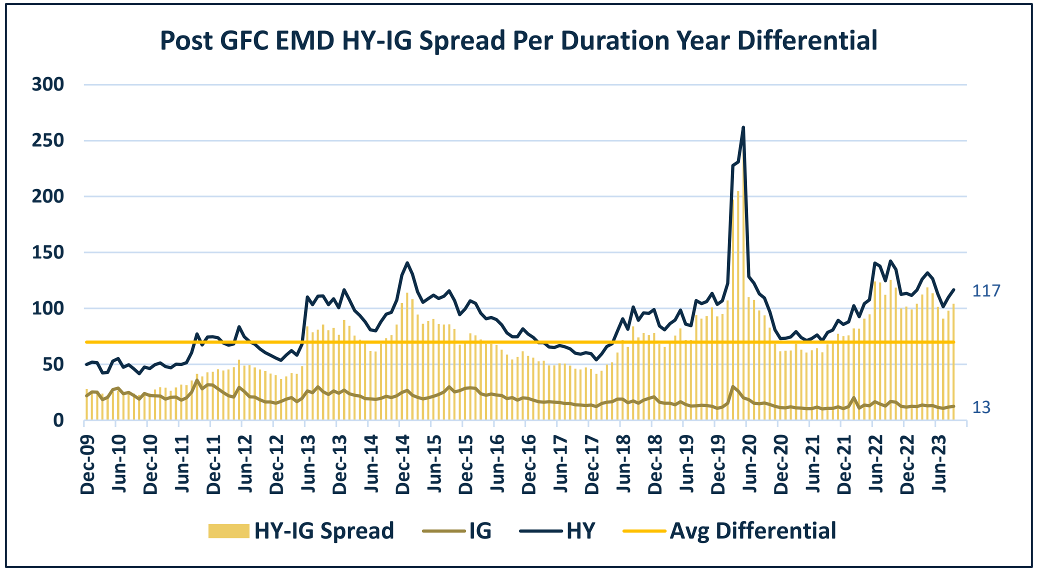
- Over time as Bonds mature and get refinanced, this differential will narrow

Sources: Credit Suisse High Yield and Leveraged Loan Indices

EMD HY vs EMD IG Sovereigns as of 3Q23

- Spread differential between EMD HY and IG has widened a bit as of the end of 3Q23 from 554 to 572 primarily due to EMD HY spreads widening by 21 bps to end at 677 bps while EMD IG spreads only widened by 4 bps
- EMD HY continues to remain attractive as the current spread between HY and IG is much higher than historical average spread of 70 bps
- Adjusted for Duration, the EMD HY-IG relative value on a spread per duration year basis tells the same story





Sources: BBG/Barclays EM Fixed Income Indices

Appendix – Credit Metrics

2Q23 IG Credit Metrics -- Revenues

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Revenue growth continues to decelerate

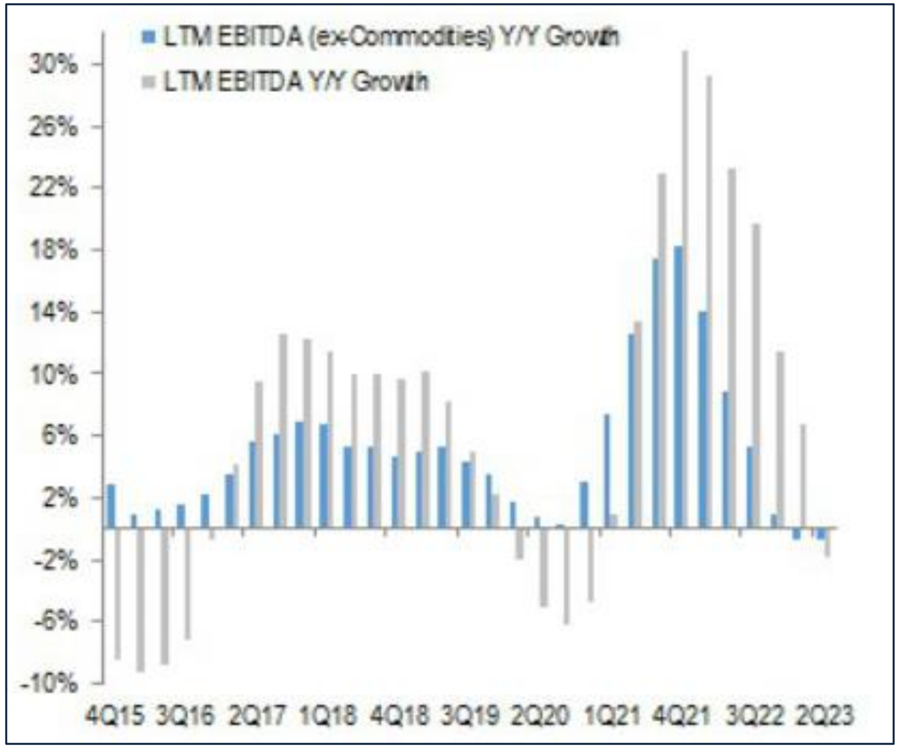
- Revenue growth fell significantly to 3.4% YoY; the slowest pace since 1Q21 and much lower than YoY growth of 9.9% that was reported in 1Q23
- QoQ revenue turned negative at -1.6% for the 1st time since 3Q20
- 10 of 18 sectors had negative revenue growth QoQ

	2Q23	q/q chg	q/q % chg	y/y chg	y/y % chg
Automotive	270.4	14.1	5.5%	55.1	25.6%
Diversified Media	199.7	1.2	0.6%	30.5	18.1%
Capital Goods	697.4	29.7	4.4%	58.8	9.2%
Healthcare/HMOs	1,712.4	46.8	2.8%	143.9	9.2%
Food/Beverages	707.0	2.9	0.4%	42.1	6.3%
Utilities	379.3	(2.5)	-0.7%	20.5	5.7%
Non-Food Retail	1,222.3	5.2	0.4%	58.5	5.0%
Telecoms - Yankees	287.1	(4.4)	-1.5%	13.0	4.7%
Food/Drug Retail	344.1	5.2	1.5%	12.9	3.9%
Energy	2,385.3	(207.6)	-8.0%	74.0	3.2%
Transportation	290.1	(5.2)	-1.8%	3.6	1.3%
Cable/TV	175.1	0.6	0.3%	0.3	0.2%
Telecoms - Domestic	347.3	(0.7)	-0.2%	(0.9)	-0.3%
Consumer Products	205.2	(1.0)	-0.5%	(0.6)	-0.3%
Technology	971.5	(2.5)	-0.3%	(3.1)	-0.3%
Pharmaceuticals	744.2	(13.3)	-1.8%	(40.2)	-5.1%
Metals/Mining	522.2	(44.9)	-7.9%	(61.8)	-10.6%
Chemicals	181.3	(11.6)	-6.0%	(22.1)	-10.8%
Overall	11,642.0	(188.2)	-1.6%	384.4	3.4%
Overall ex-Comm	8,734.6	64.3	0.7%	372.2	4.5%

Source: JP Morgan HG Credit Fundamentals

2Q23 IG Credit Metrics -- EBITDA

- EBITDA growth contracted for the first time over the past 10 quarters, at -1.9% YoY, a stark contrast to the 7.2% YoY growth reported in 1Q23
- QoQ decline to -4.5% was the sharpest drop since 3Q09

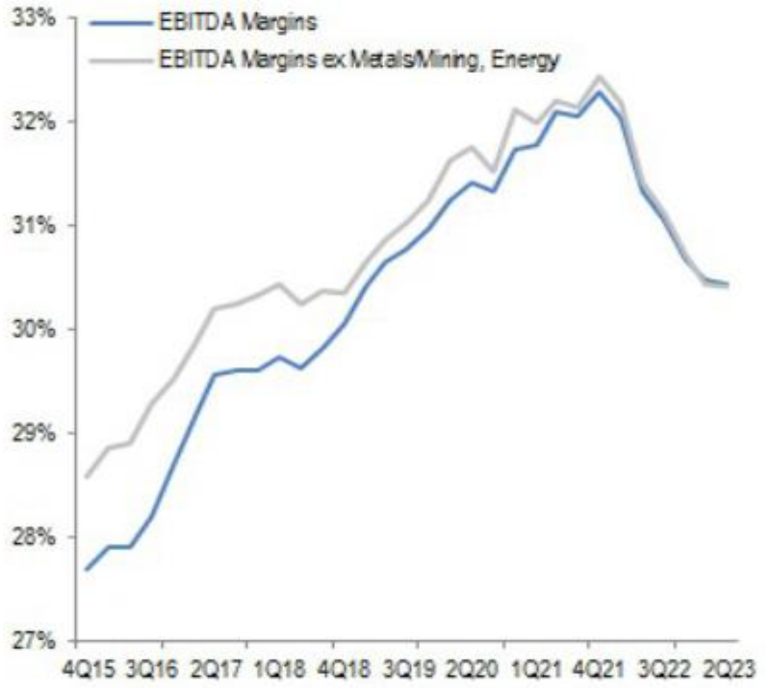


	2Q23	q/q chg	q/q % chg	y/y chg	y/y % chg
Automotive	30.5	0.6	1.9%	5.6	22.7%
Telecoms - Yankees	113.9	9.4	8.9%	12.8	12.7%
Utilities	139.5	4.4	3.2%	13.7	10.9%
Energy	598.3	(72.9)	-10.9%	35.9	6.4%
Diversified Media	29.8	0.0	0.0%	1.7	6.0%
Healthcare/HMOs	101.1	0.9	0.9%	5.6	5.9%
Food/Beverages	135.9	0.7	0.5%	4.1	3.1%
Technology	328.3	3.3	1.0%	(4.9)	-1.5%
Telecoms - Domestic	129.2	0.5	0.4%	(3.3)	-2.5%
Food/Drug Retail	35.9	0.6	1.6%	(0.9)	-2.6%
Non-Food Retail	90.3	1.5	1.7%	(3.2)	-3.4%
Capital Goods	90.1	(11.8)	-11.6%	(3.2)	-3.4%
Cable/TV	58.3	0.4	0.6%	(2.4)	-4.0%
Transportation	68.0	(1.6)	-2.2%	(3.0)	-4.3%
Pharmaceuticals	276.4	(6.9)	-2.4%	(16.1)	-5.5%
Consumer Products	44.1	0.3	0.6%	(2.6)	-5.6%
Metals/Mining	112.2	(36.8)	-24.7%	(68.6)	-37.9%
Chemicals	27.9	(7.4)	-20.9%	(17.1)	-38.0%
Overall	2,409.6	(114.8)	-4.5%	(45.9)	-1.9%
Overall ex-Comm	1,699.1	(5.1)	-0.3%	(13.1)	-0.8%

