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Q1 2024 Credit Market Outlook

January 2024

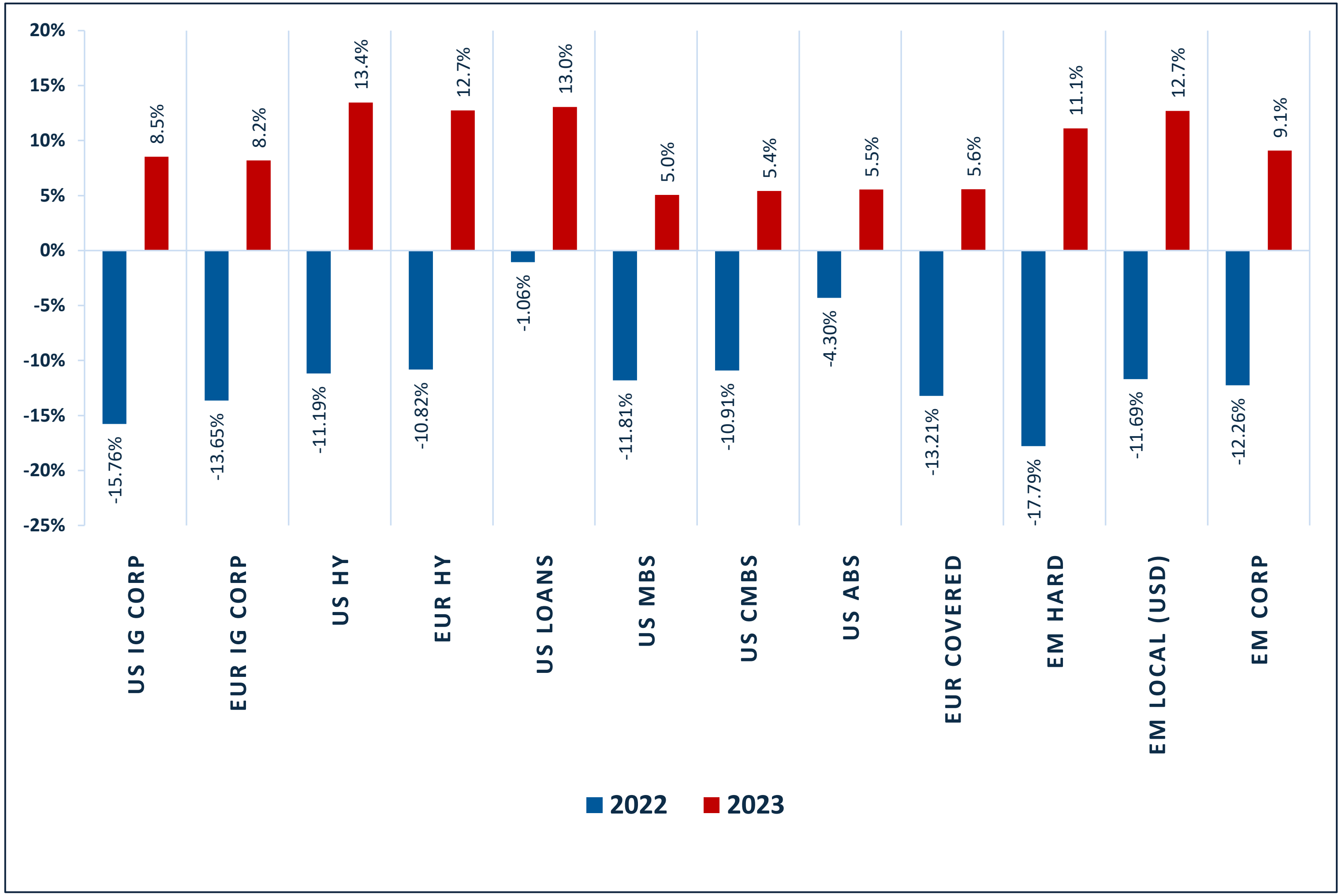
Performance

Fixed Income Market Performance 2023

- Leveraged Finance led returns in 2023
  - Significant spread compression YoY
  - YE rally in rates and spreads was triggered at by Fed signaling end of QT and potential cuts in 2024
  - Double digit positive returns were 7th best returns seen in Leveraged Finance asset classes since 1998
  - Juxtaposed against last year's negative returns that were 2nd worst in the same time period

- On duration-adjusted basis Leveraged Loan returns outperformed all other asset classes in 2023

- Despite being a strong year, IG and EMD asset classes struggled to recover what was lost in 2022

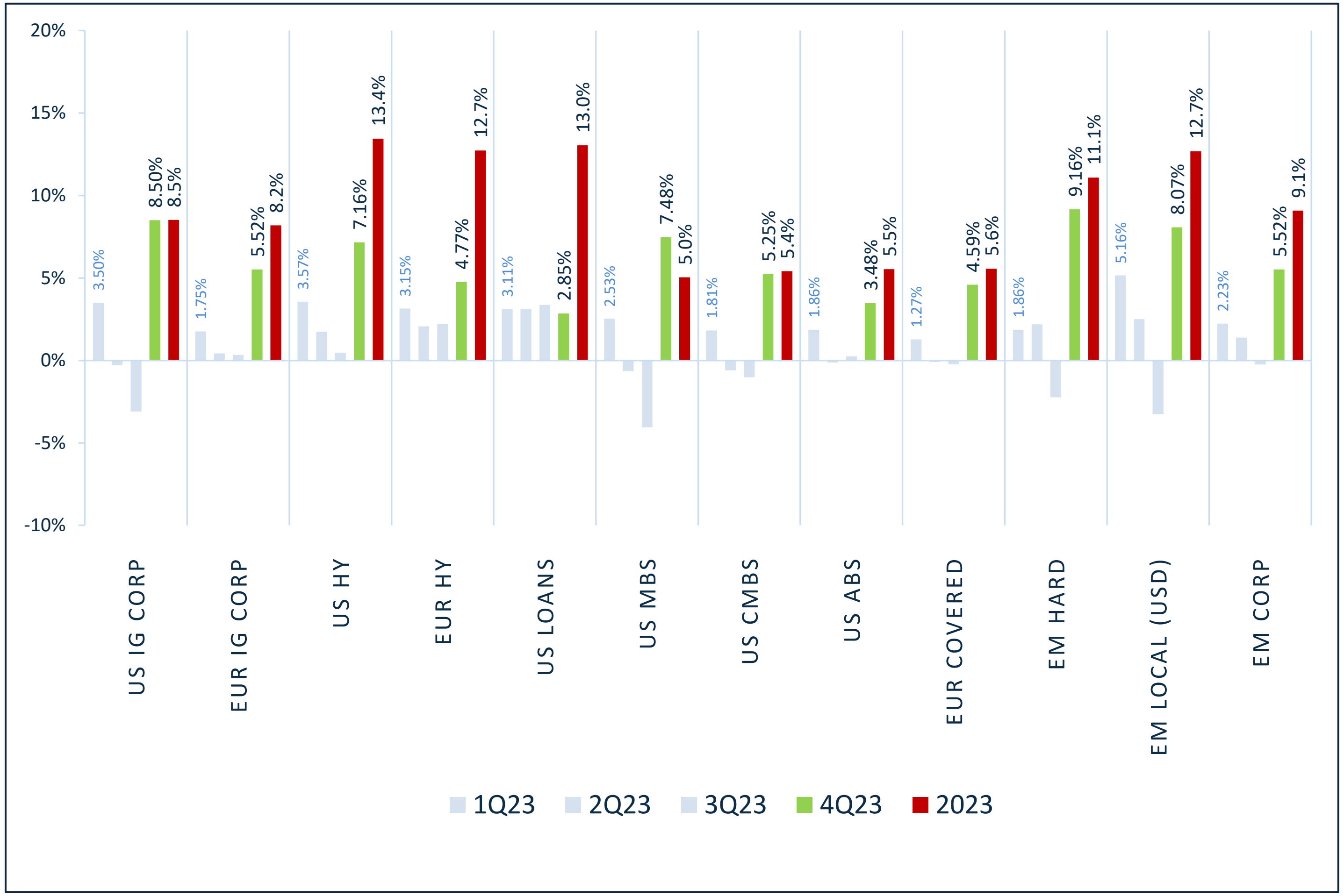


Sources of data: FTSE, BarCap, Credit Suisse and JP Morgan. As of 31 December 2023.