2Q23 IG Credit Metrics – EBITDA Margins

- EBITDA Margins were relatively flat QoQ remaining at 30%, and slightly below pre-COVID levels
- YoY they have dropped by 1.3%

Figure 11: EBITDA margins deteriorated y/y but have stabilized q/q

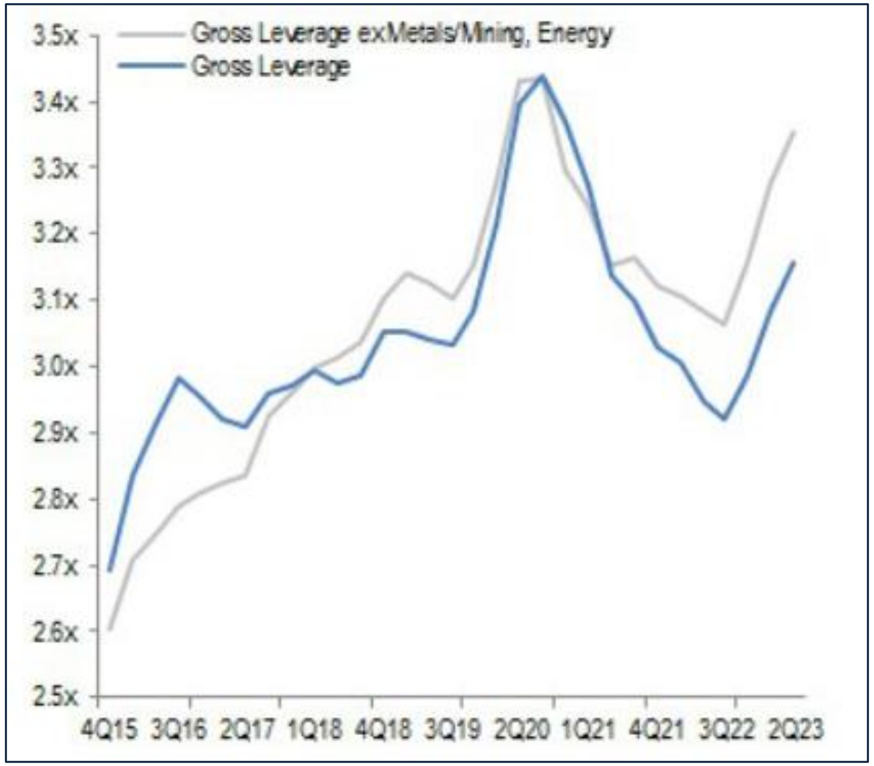


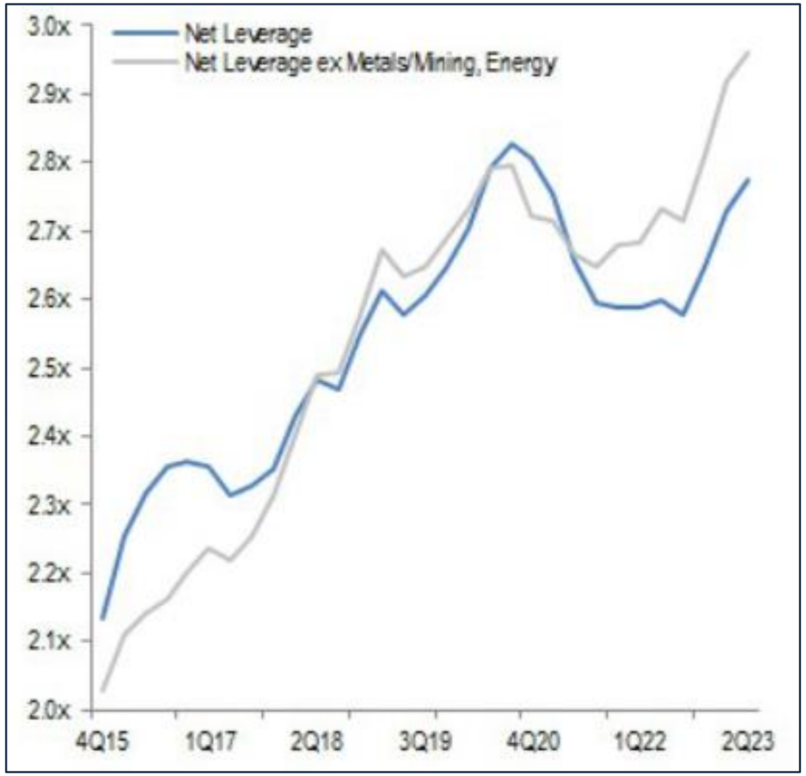
	2Q23	q/q chg	y/y chg
Energy	30.8%	0.3%	0.9%
Pharmaceuticals	42.0%	-0.2%	0.3%
Automotive	11.6%	-0.1%	0.3%
Capital Goods	17.4%	-1.1%	0.2%
Utilities	37.7%	1.0%	0.2%
Telecoms - Yankees	35.4%	1.4%	0.1%
Food/Drug Retail	35.4%	0.0%	-0.1%
Telecoms - Domestic	37.4%	0.4%	-0.3%
Healthcare/HMOs	8.4%	-0.2%	-0.3%
Non-Food Retail	12.7%	0.2%	-0.5%
Food/Beverages	32.7%	-0.2%	-0.6%
Cable/TV	33.2%	0.1%	-1.5%
Consumer Products	21.6%	-0.2%	-1.8%
Diversified Media	14.5%	0.4%	-2.8%
Technology	34.1%	-0.2%	-3.3%
Transportation	39.3%	0.5%	-3.4%
Chemicals	16.2%	-3.2%	-7.0%
Metals/Mining	29.1%	-5.5%	-11.9%
Overall	30.4%	0.0%	-0.9%
Overall ex-comm	30.4%	0.0%	-1.0%

Source: JP Morgan IG Credit Fundamentals

2Q23 IG Credit Metrics – Leverage

- Gross and Net Leverage continue to rise ending 2Q23 at 3.2x and 2.8x respectively



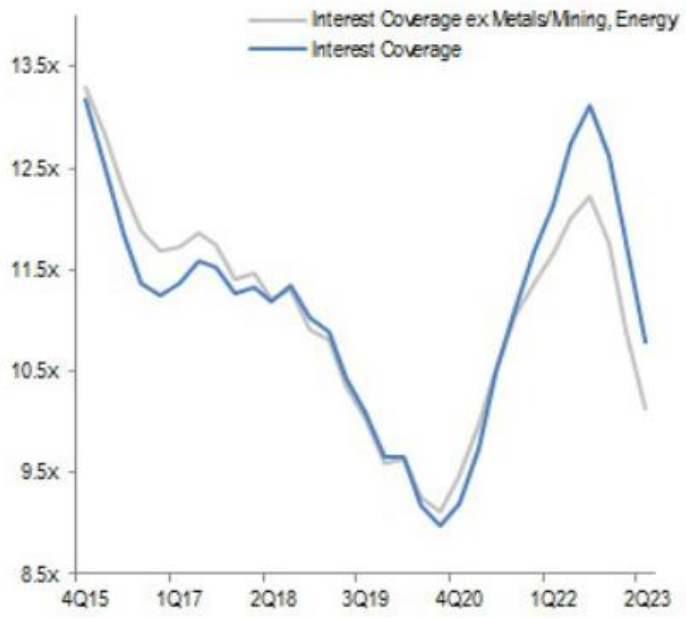


Source: JP Morgan HG Credit Fundamentals

2Q23 IG Credit Metrics – Interest Coverage

- Interest Expense continues to rise due to higher funding costs, up 13.6% YoY and 4.6% QoQ in 2Q23
- Interest Coverage continues to fall from last high reached in 2022 but remains healthy at 10.8x, better than 4Q19 ratio of 9.8x
- YoY Interest Coverage dropped by 1.9x as of 2Q23

Figure 31: Interest coverage ratio declined sharply last quarter - its fastest deterioration pace since 3Q16



	2Q23	q/q chg	y/y chg
Automotive	18.6	1.3	3.8
Telecoms - Yankees	11.6	0.7	2.8
Capital Goods	15.1	-0.6	0.6
Energy	17.7	-2.6	0.2
Food/Beverages	9.4	-0.3	0.1
Food/Drug Retail	10.3	-0.1	0.0
Cable/TV	7.9	0.0	-0.3
Utilities	4.7	-0.2	-0.6
Transportation	11.2	-0.7	-1.3
Healthcare/HMOs	9.4	-0.6	-1.6
Diversified Media	4.7	-0.2	-1.7
Telecoms - Domestic	8.9	-0.5	-2.0
Non-Food Retail	11.2	-0.1	-2.6
Pharmaceuticals/Medical Pı	16.2	-2.6	-4.3
Chemicals	8.7	-2.8	-8.4
Technology	20.5	-2.1	-10.7
Consumer Products	16.2	-2.6	-10.9
Metals/Mining	27.2	-7.1	-22.1
Overall	10.8	-1.0	-1.9
Overall ex-commodities	10.1	-0.8	-1.9

Source: JP Morgan HG Credit Fundamentals

2Q23 High Yield Credit Fundamentals

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Quarterly 2Q23	Q/Q	Y/Y	LTM as of 2Q23	Q/Q	Y/Y
Revenue	5.5%	-2.4%	Revenue	-0.5%	6.8%
EBITDA	13.4%	-4.4%	EBITDA	-1.5%	6.8%
Capex	10.4%	20.7%	Debt	0.6%	1.6%
Cash	1.7%	-4.2%	TEV	3.7%	6.8%

LTM	2Q23	1Q23	2Q22	4Q19	Q/Q	Y/Y	Pre-Pandemic
Leverage (Debt/EBITDA)	4.17x	3.92x	4.20x	4.15x	0.25x	-0.03x	0.01x
Net Leverage ((Debt-Cash)/EBITDA)	3.62x	3.47x	3.62x	3.58x	0.16x	0.00x	0.05x
EBITDA Margin	16.2%	15.5%	17.2%	15.80%	0.7%	-1.0%	0.4%
Coverage (EBITDA/Net Int Exp)	5.25x	5.66x	5.68x	4.48x	-0.41x	-0.43x	0.77x
EBITDA-Capex/Net Int Exp	3.09x	3.51x	3.79x	2.50x	-0.42x	-0.70x	0.59x
TEV/Revenue	1.49x	1.43x	1.55x	1.65x	0.06x	-0.06x	-0.16x
TEV/EBITDA	8.90x	8.26x	8.95x	11.38x	0.64x	-0.05x	-2.49x
Debt/TEV	46.84%	47.47%	46.93%	44.36%	-0.6%	-0.1%	2.5%