Fixed Income Market Quarterly Performance 2023

- Rates and risk on & off sentiment volatility throughout the year resulted in choppy performance in 2023

- But bulk of 2023 performance was driven by the sharp rally after October's peak in rates as markets began to price in a soft landing concomitant with more and earlier rates cuts in 2024



Low Quality Credit Outperformance in 2023

Credit Asset Class Returns by Quality Rating					
		2020	2021	2022	2023
US Corp	Corporates	9.9%	-1.0%	-15.8%	8.5%
	AAA	12.3%	-2.3%	-20.3%	6.9%
	AA	9.0%	-1.5%	-17.3%	7.0%
	A	10.1%	-1.9%	-15.1%	7.7%
	BBB	9.9%	-0.2%	-15.9%	9.5%
US HY	High Yield	7.1%	5.3%	-11.2%	13.4%
	BB	10.2%	4.6%	-10.8%	11.6%
	B	4.6%	4.8%	-10.3%	13.8%
	CCC	2.3%	8.6%	-16.3%	19.8%
EMD Hard	EMD Hard	5.6%	-2.2%	-17.4%	10.4%
	EMD Hard IG	10.1%	-1.6%	-20.8%	6.5%
	EMD Hard HY	0.0%	-2.7%	-12.8%	15.4%
EMD Local	EMD Local	5.3%	-1.6%	-8.4%	6.9%
	EMD Local IG	7.5%	-0.8%	-9.5%	6.8%
	EMD Local HY	-9.4%	-10.8%	7.6%	8.2%
EM Corp	EMD Corp	7.4%	-1.1%	-13.6%	7.4%
	EMD Corp IG	5.9%	-0.2%	-14.4%	7.0%
	EMD Corp HY	10.0%	-3.2%	-11.6%	8.4%

Sources of data: FTSE, BarCap, Credit Suisse and JP Morgan. As of 31 December 2023.

US Leveraged Finance Sector Performance

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	U.S. High Yield			
	2021	2022	2023	Current Wgt
Total Market	5.5%	-10.6%	13.6%	100.0%
Info Technology	4.0%	-13.3%	17.2%	7.0%
Housing	3.9%	-12.7%	16.4%	5.7%
Financials	7.0%	-10.7%	16.0%	8.9%
Manufacturing	5.0%	-10.1%	15.9%	3.3%
Transportation	5.2%	-10.6%	15.5%	2.2%
Retail	5.9%	-14.4%	15.4%	4.0%
Gaming/Leisure	4.5%	-7.6%	14.4%	7.4%
Food And Drug	6.0%	-12.9%	14.3%	0.9%
Consumer Products	3.9%	-13.2%	13.9%	2.9%
Media/Telecom	2.3%	-14.6%	13.3%	12.7%
Services	6.8%	-9.5%	12.5%	5.2%
Healthcare	3.1%	-14.1%	12.4%	8.8%
Energy	14.0%	-3.9%	12.4%	12.2%
Forest Prod/Containers	2.9%	-7.2%	12.0%	3.1%
Utilities	1.8%	-8.6%	12.0%	3.4%
Food/Tobacco	4.8%	-9.1%	12.0%	2.9%
Chemicals	5.9%	-11.4%	11.2%	3.0%
Metals/Minerals	6.9%	-6.3%	10.4%	2.9%
Aerospace	7.2%	-6.1%	8.5%	3.7%

	U.S. Leveraged Loans			
	2021	2022	2023	Current Weight
Total Market	5.4%	-1.1%	13.0%	100.0%
Housing	4.4%	-1.1%	15.0%	3.815%
Info Technology	5.3%	-3.2%	14.4%	15.213%
Gaming/Leisure	6.9%	-2.6%	14.0%	4.648%
Transportation	5.7%	0.1%	13.9%	4.195%
Financials	4.2%	1.2%	13.8%	7.608%
Forest Prod/Containers	4.7%	1.1%	13.6%	2.691%
Consumer Non-Durables	7.3%	-1.7%	13.6%	2.109%
Consumer Durables	6.1%	-7.1%	13.5%	1.156%
Manufacturing	6.7%	-0.6%	13.4%	4.267%
Service	6.0%	0.5%	13.1%	11.792%
Energy	14.0%	6.3%	13.0%	2.204%
Metals/Minerals	12.4%	-2.2%	12.9%	0.386%
Healthcare	4.9%	-3.9%	12.6%	12.293%
Food/Tobacco	3.3%	0.9%	12.6%	3.616%
Aerospace	6.7%	3.5%	12.5%	3.788%
Chemicals	4.7%	0.1%	12.2%	4.402%
Food And Drug	4.4%	4.0%	12.1%	0.157%
Utility	1.7%	4.8%	11.9%	2.273%
Retail	5.5%	-1.6%	10.9%	2.821%
Media/Telecom	4.1%	-1.9%	10.7%	10.565%

Sources of Data: Credit Suisse. As of 31 December 2023.

W. Europe Leveraged Finance Sector Performance

	W. Europe High Yield			
	2021	2022	2023	Current Weight
Total Market	6.2%	-10.8%	12.7%	100.0%
Food And Drug	5.2%	-15.3%	23.3%	1.1%
Gaming/Leisure	11.0%	-6.7%	18.6%	4.9%
Food/Tobacco	4.7%	-13.4%	18.4%	2.7%
Energy	11.3%	-9.3%	14.9%	3.5%
Consumer Products	5.4%	-11.0%	14.8%	4.3%
Services	6.3%	-10.0%	14.5%	7.9%
Chemicals	4.9%	-13.9%	14.1%	3.8%
Financials	6.3%	-13.3%	14.0%	13.8%
Retail	9.4%	-10.5%	13.9%	5.4%
Manufacturing	5.5%	-6.8%	13.4%	4.6%
Media/Telecom	4.4%	-11.4%	12.0%	17.0%
Transportation	10.3%	-8.9%	11.7%	4.8%
Healthcare	3.6%	-10.0%	10.9%	7.2%
Aerospace	9.7%	-6.3%	10.2%	2.2%
Forest Prod/Containers	3.6%	-8.9%	10.0%	5.0%
Metals/Minerals	10.9%	-11.6%	9.3%	1.8%
Utilities	5.2%	-8.5%	9.1%	2.6%
Info Technology	6.4%	-6.5%	7.4%	2.8%
Housing	1.7%	-16.8%	5.5%	4.6%

Sources of Data: Credit Suisse. As of 31 December 2023.

Overview

Spreads as of YE 2023

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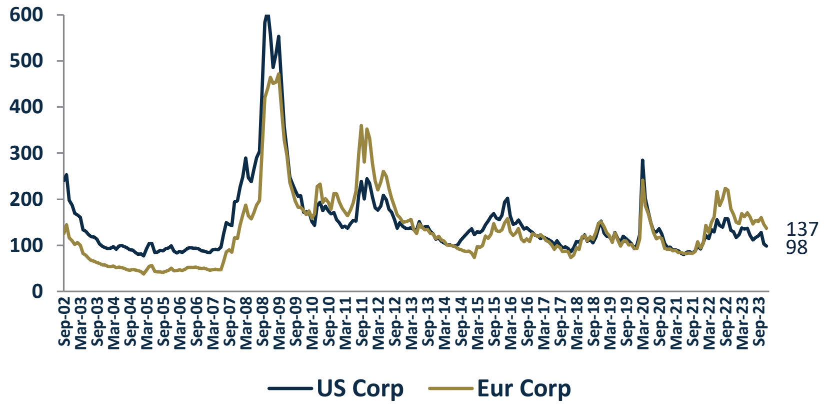
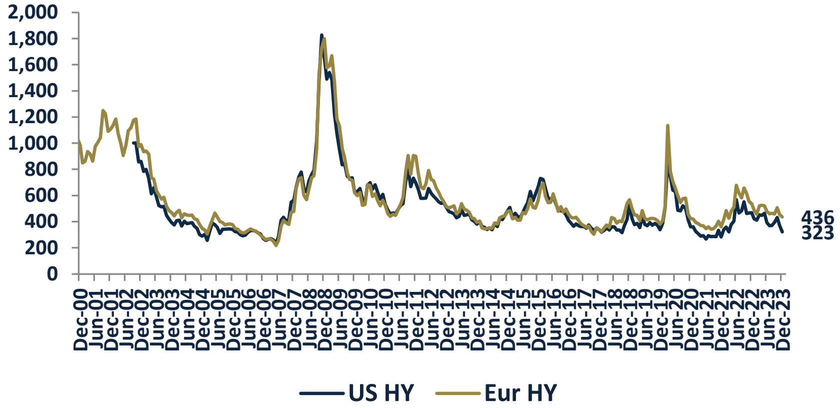
IG Corporate Spreads



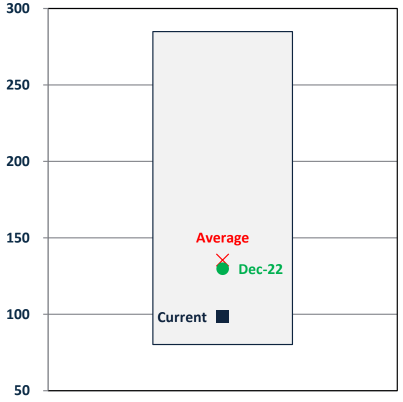
	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
US Corp	98	(32)	130	135	15%	10%
Eur Corp	137	(30)	167	143	74%	53%

HY Corporate Spreads

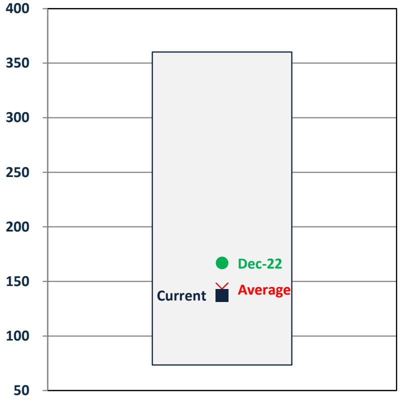


	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
US HY	323	(146)	468	465	10%	7%
Eur HY	436	(101)	537	502	49%	34%

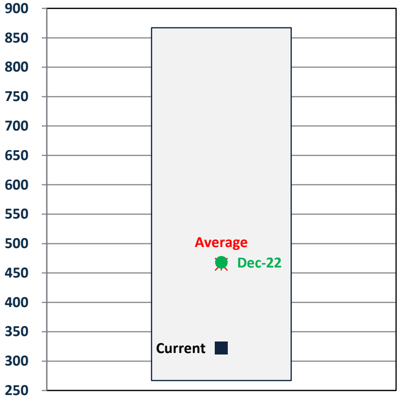
U.S. IG Corporates
Dec 2009 To Date



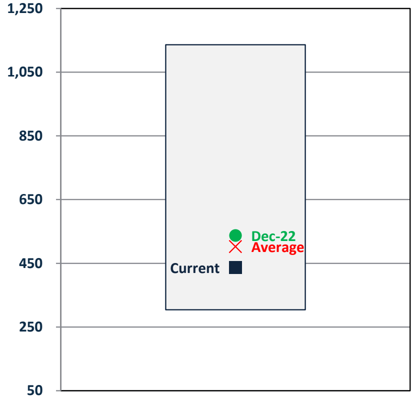
EUR IG Corporates
Dec 2009 To Date



US HY Corporates
Dec 2009 To Date



EUR HY Corporates
Dec 2009 To Date



Sources: BarCap, Credit Suisse, JP Morgan

Spreads as of YE 2023

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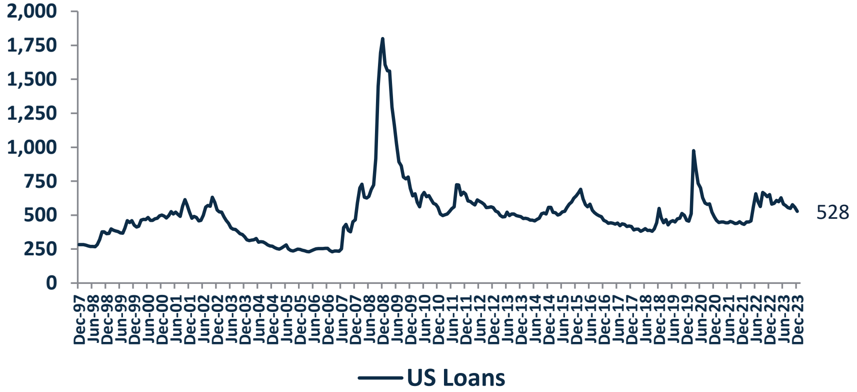
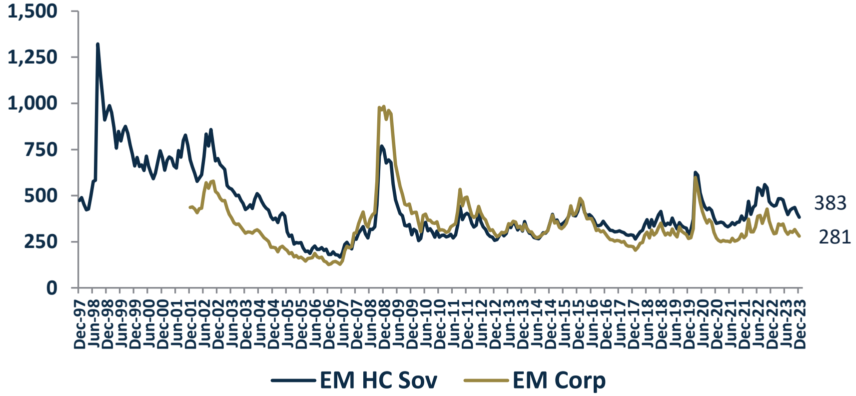
U.S. Leveraged Loan Spreads



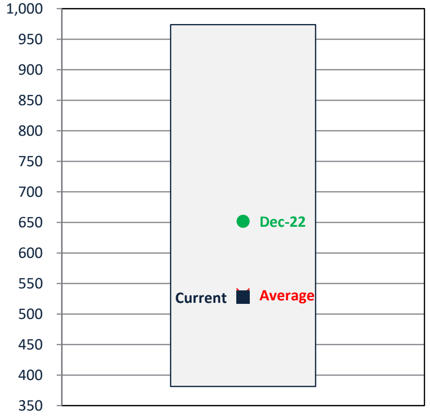
	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
US Loans	528	(124)	652	531	64%	51%

EMD Spreads

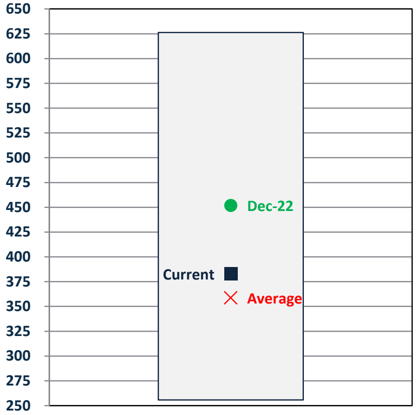


	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
EM HC Sov	383	(69)	452	359	61%	67%
EM Corp	281	(41)	322	330	29%	20%

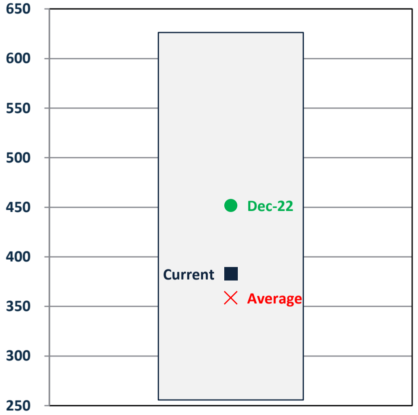
US Loans
Dec 2009 To Date



EMD HC Sov
Dec 2009 To Date

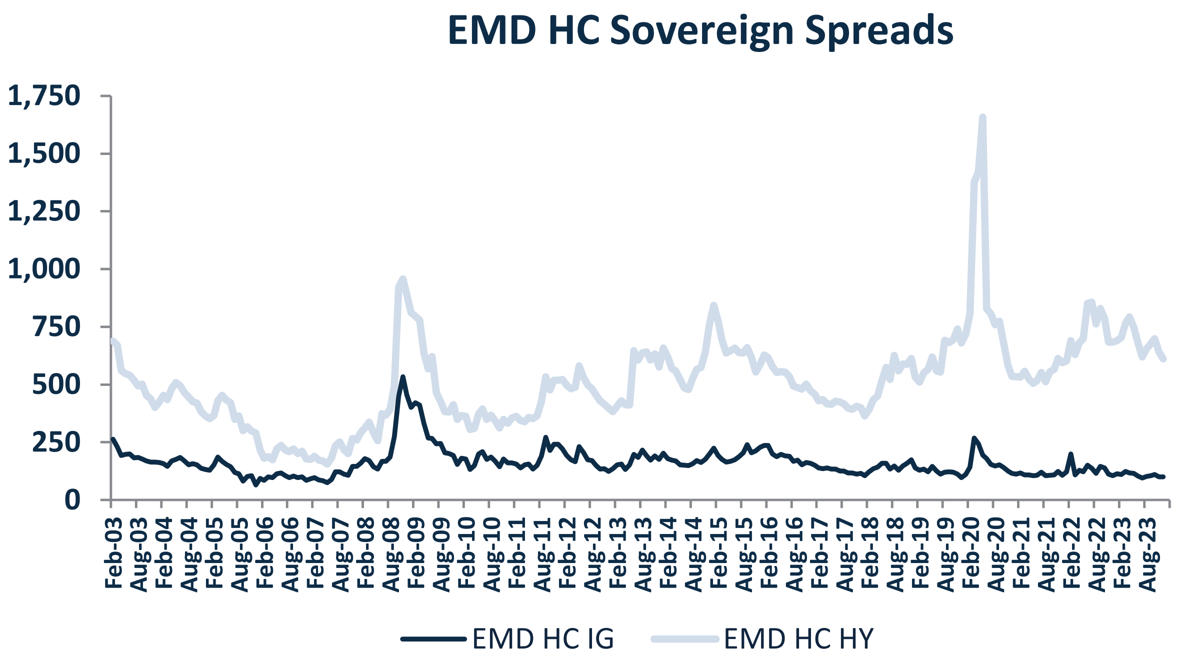


EMD HC Corp
Dec 2009 To Date

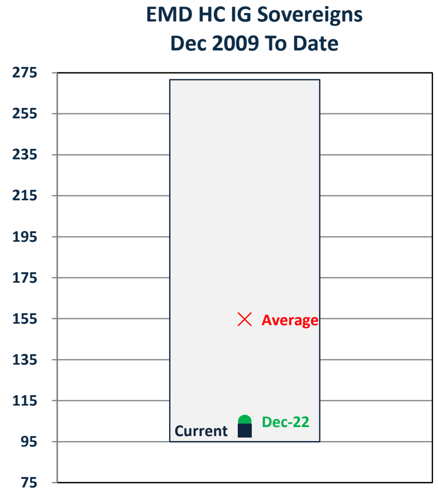


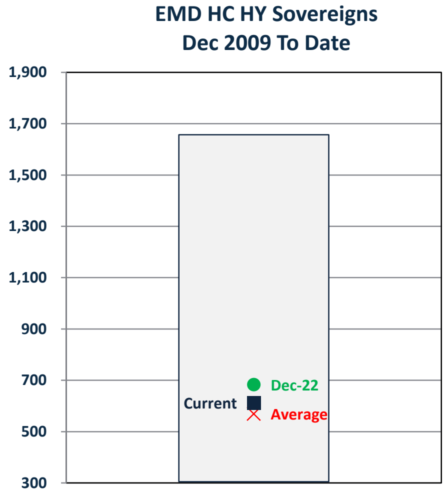
Sources: BarCap, Credit Suisse and JP Morgan