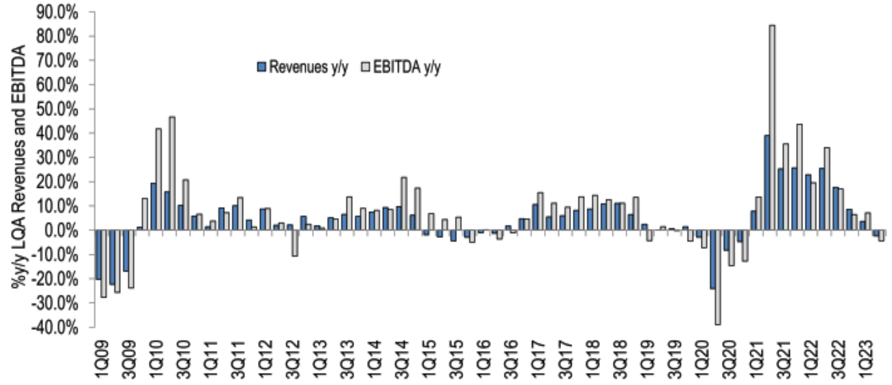
Continuing to see deterioration in 2Q23 metrics vs 1Q23 but fundamentals and balance sheets remain strong

- High Yield companies delivered strong earnings in 2Q23 with a substantial number of earning beats and generally positive guidance (29% positive vs 21% negative)
- Also on a more positive note, only 33% of HY companies warned that they are experiencing cost or labor inflationary pressures; this is down from 41% in 1Q23 and 57% in 4Q22
- Revenues and EBITDA on a YoY basis have fallen
- 89% of sectors are experiencing profit margin declines but in aggregate remains strong at 16.2%
- Interest coverage at 5.25x down vs 1Q23 but remains higher than pre-COVID levels of 4.48x
- Notable was an increase in leverage to 4.17x vs 1Q23 at 3.92x and after 8th consecutive quarterly declines since 2Q21

Source: JP Morgan High Yield Credit Fundamentals

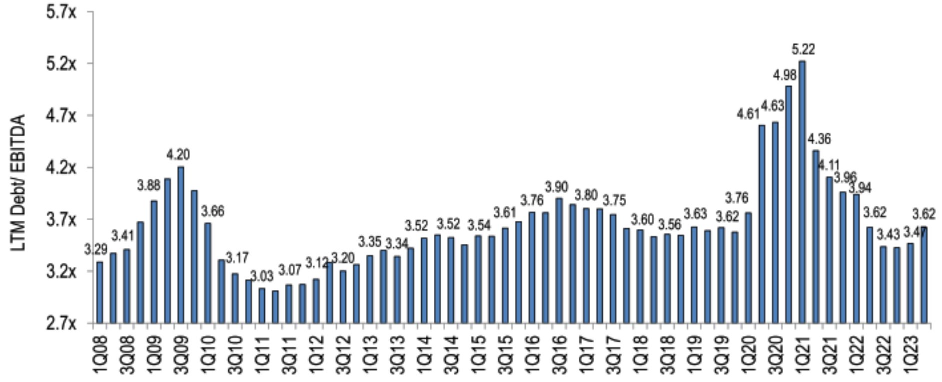
2Q23 High Yield Credit Metrics

Top and bottom-line figures for HY companies saw y/y contraction for the first time since 2020



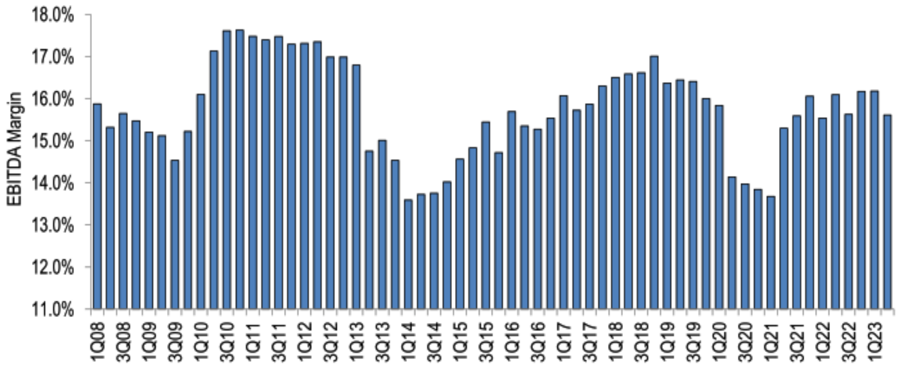
Source: J.P. Morgan; S&P Capital IQ

Net Leverage increased in 2Q to a 4-quarter high



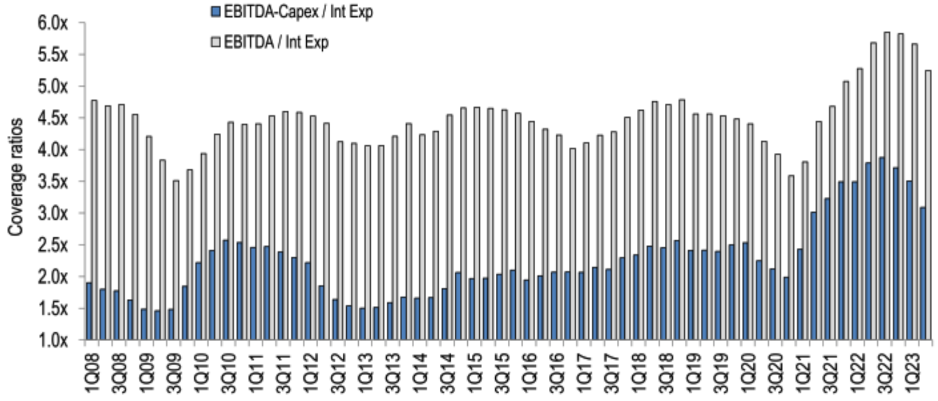
Source: J.P. Morgan; S&P Capital IQ

Profit margins dip below their historical average



Source: J.P. Morgan; S&P Capital IQ

Coverage ratio for HY companies decreased for a third consecutive quarter to a 6-quarter low



Source: J.P. Morgan; S&P Capital IQ

Source: JPM High Yield Credit Fundamentals

2Q23 Leveraged Loan Credit Fundamentals

Quarterly 2Q23	Q/Q	Y/Y	LTM as of 2Q23	Q/Q	Y/Y
Revenue	7.0%	2.5%	Revenue	0.7%	9.6%
EBITDA	22.6%	8.5%	EBITDA	2.4%	13.0%
Capex	6.1%	20.9%	Debt	0.2%	1.1%
Interest expense	2.4%	26.2%	TEV	4.1%	4.9%

LTM	2Q23	1Q23	2Q22	4Q19	Q/Q	Y/Y	Pre-Pandemic
Leverage (Debt/EBITDA)	4.56x	4.66x	5.10x	4.75x	-0.10x	-0.54x	-0.19x
Net Leverage ((Debt-Cash)/EBITDA)	3.98x	4.07x	4.36x	4.19x	-0.10x	-0.38x	-0.21x
EBITDA Margin	17.6%	17.4%	17.0%	17.5%	0.2%	0.6%	0.1%
Coverage (EBITDA/Net Int Exp)	4.47x	4.61x	4.80x	4.60x	-0.15x	-0.33x	-0.13x
EBITDA-Capex/Net Int Exp	2.85x	2.99x	3.25x	2.87x	-0.14x	-0.40x	-0.02x
TEV/Revenue	1.91x	1.85x	2.00x	2.05x	0.06x	-0.08x	-0.13x
TEV/EBITDA	9.95x	9.78x	10.71x	10.21x	0.17x	-0.77x	-0.27x
Debt/TEV	45.88%	47.66%	47.60%	46.51%	-1.8%	-1.7%	-0.6%

Source: J.P. Morgan; Capital IQ

Credit metrics continued to deteriorate in 2Q23 but fundamentals still relatively solid

- Loan only borrowers have deteriorated the most
- Revenues and EBITDA growth remain positive, but have fallen since 1Q23 reported YoY growth of 6.8% and 15.3%
- 2Q23 also saw the 9th consecutive quarterly decline in leverage to 4.56x down from 4.72x in 4Q19
- Interest coverage continued to decrease to 4.47x for a third quarter since 4Q22 and is now below 4Q19's 4.6x coverage

Source: JP Morgan Leveraged Loan Credit Fundamentals

2Q23 Leveraged Loan Credit Metrics

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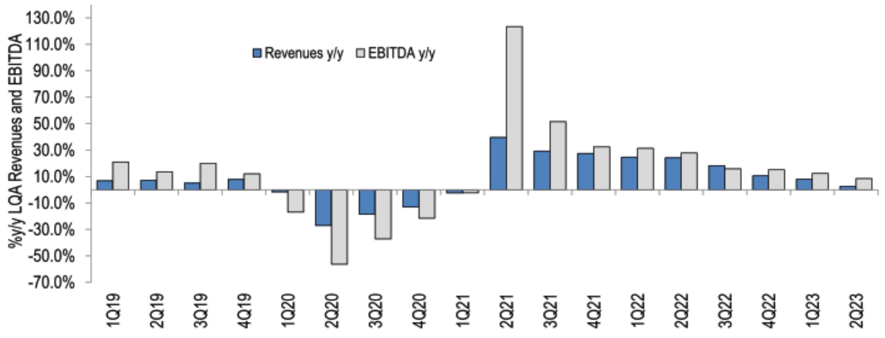
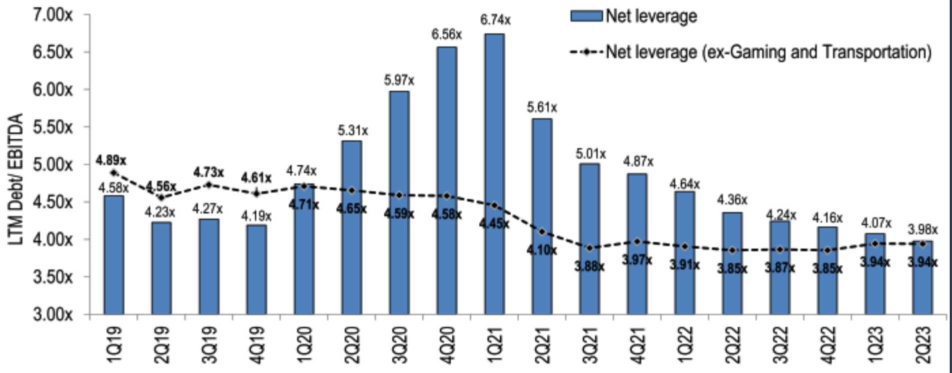
Top- and bottom-line growth continues to decelerate on a year-ago basis and, excluding sectoral skews, has turned negative for the first time since 1Q21