Spreads as of YE 2023



	Current	YTD Δ	YE '22	Post-GFC Avg	Pct Last 10 Yrs	% Rank last 15 Yrs
EM HC IG	101	(4)	105	155	3%	2%
EM HC HY	612	(71)	683	569	52%	63%





Sources: BarCap and JP Morgan

Spread Changes versus 2022 and 2019

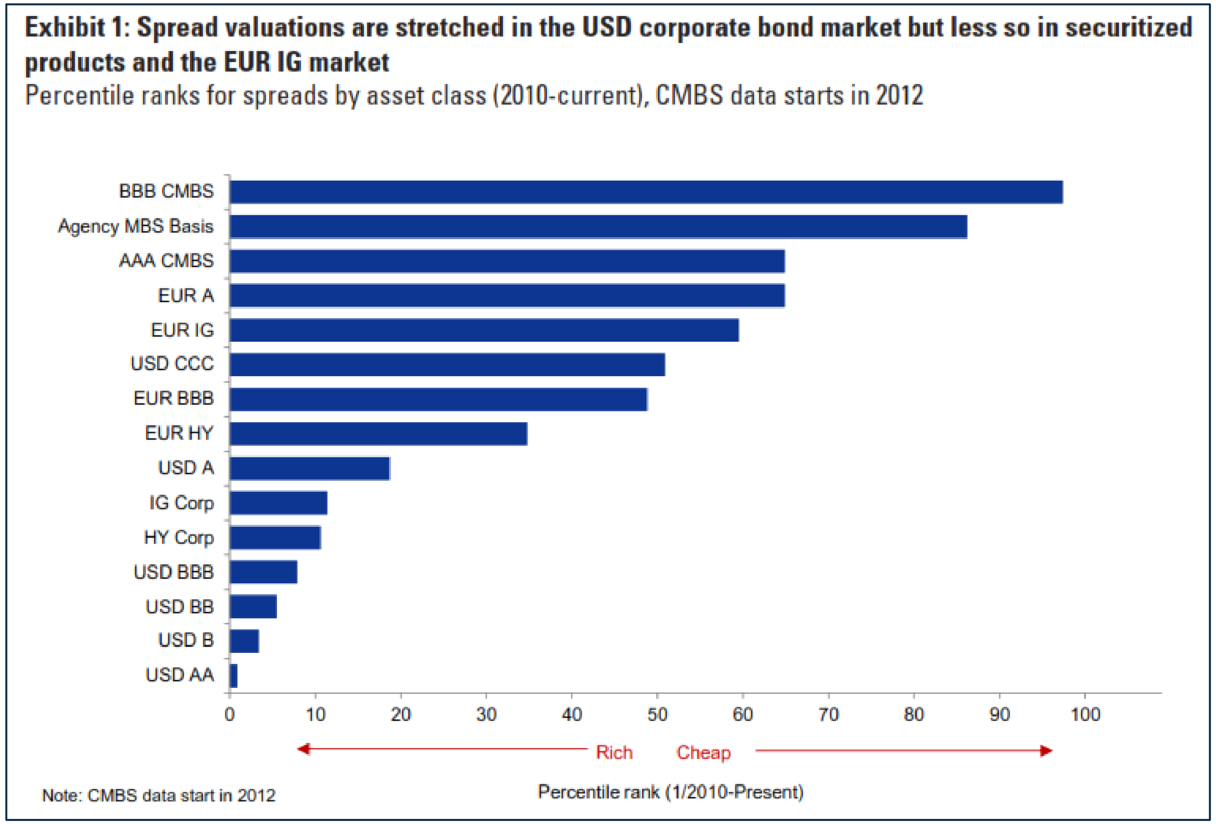
- Spread compression was a major theme in 2023, but ultimately with the exception of US and EMD HC High Yield, spreads are wider than they were at the end of 2019.

Spread Changes		
Asset Class	2023 YoY	Vs YE 2019
US IG	-31	5
EUR IG	14	44
US HY	-146	-15
US HY CCC	-280	-123
EUR HY	-101	55
US Loans	-124	67
US MBS	-5	7
US CMBS	7	54
US ABS	-6	25
EUR Covered	-5	37
EMBI-GD	-69	92
CEMBI Broad Div	-41	14
BC EM HC Sov IG	-4	4
BC EM HC Sov HY	-71	-68

Sources: BarCap, JP Morgan and Credit Suisse

Spread premia dispersion across Credit Asset classes

- Percentile rankings of spread levels since 2010 indicate US IG and Leveraged Finance valuations are expensive relative to history, while some value remains in Securitized and EUR IG & HY markets



Source: GS Credit Strategy Research 2024-01-14

Yields By Asset Class

- After base rates sell-off in Aug/Sep, nominal yields across fixed income asset classes reached 2023 peak levels even as corporate fundamentals continued to show modest deterioration
- Since 3Q, after Fed confirmed the potential pivot in 2024, higher yield FI yields fell by ~100-130 bps
- On percentile basis nominal yields have become less attractive relative to the last seven quarters
- But still decent entry points if defaults remain in check and economy only goes into a mild recession later than sooner.

Yields								
	YE 2023	3Q23	2022	2021	2020	2019	2018	2017
US HY	7.59%	8.88%	8.96%	4.21%	4.18%	5.19%	7.95%	5.72%
US Loans	9.01%	10.11%	10.76%	5.26%	5.10%	6.27%	8.09%	6.33%
Eur HY	6.97%	8.01%	8.27%	3.42%	3.79%	3.81%	6.05%	3.67%
EM Local	6.19%	6.76%	6.86%	5.72%	4.22%	5.22%	6.46%	6.14%
EM Hard	7.84%	9.03%	8.55%	5.27%	4.53%	4.91%	6.86%	5.26%
EM Corp	6.81%	7.75%	7.28%	4.11%	3.42%	4.51%	6.14%	4.53%
US IG Corp	5.06%	6.04%	5.42%	2.33%	1.74%	2.84%	4.20%	3.25%
Eur IG Corp	3.56%	4.52%	4.32%	0.52%	0.24%	0.51%	1.30%	0.75%
US MBS	4.68%	5.57%	4.71%	1.98%	1.25%	2.54%	3.39%	2.91%
US CMBS	5.27%	6.12%	5.30%	1.88%	1.28%	2.48%	3.44%	2.87%
US ABS	4.96%	5.75%	5.14%	1.13%	0.45%	2.05%	3.06%	2.26%

Corporate Yield Percentile Ranks as of YE 23					
	US IG Corp	European IG	US HY	European HY	US Loans
Current Yields	5.1%	3.6%	7.6%	7.0%	9.0%
Last 20 Years	73.2%	60.6%	58.5%	56.0%	82.4%
Last 15 Years	88.2%	73.7%	69.2%	68.7%	83.7%
Last 10 Years	88.2%	87.3%	77.3%	82.3%	84.8%

EMD Yield Percentile Ranks as of YE 23			
	EMD HC	EMD Local	EM Corp
Current Yields	7.8%	6.2%	6.8%
Last 15 Years	87.1%	32.9%	83.2%
Last 10 Years	84.8%	39.4%	86.5%

Sources: BarCap, Credit Suisse, JP Morgan

Factors Driving Our Fixed Income / Private Credit Outlooks

- **Base Rates**
  - Fed officially signaled hiking had come to an end with potentially 3 cuts in 2024
  - That provided much needed clarity (for now) to provide a floor in pricing, hopefully a catalyst to stimulate new issuance and asset sale activity that has been muted last 2 years
  - Market excitement in Dec may have been overdone, seeing reversals in risk premia since 1/1