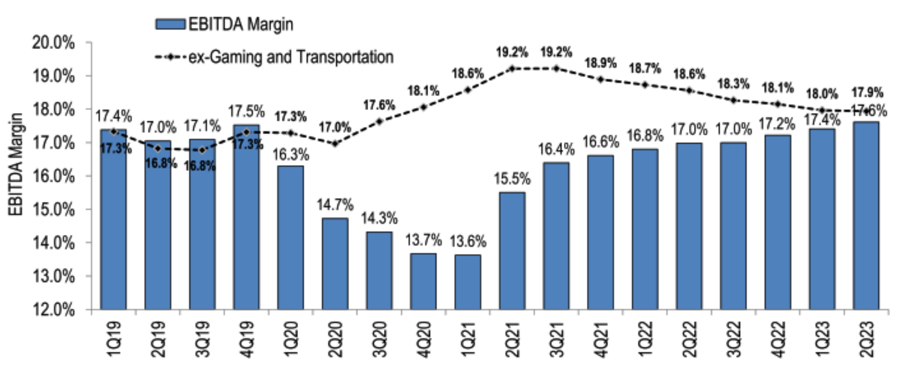
Source: J.P. Morgan; Capital IQ

Net Leverage decreased to its lowest level since at least 2018



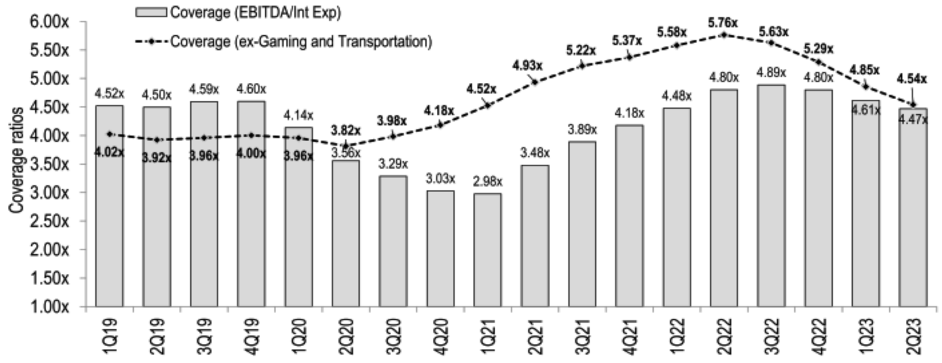
Source: J.P. Morgan; Capital IQ

Profitability has remained resilient over the last several quarters, although excluding sectoral skews margins have continued to trend down



Source: J.P. Morgan; Capital IQ

Coverage ratios continue to decline, as EBITDA growth decelerates and interest expense increases accelerate

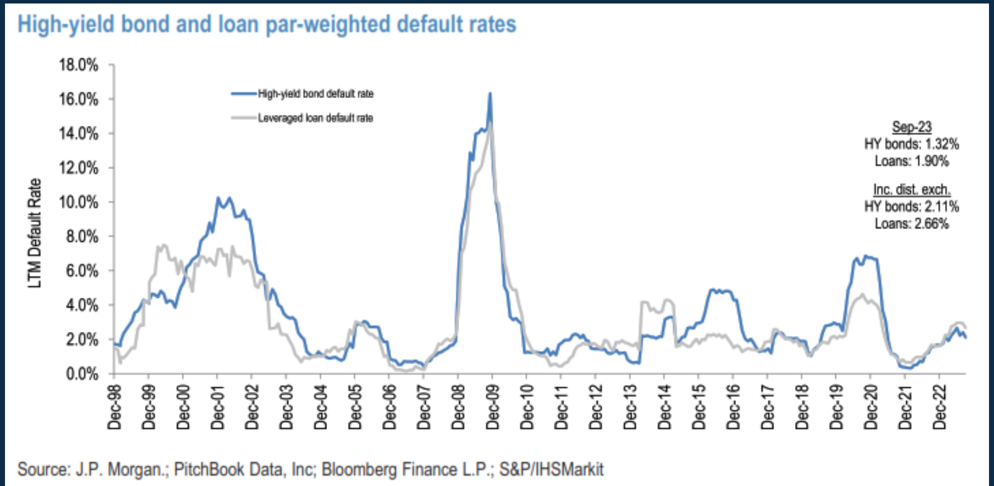


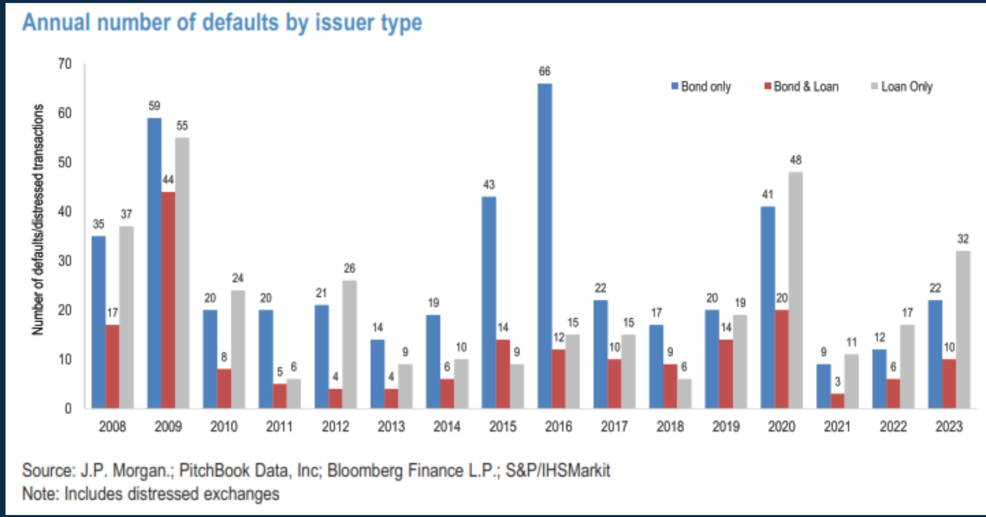
Source: J.P. Morgan; Capital IQ

Source: JPM Leveraged Loan Credit Fundamentals

Appendix – Default Activity, Distressed, Recoveries & Rating Actions

3Q23 YTD Default Activity





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- Combined YTD total of $63.2bn of defaults/distressed exchanges represent 8th largest annual total on record.
  - 32 companies defaulted ($18bn in bonds; 27.9bn in loans)
  - 32 companies completed distressed exchanges ($9.1bn in bonds, $8.1bn in loans)
- As 3Q23, including distressed exchanges, default rates fell from 2.71% and 2.94% as of 2Q23 to 2.11% and 2.66% for bonds and loans, respectively
  - In large part from roll-off of Bausch ($5.7bn) from LTM stats
- JPM expects
  - Default rates will rise to 3% (Bonds) and 3.5% (Loans) in 2023
  - And will further worsen to 3.25% & 4% respectively in 2024
- Loan Only issuers were half of all default actions since 2020 (108 over the last 3+ years, 47% of the 231 defaults over the period, compared with 84 Bond Only defaults and 39 Bond & Loan defaults

Ten largest defaults YTD

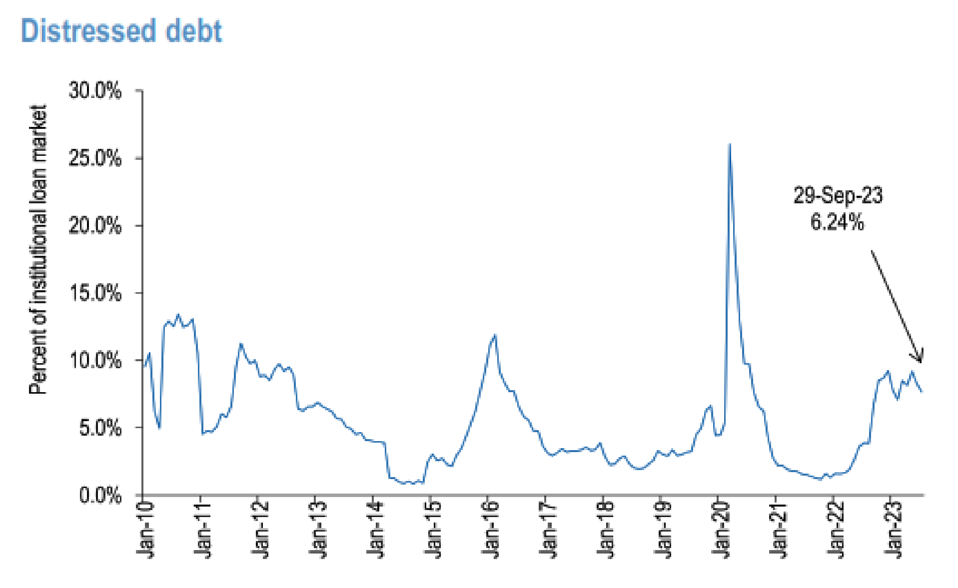
Date	Company	Bonds ($mn)	Loans ($mn)	Total ($mn)	Industry	Action
15-Apr-23	Envision Healthcare	938.9	9,413.7	10,352.6	Healthcare	Filed Chapter 11
15-Feb-23	Diamond Sports	4,783.5	3,819.6	8,603.1	Broadcasting	Filed Chapter 11
28-Aug-23	Mallinckrodt International Finance	1,796.2	1,716.9	3,513.1	Healthcare	Filed Chapter 11
15-May-23	Wesco Aircraft Holdings	3,026.8	-	3,026.8	Industrials	Filed Chapter 11
14-Feb-23	Avaya	1,000.0	1,893.0	2,893.0	Technology	Filed Chapter 11
1-Jun-23	Diebold	1,100.0	934.1	2,034.1	Technology	Filed Chapter 11
23-Jan-23	Serta Simmons Bedding	-	1,889.3	1,889.3	Consumer Products	Filed Chapter 11
24-Jul-23	U.S. Renal Care	82.4	1,512.2	1,594.6	Healthcare	Distressed exch.
23-Apr-23	Bed Bath & Beyond Inc	1,029.9	547.1	1,577.0	Retail	Filed Chapter 11
17-Apr-23	Lumen Technologies	1,556.3	-	1,556.3	Telecommunications	Distressed exch.
	Total	**15,314.2**	**21,725.8**	**37,040.0**		

Source: J.P. Morgan.; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMarkit

Source: JPM Default Monitor

Distressed Debt (High Yield Bonds)

Distressed Debt (Loans)



Source: JP Morgan

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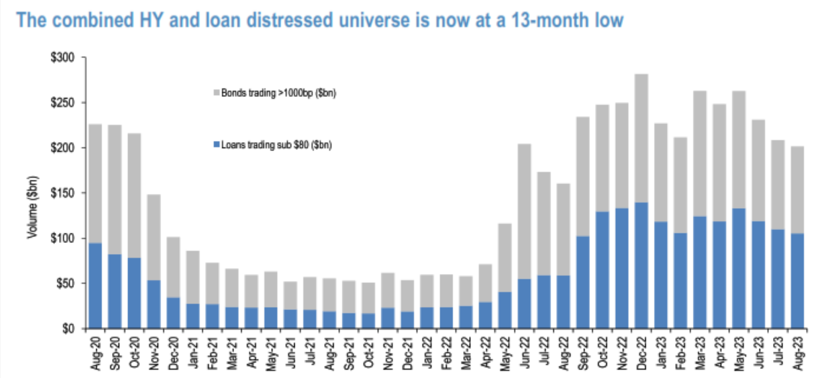
Distressed HY Bond Universe 3Q23