- **Credit Fundamentals as of 3Q23**
  - In IG, credit metrics continue to soften, but continue to be resilient
    - Wide dispersion in YoY Revenue Growth as well as Profit Margins across industries.
    - Net Leverage at 2.8x, up from modestly from 2.6x in 3Q20 and Interest Coverage down significantly from the high of 12.9x in 3Q22, and below 10.1x in 4Q19
  - In HY, balance sheets and earnings remain strong with LTM Revenue YoY growth at +1.5%
    - Leverage has ticked up slightly to 3.96x vs 3Q22 of 3.84x
    - EBITDA Margins remains high at 16%
    - Interest Coverage at 5.03x up significantly since low of 3.6x at 4Q20
  - In Loans, Revenue continue to grow, but at slowest rate over the last 10 quarters
    - Net Leverage has decreased to 3.98x, down from 5.22 in1Q21
    - EBITDA Margins remain high at 17.6%
    - While LTM Interest Expense has increased 34.7% YoY, Coverage is still high at 4.47x versus 3.02x at 4Q20

Source: SECOR, BarCap, Credit Suisse, JP Morgan

Factors Driving Our Fixed Income / Private Credit Outlooks (Cont'd)

- **Valuations & Relative Value**
  - Spread premia across Credit products fell in 2023, particularly in the leveraged finance markets, which can result in lower carry-driven returns in 2024
    - Spreads are now below their LT averages since Dec '09 as well as below Dec '22 levels
    - Both IG and Leveraged Finance valuations are stretched relative to history, while some value remains in Securitized and EUR IG/HY Credit
  - Overall EMD HC Sovereign spreads masks the fact that IG is very expensive in the 2% percentile (last 15 years of history) as of YE 2023 while HY spreads are still in the 63% percentile
- **Capital Markets**
  - Banks continued tightening standards as reported in the Oct '23 Senior Loan Officer Survey
  - Access to capital markets as banks retrench in certain areas remains a major risk
    - Retrenchment driven by banks dealing with legacy loan portfolios and increased reg cap regulations – For now they are lending only to the best borrowers or for the best assets
    - Lower valuations led to higher equity required from borrowers, lower loan proceeds from lenders
  - Offsetting constrained access in the public bond/loan markets is the growth of Private Debt
    - Continues to disintermediate away from broadly syndicated and traditional IG/HY markets
    - Large cap borrowers increasingly looking to Private Debt that provides increased creativity, flexibility & customization, reduced number of counterparties and certainty of close
- **Market Technicals**
  - Corporate issuers saw good new issuance opportunity as a result of December's rally
  - High Yield and Loan Market 2023 issuance still well below 2021 levels, but up from the very low issuance in 2022.
  - EMD Issuance surpassed 2021 and 2022 levels; 2024 is already off to great start with Jan YTD issuance representing 41% of 2023 total year issuance
  - 2023 fund flows were negative across all Credit asset classes but moderated for US HY & EMD; Loan fund flows were -17bn in 2023, and rally in Dec only brought in only +1 bn in flows

Source: SECOR, BarCap, Credit Suisse, JP Morgan

Outlook for Risk Premia

- **Macroeconomic**
  - Lagged effect of hikes may further constrain corporate earnings growth and profitability, potentially leading to a recession
  - High mortgage rates continue to be headwinds in the U.S. housing market; elsewhere in countries where mortgages are primarily shorter-term or floating rate, there will be continued stress
  - Inflation falling as COVID-related supply chain issues diminish, but geopolitical tensions may re-ignite inflationary pressures

- **Credit Spreads** – rangebound unless easing comes faster and more aggressively
  - If base rates remain somewhat stable and inflation continues to fall, expect spreads to remain stable as well, with potential further modest compression given how tight they are today
  - Given lower probability of recession, sizeable spread widening not anticipated
  - If easing begins sooner, providing further relief for borrowers, economy can strengthen more as borrowers can more quickly resolve liquidity and capital access issues, leading to overall spread compression in Credit
  - EMD HC spreads will continue to be driven by the HY component, which is 49.8% of the index and where there is potentially more room for spread compression; IG component is near the bottom of the range since Dec 2009 and more likely to widen than narrow further

- **Credit Fundamentals**
  - Refinancing challenges will remain until central banks begin to ease rates
  - Defaults are rising in HY and Loan markets, peak in EMD HC distress may be subsiding but names such as Ethiopia, Pakistan and Bolivia are default candidates in 2024
  - Positive restructuring talks for Sri Lanka, Zambia and Ghana have improved market sentiment and spreads; Chinese property sector bonds remain a risk

Outlook for Risk Premia (Cont'd)

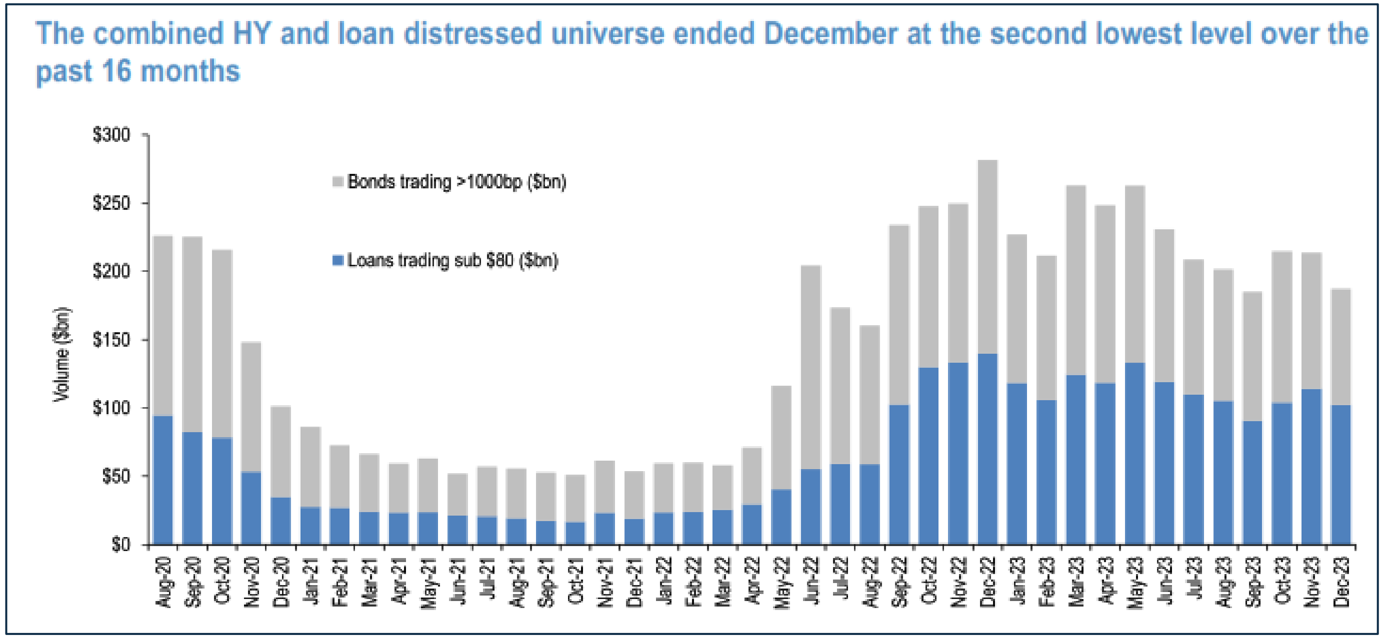
- **Capital Markets**
  - Growth in private debt markets will continue to provide the release valve for borrowers that lost capital market access as the banking and public bond markets retrenched.
    - Market size now estimated to be $1.5tn (including dry powder)
    - Larger than each of the current sizes of US HY ($1.3tn) and Loan ($1.4tn) markets
  - The establishment of a "floor" for valuations (albeit maybe temporary) as rates have peaked may be impetus that increases momentum in gross new issuance, refinancing and transaction volumes.
    - Commercial Real Estate markets globally remain highest risk today, however

- **Technicals**
  - Expect potential reversal of negative fund flows across Credit asset classes as rates fall and fundamentals remain strong
  - Investors that may now be under-allocated to Credit in favor of high yielding ST cash instruments may re-allocate in Credit as ST rates begin to fall
  - If rates stay higher for longer, new issuance may continue to be muted, providing technical support due to imbalance between lower net supply and higher demand for Credit products by investors

Distressed Universe

- Growth of opportunities in the non-IG markets has grown significantly since the GFC
  - Oaktree estimates the addressable market for Opportunistic Credit is $13tn, a four-fold increase from GFC and is comprised of four buckets
    - BBB bonds, HY bonds, Loans and Private Credit