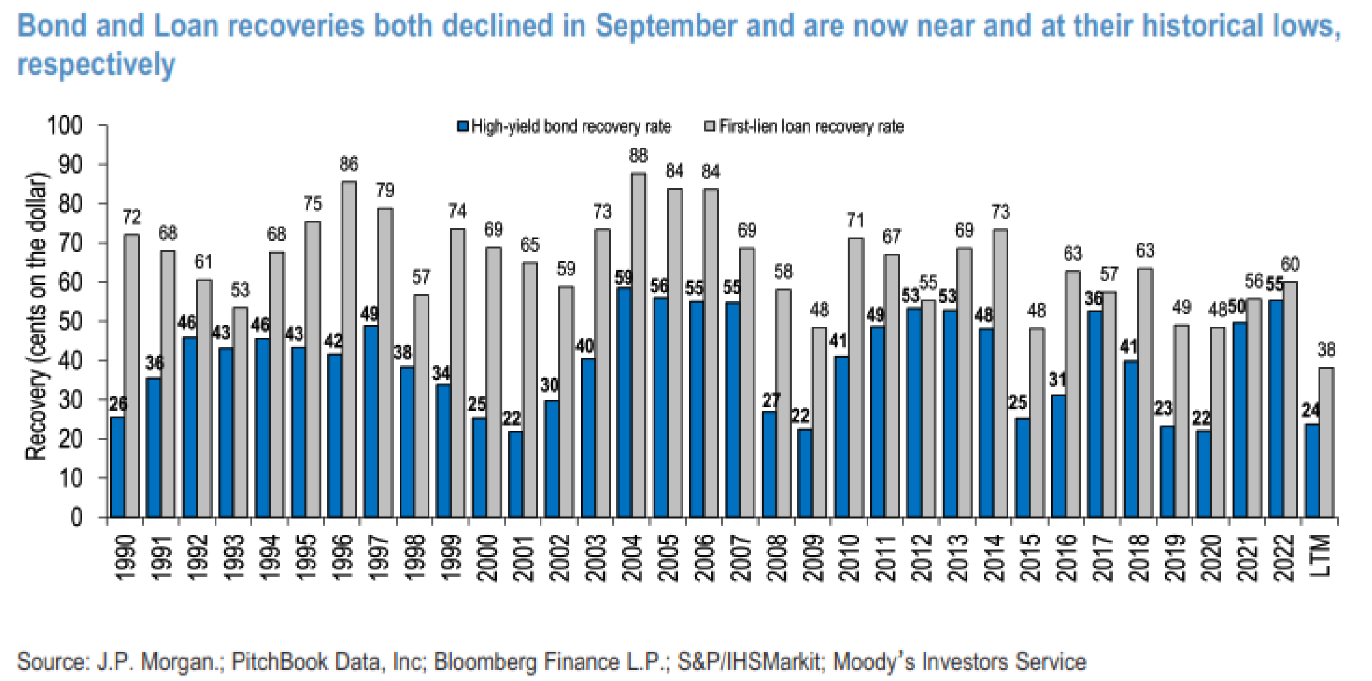
- HY Bond Distressed (trading at spread >1000 bps) has fallen since last quarter from 8.46% of the HY market to 7.1% (representing $94.3bn of par)
- Much less severe than March 2020 when distressed represented 32% of the HY market
- Majority is concentrated in Cable/Satellite, Healthcare and Telecommunications

Distressed Leveraged Loan Universe 3Q23

- Loan Distressed (trading at <=$80) has also fallen since last quarter from 8.29% to 6.24% (representing $90.5bn of par)
- Majority is concentrated in Healthcare and Technology

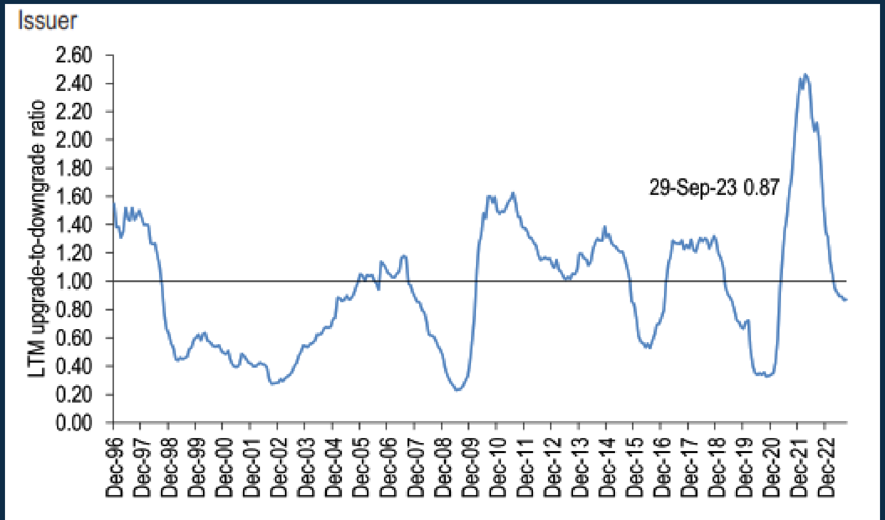


Recovery Rates continue to trend downward



Source: JP Morgan

HY Bond Upgrade/Downgrade Ratios



Loan Upgrade/Downgrade Ratios

Source: JP Morgan

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High Yield Bonds

- Following September rating actions, YTD upgrades by volume outpaced downgrades ($412bn vs $289bn)
- LTM upgrade/downgrade ratio by issuer was 0.87:1
  - Compare that to 2.46:1 in March 2022 and 0.34:1 in December 2020
- YTD there were 15 Rising Stars totaling $68.2bn vs. 4 Fallen Angels totaling $3.7bn, resulting in $64.4bn contraction of the US HY market

Leveraged LoanS

- Loan ratings actions remained negative; downgrades have outpaced upgrades over the last 17 consecutive months (535 down vs 250 up by issuer; $534bn vs $271bn by volume)
- LTM upgrade/downgrade ratio by issuer was 0.47:1, a 2.5-year low

Appendix – Technicals

Leveraged Finance Fund Flows as of 30 Sep 2023

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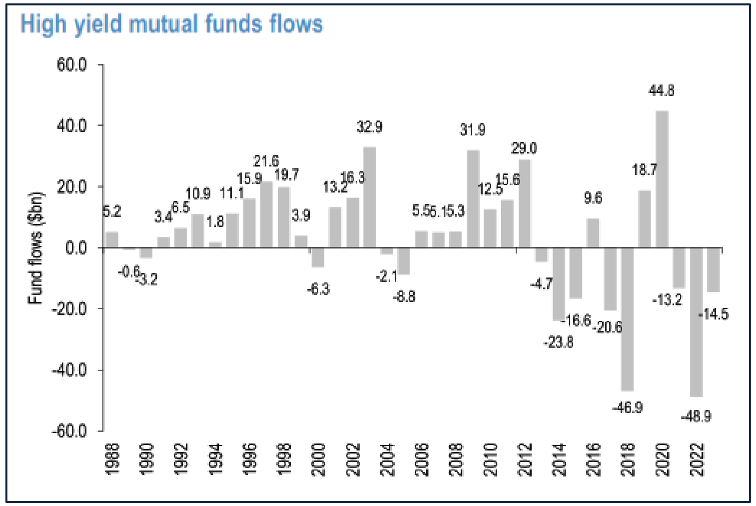
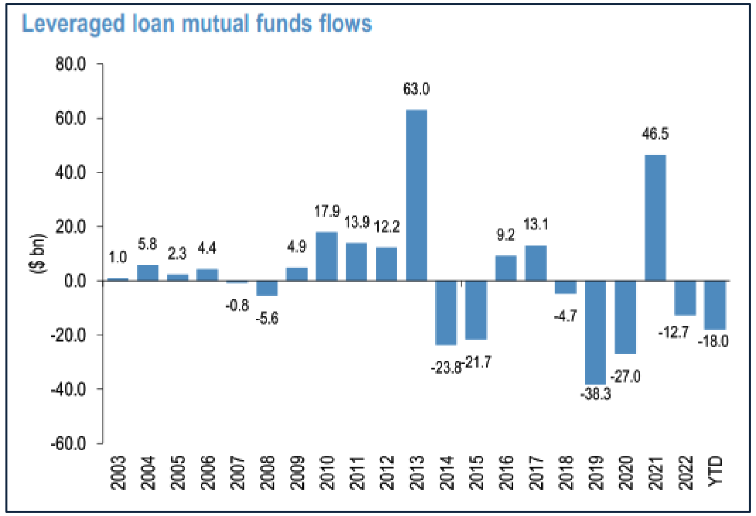




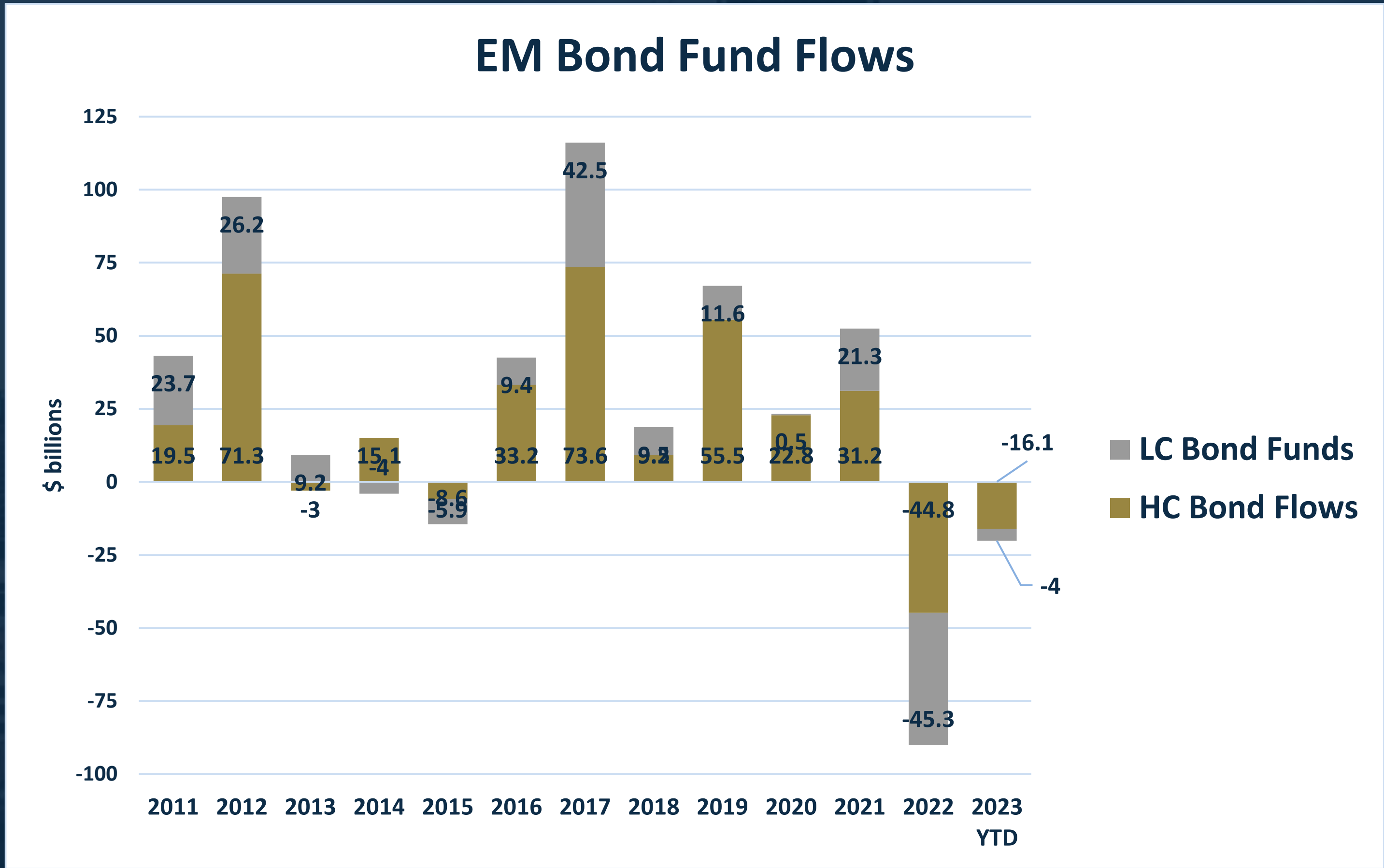
- **HY Fund Flows**
  - YTD 2023 outflows of $14.5bn
  - September saw an outflow of $2.5bn, the 7th in the past 10 months

- **Loan Fund Flows**
  - YTD 2023 outflows of $18bn
  - September saw an additional inflow of $600mn behind August inflow of $300mn
  - Prior to August Loan Funds saw 15 consecutive months of outflows from May ‘22 to Jul ‘23

Source: JP Morgan

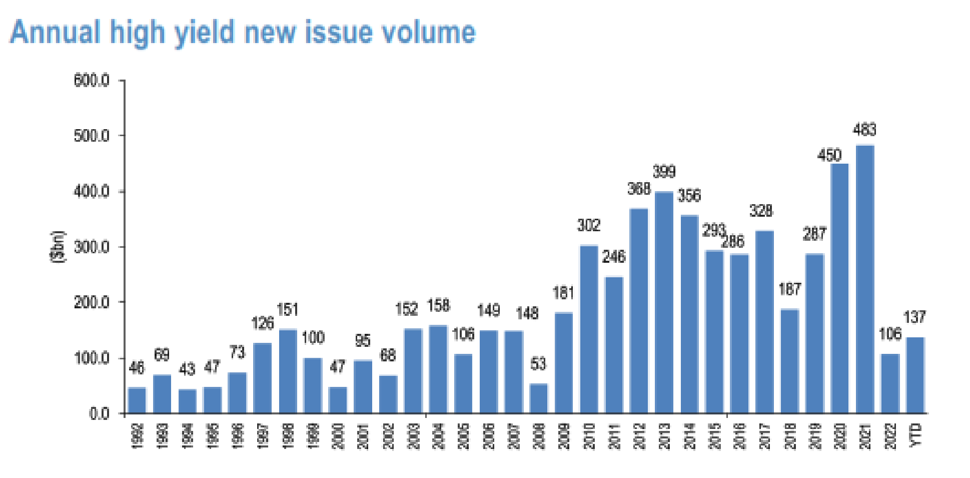
EM Bond Flows as of 30 Sep 2023

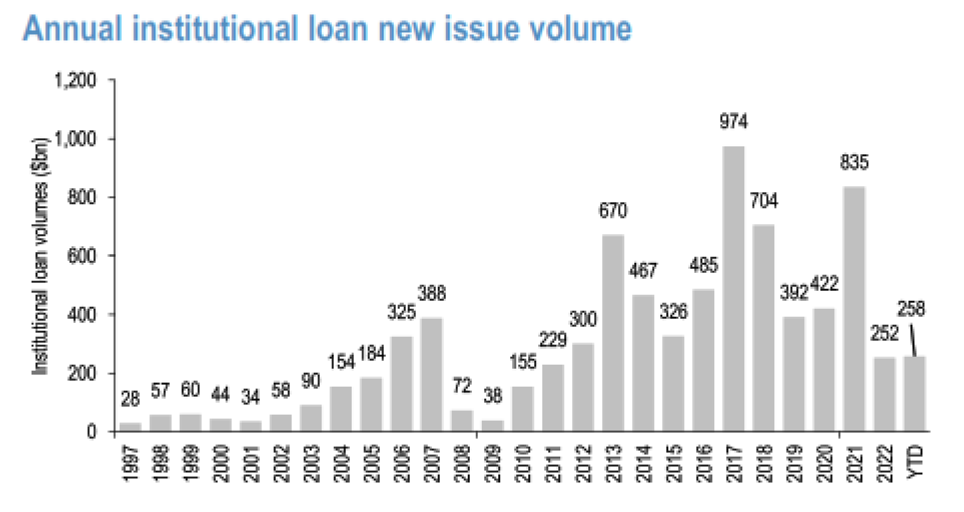
- Following 6 consecutive years of inflows from 2016 to 2021, HC and LC EMD funds have continued to see outflows since 2022
- HC EMD funds have borne the brunt of the negative sentiment, although September saw some moderation in HC EMD outflows as compared to August outflows
- Improvement in sentiment not likely until returns in both asset classes recover



Source: JPM EM Flows Weekly

YTD New Issue Activity





Source: JP Morgan

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High Yield Bonds

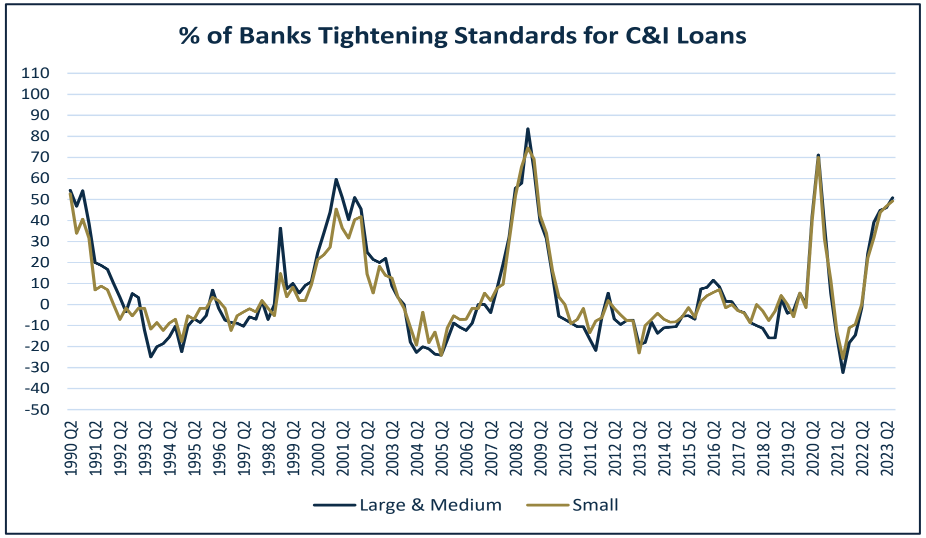
- High Yield issuance has come back to life as HY capital market activity almost tripled m/m in September to the highest monthly volume since Jan 22
- YTD, HY issuance totaled $136.6bn
  - Refinancing represented 63% of total gross volume
  - Acquisitions financing 22%
  - General corporate financing 14%
  - Dividend financing 1%

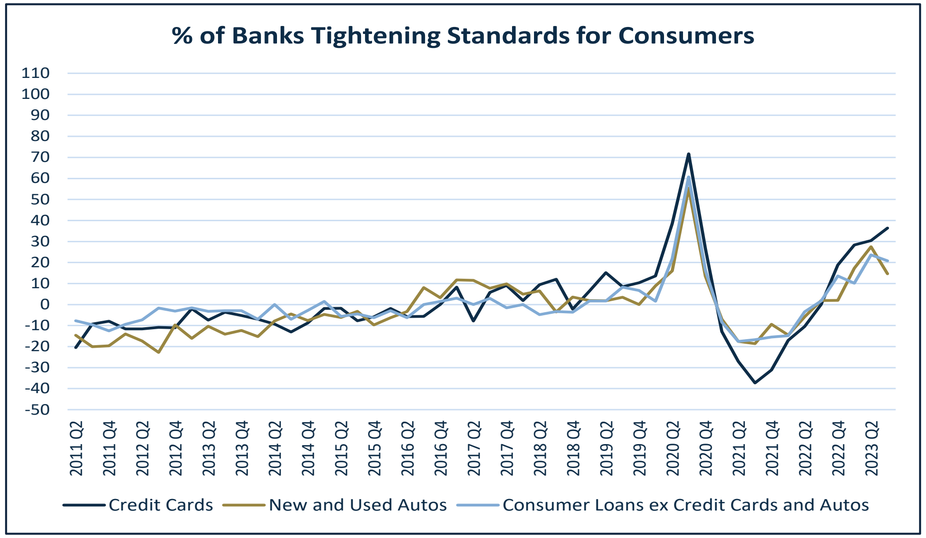
Leveraged Loans

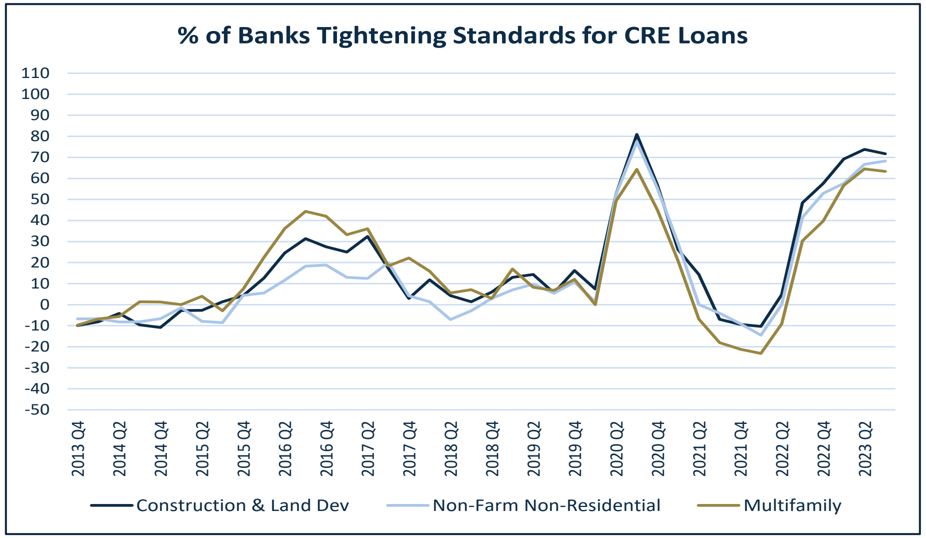
- Similar to HY Bonds, Loan market is also came back to life in September $58.1bn, a 40+% increase over August volume of $41.4bn, and largest issuance since Nov ‘21
- YTD, Loan issuance totaled $257.9bn
  - Refinancing represented 37% of total volume
  - Acquisition financing 25%
  - Dividend financing 3%
  - Other financing 2%
  - General corporate financing 0%