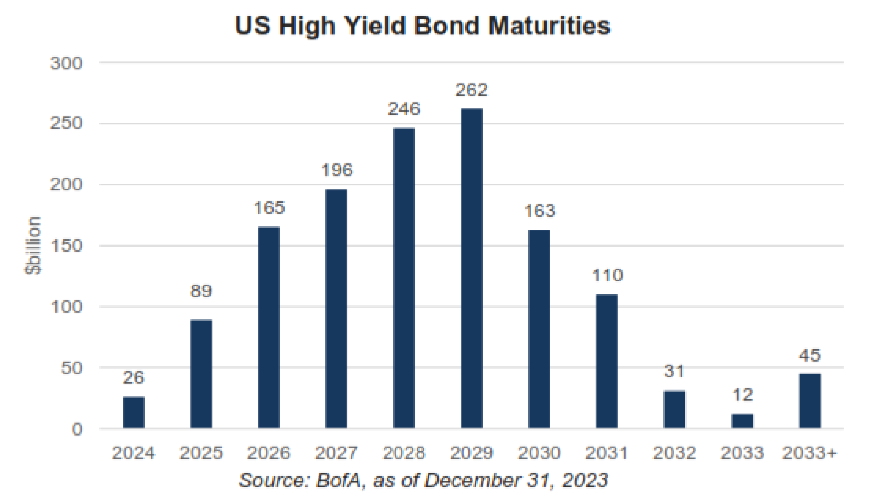
- JP Morgan reports that combined US HY and Loans distressed universe as of YE ‘23 was $187.1bn, down from the peak of $275bn at YE ‘22



Source: JP Morgan

Challenge of the Maturity Wall

- U.S. Leveraged Loan markets have done much to address near term maturities; quantum of debt maturities increases in ‘26, peaks in ‘28
- 2025 maturities in US HY and Loans represent <10% of each respective market, but rises above 20% in 2017 and in 2028, rises to 37% for the loan market
- Near-term challenges for HY borrowers that financed at rock bottom rates during COVID likely to experience the greater price shock of nearly 2x higher coupon rates
- Loan issuers have already felt the front-loaded pain of floating rate interest rates as evidenced by higher defaults that outpaced the bond market last year
  - Potential easing in 2024 will be relatively more beneficial for these borrowers and may result in a higher level of positive quality migration vs the bond market
- Near term maturities are skewed towards CCCs, particularly in the Loan space



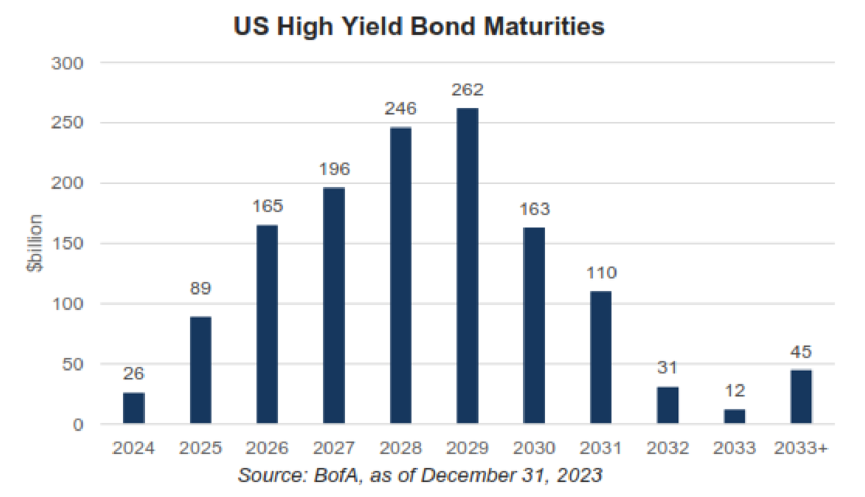
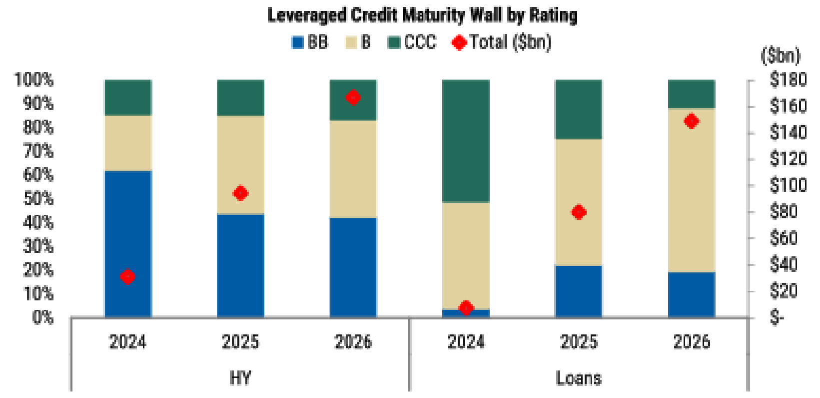


Exhibit 5: Near-term maturity walls are skewed towards CCCs, especially in Loans



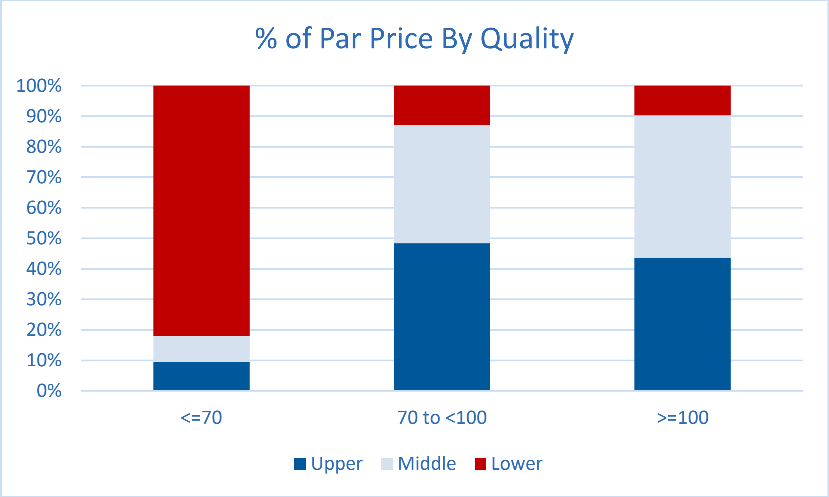
Where is Distressed Concentrated in High Yield Bonds?

	High Yield Bonds			
	Trading at 1000+ bps Spreads		Trading at <= 70% of Par	
	Par Amt	% of Total	Par Amt	% of Total
Healthcare	18.22	21.5%	14.58	22.4%
Telecommunications	13.26	15.6%	12.16	18.7%
Cable/Satellite	14.08	16.6%	11.88	18.3%
Technology	9.57	11.3%	6.98	10.7%
Retail	3.98	4.7%	4.55	7.0%
Financial	3.61	4.3%	4.15	6.4%
Broadcasting	4.33	5.1%	2.51	3.9%
Gaming/Lodging/Leisure	2.69	3.2%	1.48	2.3%
Chemicals	3.17	3.7%	1.44	2.2%
Services	2.31	2.7%	1.28	2.0%
Industrials	1.65	1.9%	1.2	1.8%
Food/Beverages	0.75	0.9%	0.85	1.3%
Paper/Packaging	0.13	0.2%	0.77	1.2%
Metals/Mining	1.75	2.1%	0.75	1.2%
Energy	0.3	0.4%	0.26	0.4%
Automotive	0.59	0.7%	0.17	0.3%
Diversified Media	0.83	1.0%	0.03	0.0%
Consumer Products	0	0.0%	0	0.0%
Housing	0.01	0.0%	0	0.0%
Transportation	2.97	3.5%	0	0.0%
Utility	0.68	0.8%	0	0.0%
Total	84.88	100.0%	65.04	100.0%

Upper includes Split BBB and BB
Middle includes Split BB and B
Lower includes Split B, CCC, D and NR

45.3% ($581.4bn) are Upper Tier Rated
39.1% ($502bn) are Middle Tier Rated
15.6% ($200.9bn) are Lower Tier Rated

5.1% ($65.1bn) are priced at or below 70
71.5% ($917.9bn) are priced from >70 to <=100
23.5% ($301.3bn) are priced >100

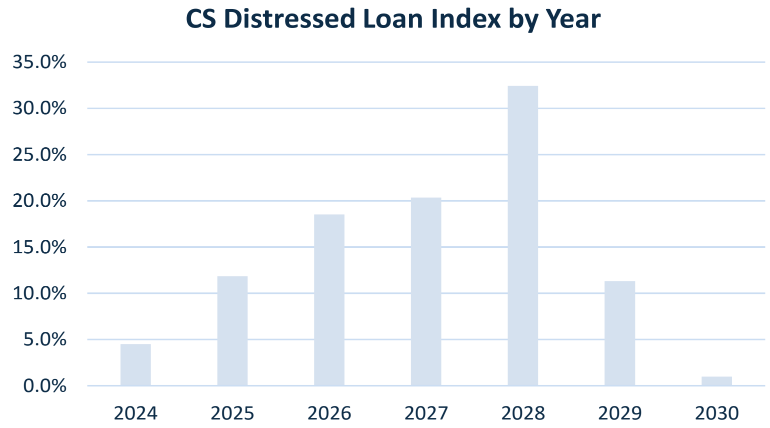


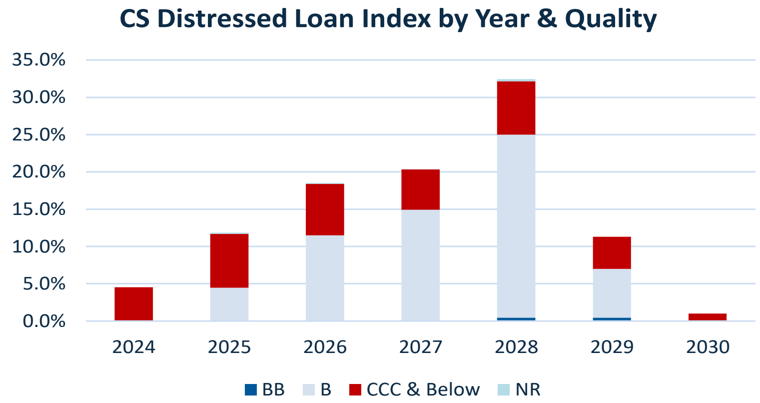
Source: JP Morgan. As of 31 December 2023.