Appendix – Capital Markets Conditions

U.S. Banks Lending Standards July 2023 Survey



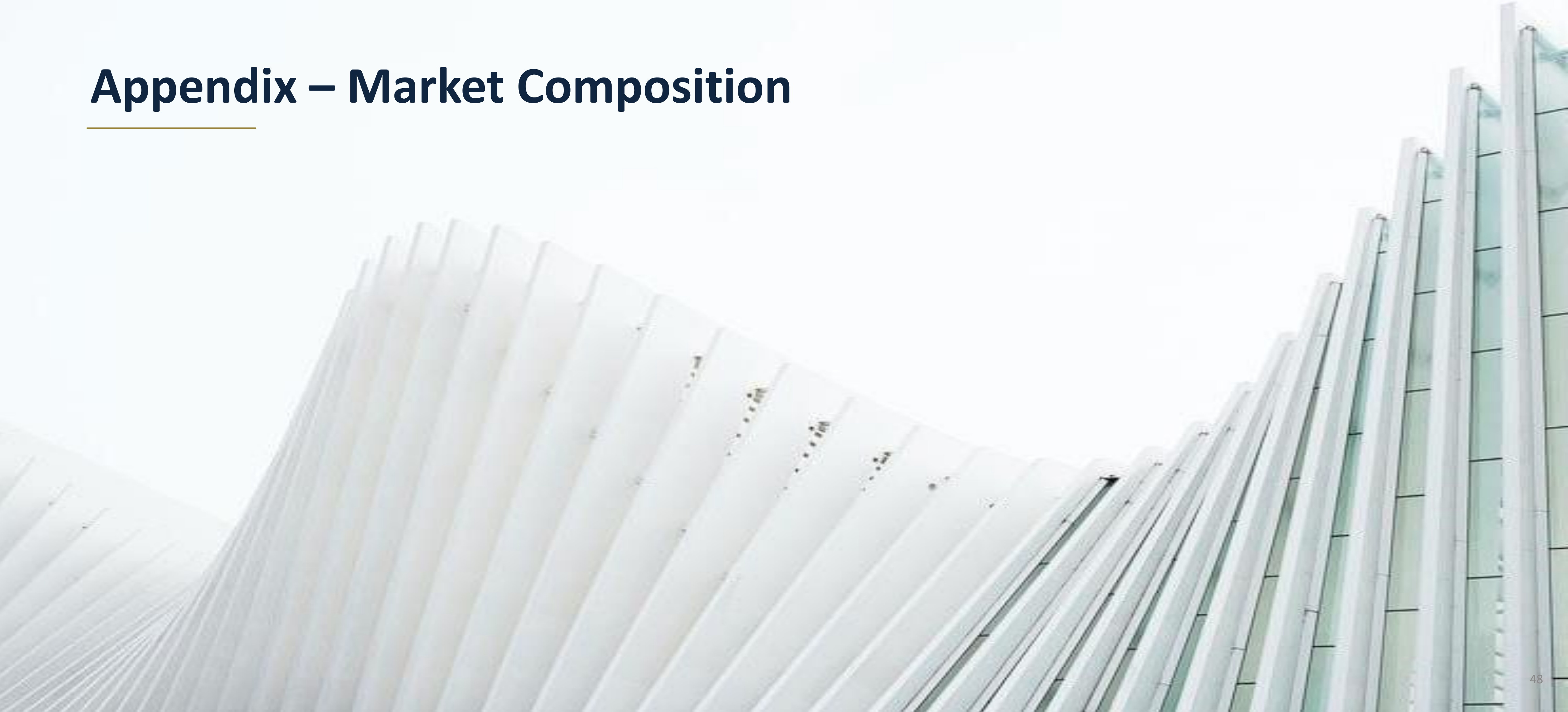




- On balance tighter standards and weaker demand for commercial and industrial loans to firms of all sizes over Q2
- Banks also reported tighter standards and weaker demand for all commercial real estate loan categories
- Banks reported that their levels of standards are currently at the tighter end of the range for all loan categories and compared with the July 2022 survey, tighter standards in every loan category
- Outlook for 2H23 – banks expect to further tighten standards on all loan categories citing less favorable or more uncertain economic outlook, expected further deterioration in collateral values and credit quality of loans

Source: Fed July 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices

Appendix – Market Composition



U.S. Leveraged Finance Market Size

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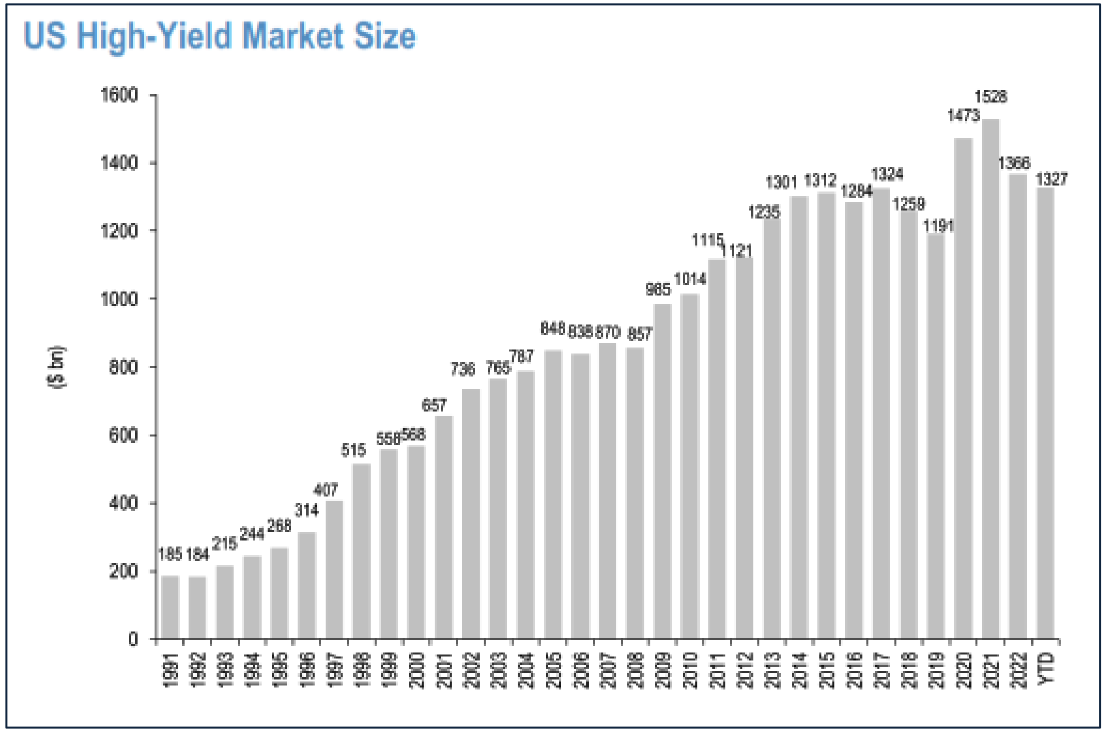