Where is Distressed Concentrated in U.S. Loans?

	Par	%
<$80	102.1	7.1%
$80 to < $90	84.2	5.8%
$90 to <$100	762.2	52.7%
>= $ 100	497.8	34.4%
Total	1446.3	100.0%

	Loans Trading Below $80	
	Par Amt	% of Total
Technology	22.87	22.4%
Healthcare	19.66	19.2%
Services	12.48	12.2%
Telecommunications	7.62	7.5%
Retail	7.10	7.0%
Consumer Products	5.13	5.0%
Cable/Satellite	4.96	4.9%
Food/Beverages	4.34	4.2%
Chemicals	2.84	2.8%
Paper/Packaging	2.73	2.7%
Automotive	2.16	2.1%
Financial	2.12	2.1%
Gaming/Lodging/Leisure	1.72	1.7%
Broadcasting	1.46	1.4%
Industrials	1.36	1.3%
Utility	0.87	0.9%
Diversified Media	0.80	0.8%
Transportation	0.78	0.8%
Housing	0.58	0.6%
Energy	0.55	0.5%
Metals/Mining	-	0.0%
Total	102.13	100.0%





- 2024 maturities of CS Distressed Loan Index is entirely comprised of CCC & Below credits
- 2025 maturities are 11.8%; 60/40 between CCC & Below and B-rated Credits
- 2026 maturities are 18.5% of the Index, and CCC & Below and B relationship flips the other way around
- From 2027 to 2029 maturities, single B credits have the highest weightings

Sources: JP Morgan and Credit Suisse. As of 31 December 2023.

Distressed Exchanges

- MS estimates that 60% of HY index defaults and 50% of loan index defaults were in the form of Distressed Exchanges (DE) over the last 3 years
  - Pre-COVID, distressed Exchanges accounted for only 20% of all default/DE activity
- Reasons for this increase include:
  - 86% of loan borrowers rated B or below are sponsor-backed, compared to 72% at YE '17.
  - High equity stakes held by these sponsors is an incentive to do what they can to retain ownership, including pushing out debt through amendments and extensions in hopes of seeing the business to a more accommodative rate environment
  - Further incentive can be seen in LBO equity contributions that rose to 53% in 2023, the highest since 2007
  - MS expects larger equity checks written by sponsors will sustain the prevalence of DEs
  - Weaker loan documents have enabled borrowers & lenders to make amendments or pursue other restructuring options at the cost of debt holders; for example, priming transactions that subordinate existing debt holders

Exhibit 12: Distressed exchanges became more prevalent in HY and Loans

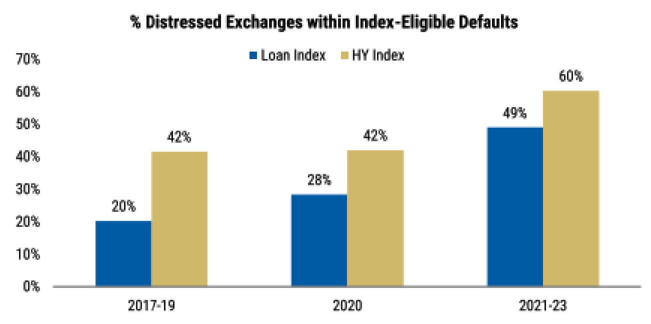
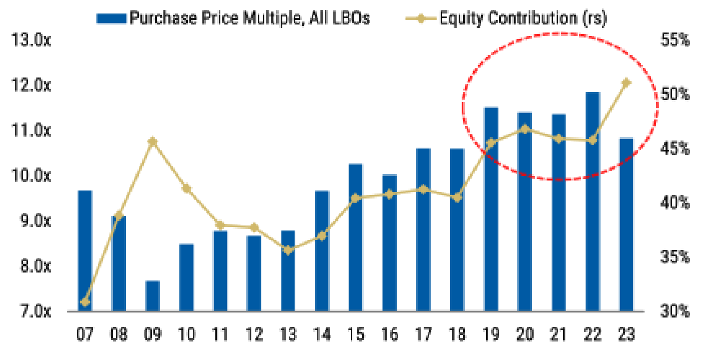


Exhibit 13: Equity contribution reached historical high in 2023



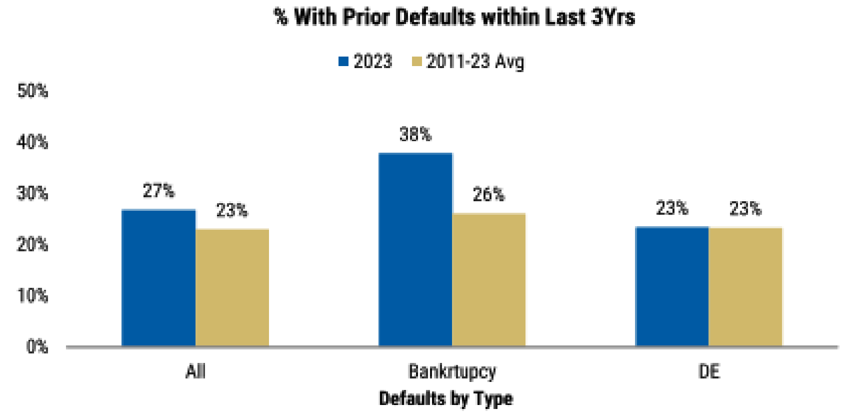
Source of Data: Morgan Stanley

Note: Distressed exchanges involve exchanging existing debt into new debt and/or cash at a diminished value and incurring losses to creditors but allowing borrowers to avoid bankruptcy or payment default.

Distressed Exchanges (Cont'd)

- Distressed exchanges if done properly can buy extra runway for borrowers, but often this comes at higher interest rate costs or higher debt and restructuring may not necessarily provide for a more sustainable capital structure.
  - If corporate profits do not improve afterwards, risk of default is magnified later for the next default
  - MS has indicated that 27% of 2023 defaults were "re-defaults" and associated with defaults over the past 3 years
  - Nearly 40% of Chapter 11 filings in 2023 were preceded by some prior defaults
  - High re-default activity will prolong the default cycle as well as weigh on recoveries in the event of a bankruptcy

Exhibit 14: More defaults in 2023 were associated with prior credit events



Source: Morgan Stanley

Catalysts That May Change Our Outlook and Why?

- Inflation rises again, particularly as geopolitical tensions negatively impact global supply chains or supply shocks in commodities

- Economy slows significantly and Fed is too late to stop a hard landing from occurring

Tactical Recommendations

To summarize:

- Spreads have become richer still relative to history
- Nominal yields have fallen from the great entry points we saw in 2022 into as late as 3Q23, but remain at decent levels

- Generally neutral across Credit
  - Slight o/w to Securitized and CMBS securities where spread may have room for further compression, but excellent credit picking skills is crucial, especially for CMBS

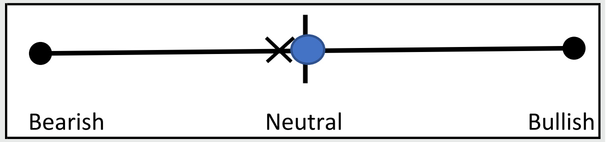
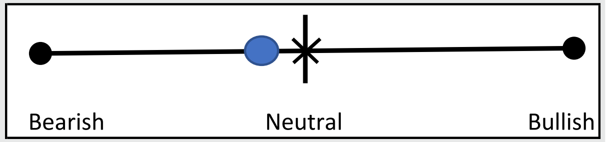
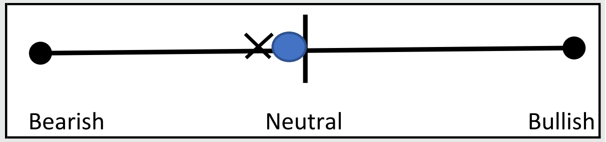
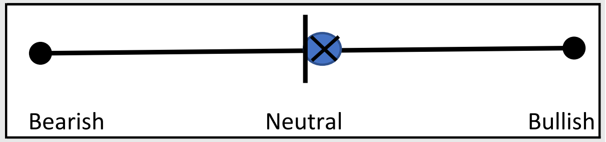
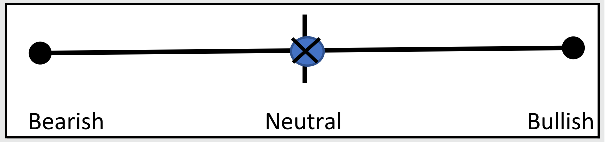
- Neutral on duration,
  - However, there may be potentially stronger roll-down returns at the short to intermediate end of the credit curve as central banks begin to ease