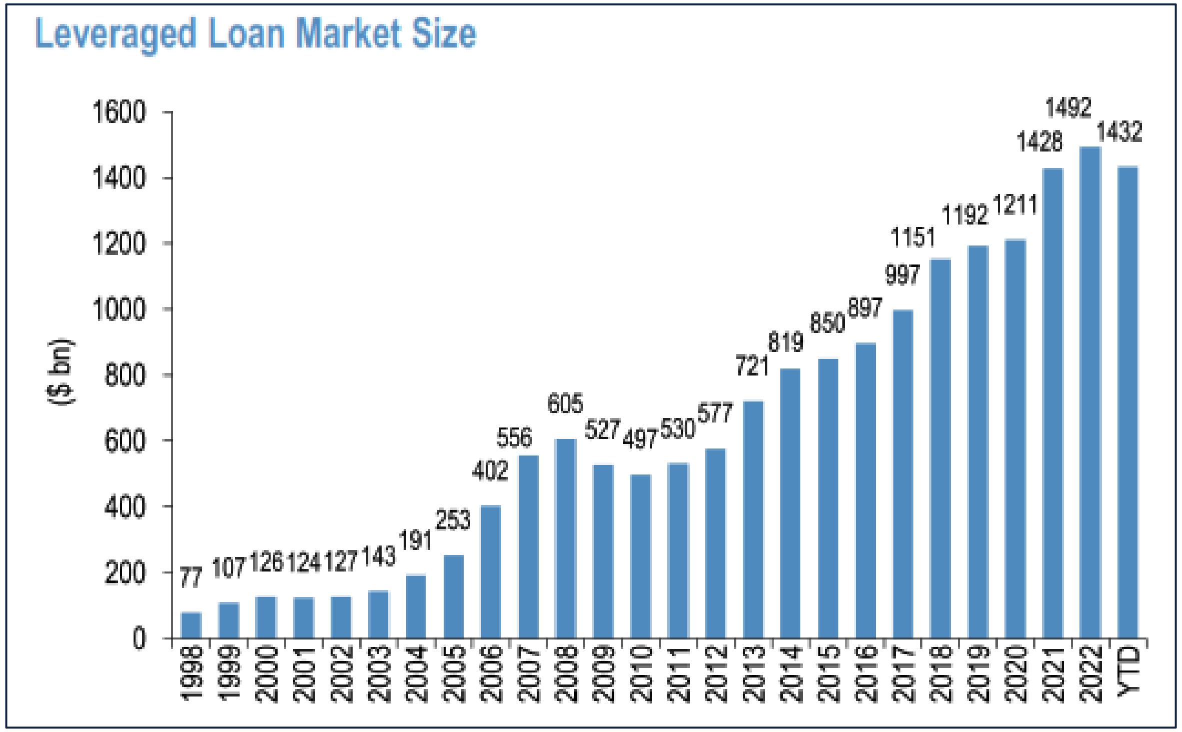

Source: Barclays Research

Maturity Walls in Global Fixed Income

U.S. Leveraged Finance Maturity Wall – Generally Benign Through YE 2024

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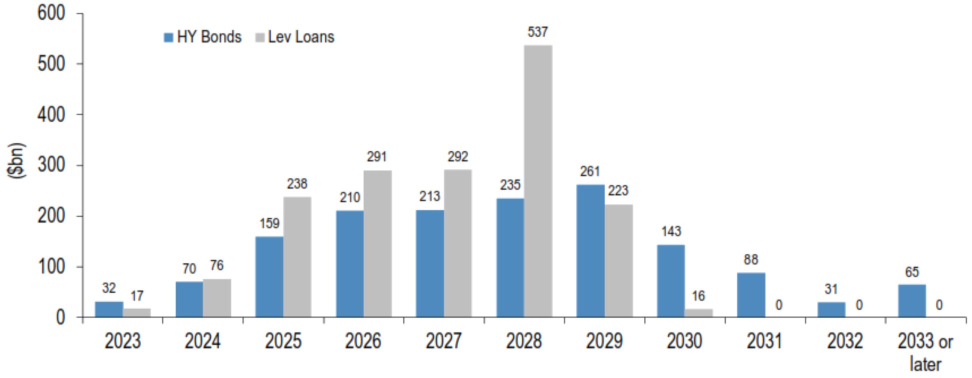
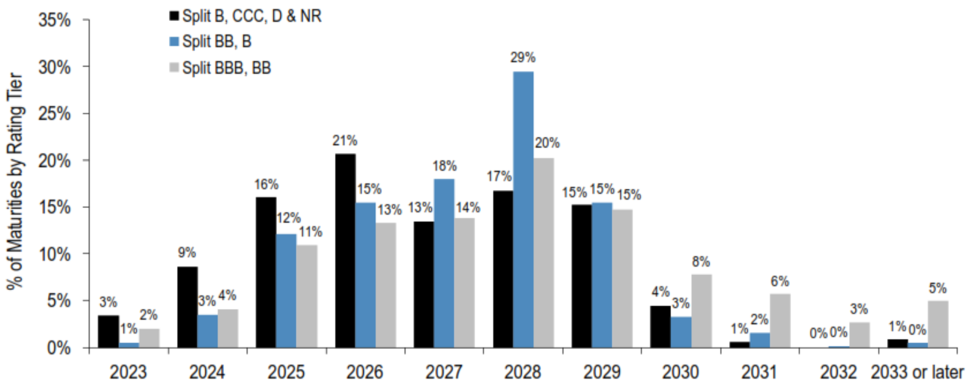
- More back-ended as many companies termed out debt during the pandemic years at record low rates and recently new issuance in both markets have been muted versus prior years
- Total of $196bn in bonds and loans are set to mature by end of 2024, representing 6% of the $3.26trn currently outstanding bonds and loans market
  - Comprised of 377 issues (16% of the 2,397 companies in the bond/loan universe)
  - A more positive spin: 84% of the universe have no maturities prior to 2025
  - Largest 25 companies with maturities prior to 2025 account for 39% of total debt maturity by end of 2024
- Maturity wall grows significantly in 2025-2026 with $898bn maturities representing 28% of HY bond and loan market currently outstanding
  - Comprised of 1,040 issuers (43% of the number issuers in the universe)
- Near-term maturities are skewed toward lower tier rated paper where about 49% will mature by end of 2026

Figure 2: High-yield bond and institutional loan maturities



Note: As of February 15th, 2023
Sources: J.P. Morgan; IHS Markit.

Figure 5: Percentage of high-yield bond and loan maturities by rating bucket; 50% of lower-tier cohort set to mature by YE26



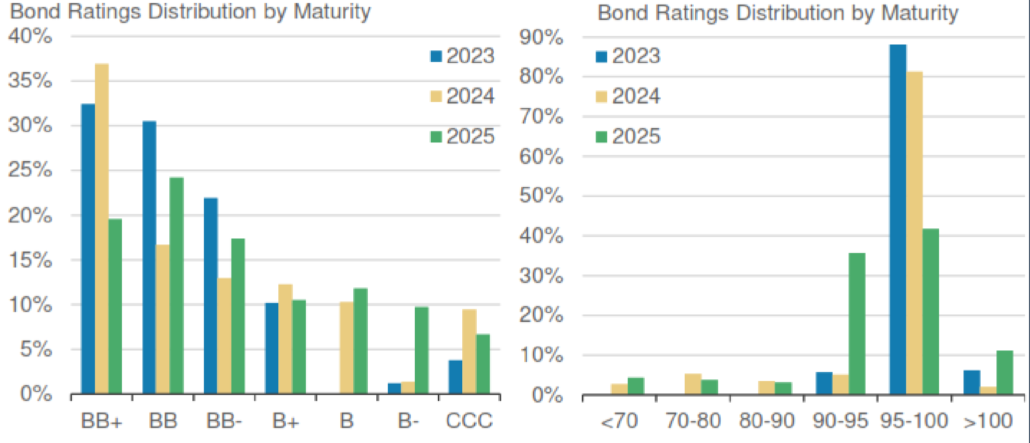
Note: As of February 15th, 2022.
Sources: J.P. Morgan; IHS Markit.

Source: JP Morgan HY Bond and Institutional Loan Maturity Schedule 2023-02-22

European HY Bonds Maturity Wall – Higher Rate Refi Sticker Shock

- EUR HY maturity wall is comprised of €168bn maturing over the next 3 years, including
  - €117bn of EUR bonds (35% of the index), €44bn of USD bonds and €5bn of GBP bonds
  - 2023 EUR maturities in line with historical average of €14bn, but 2024 maturities will double to €40bn
- On a positive note, by rating mix, 2/3 of bonds maturing by 2025 are BB-rated
- And so while there are no concerns about the EUR HY market digesting these maturities, there may be significant deterioration in credit metrics
- Avg coupon on these EUR denominated bond maturities are 4.7%, which is 3.5 points below the current average index single B yield of 8.15%
  - MS estimates that interest expenses for EUR HY bond issuers refinancing at the current market yields would see interest expense rise by 10-30% and ICRs fall by 1.1x
  - For USD denominated bonds, the gap between average coupon and market yield is only 1.9 points

Exhibit 50: Breakdown of maturity pipeline across ratings, sectors and cash prices

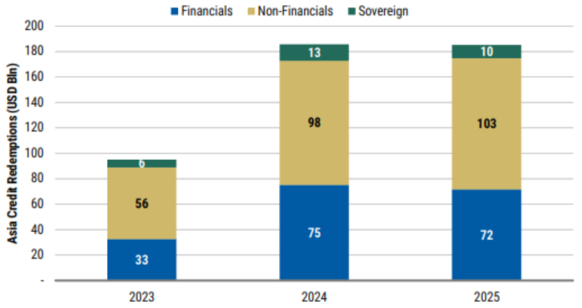


Source: ICE, Bloomberg, Morgan Stanley Research

Asian Credit Maturity Wall – Mostly Manageable in the Near-Term

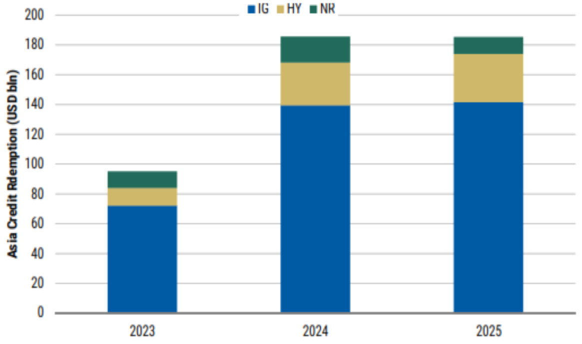
- After 2023's $95bn of maturities, the lowest seen since 2018, maturities pick up in 2024-2025 (to about $185bn per year) but will remain well below last year's historic high of over $200bn
- The majority of Asian Credit is IG Corporates; refinancing for these HQ companies should be manageable
- Where refinancing risk is concentrated is in Asia HY, more specifically the China HY property sector, where maturities pick up in 2024, >$30bn of maturities with majority in the latter half of the year

Exhibit 90: Asia corporates make up most of Asia credit's redemptions....



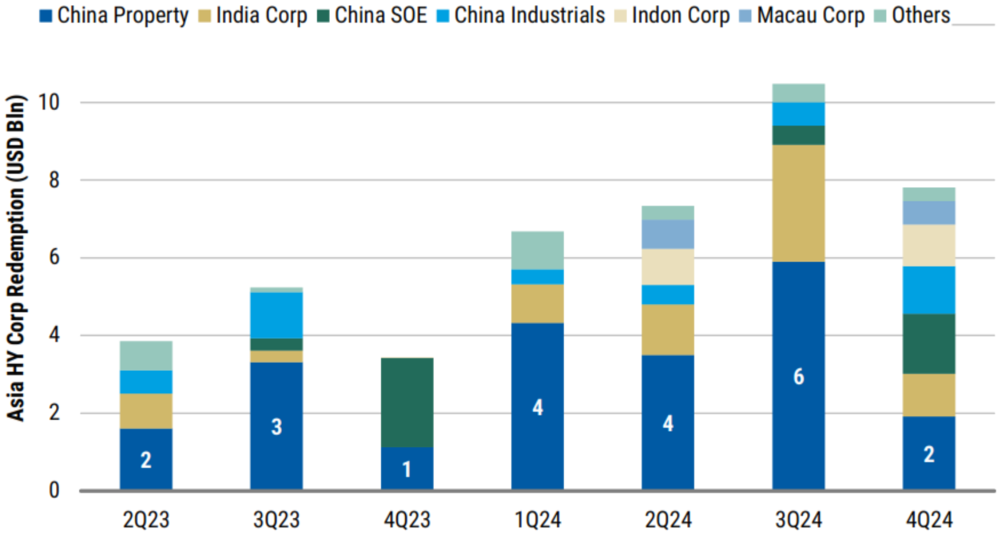
Source: Bloomberg, EMDB, Morgan Stanley Research

Exhibit 91: ... and they are mostly investment grade rated



Source: Bloomberg, EMDB, Morgan Stanley Research

Exhibit 93: ... and China property makes up the bulk of Asia HY's redemptions, especially in 2H24



Source: Bloomberg, EMDB, Morgan Stanley Research

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