- Maintain up-in-quality bias as lagged effects from rate hikes have not been completely absorbed by the market

Outlook Summary

Source: Ares

Leveraged Finance – Summary UPDATE

Factors	Comments	Historical Range
Valuations	• Spread compression in 2023 put valuations at the lower end of history. • Further spread compression in higher leveraged finance may be limited from here • Lower probability of a deep recession means spreads not expected to widen dramatically either	
Fundamentals	• Credit metrics continue to deteriorate modestly but generally fundamentals have remained resilient • Defaults rose in 2023, expected to go higher in 2024 as higher rates continue impact performance of lower companies • Refinance price shocks not expected more for high yield market than	
Technicals	• YTD flows remain negative but YTD, seeing much improved sentiment for HY vs Loans (as well as EMD) • New issuance higher YoY, but still below peak issuance in 2021, thus maintaining supply imbalance that supports pricing in bonds and loans	
Macro Impact	• End if hiking cycle (for now), plus signaling from Fed on rate cuts may serve to stimulate economic and investment activity • However, full impact of higher funding costs and reduced capital market access continue to course through the economy	
● Current Quarter X Last Quarter	9 – 12 Month View	

EMD – Summary - UPDATE

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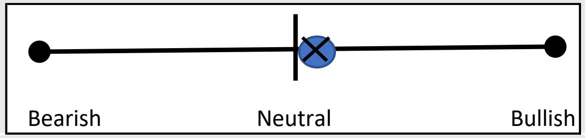
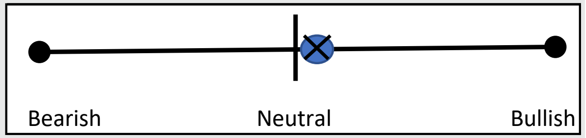
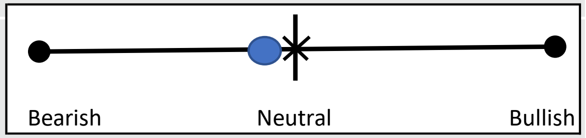
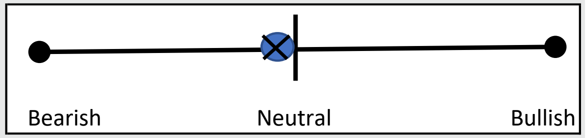
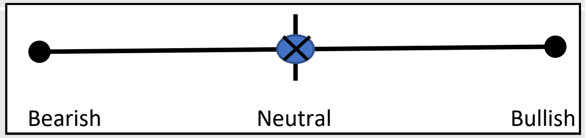
Factors	Comments	Historical Range
Valuations	• Spread compression in EM HC was entirely attributable to the HY component, which remains slightly cheap to LT average since 2003 • Spread of EM HC HY over IG remains attractive at 511 bps versus LT average of 414 bps	
Fundamentals	• EM growth overall is still expected to be strong • Inflation expected to trend lower due to lower commodity prices and continues to benefit oil importers. • China deceleration is major risk and property sector is still a major concern • Supply chain rationalization and diversification will serve to benefit countries outside of China, e.g. Vietnam	
Technicals	• Despite strong returns in EM markets YTD 2023, fund flows are negative YTD, particularly for EMD HC.	
Macro Impact	• EM countries, e.g., LatAm, acted earlier than DM to fight high inflation with rate hikes but also were first to ease beginning in 3Q23 • New commodity price shocks due to increased geopolitical tensions could be potential headwinds to commodity importers • 2024 will be a year of elevated election activity, e.g., Mexico, Turkey, Egypt, India, Saudi Arabia, Taiwan and Indonesia	
● Current Quarter X Last Quarter	9 – 12 Month View	

Private Credit – Summary UPDATE

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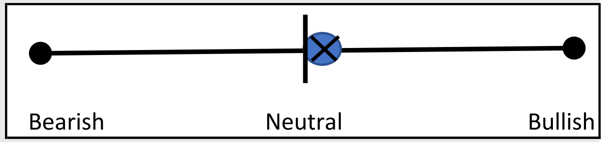
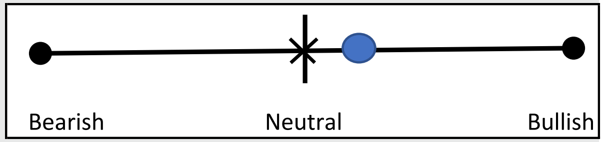
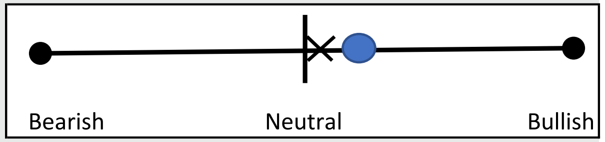
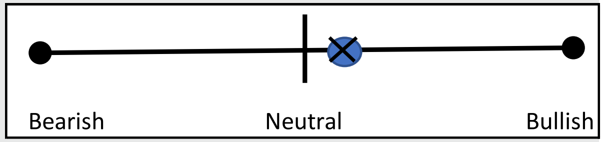
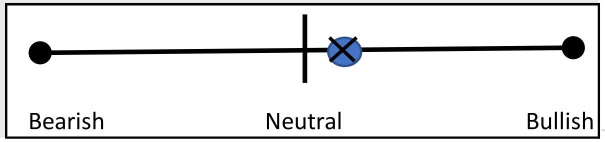
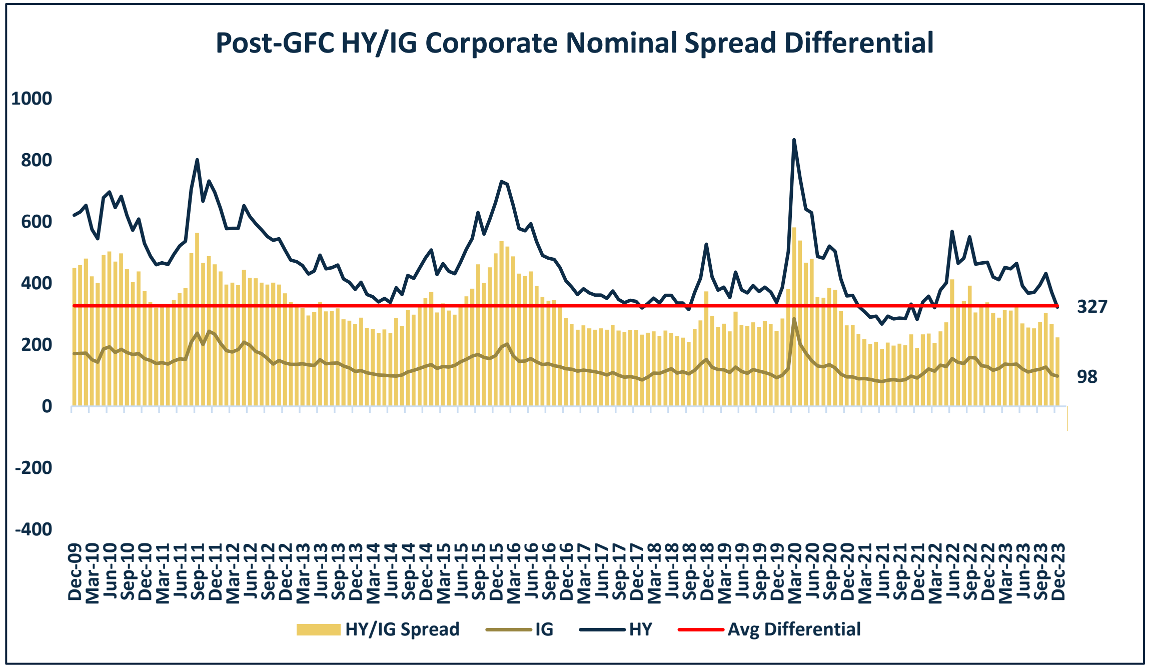
Factors	Comments	Historical Range
Valuations	• As higher interest rates have taken effect across financial markets, PC valuations have fallen but forward-looking returns have repriced 400-500 bps higher along with lower LTVs. • Particularly in real estate, debt with less leverage is pricing extremely attractive to equity returns.	
Fundamentals	• Dispersion in leveraged finance markets should widen and opportunities for non-traditional direct lending, opportunistic credit, special situations expected to increase • It remains to be seen how resilient the private debt markets have been as rates have risen over the last 18 months.	
Technicals	• Bank retrenchment that has been a headwind to refinancing in traditional debt markets remains a tailwind to private credit. • As public capital markets became closed to all but the best borrowers and assets in 2023, PC market has continued to grow • Large cap borrowers increasingly diversifying funding sources away from public IG, HY and syndicated Loan markets for flexibility, creative solutions and certainty of closure in PC markets	
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.	
● Current Quarter X Last Quarter	9 – 12 Month View	

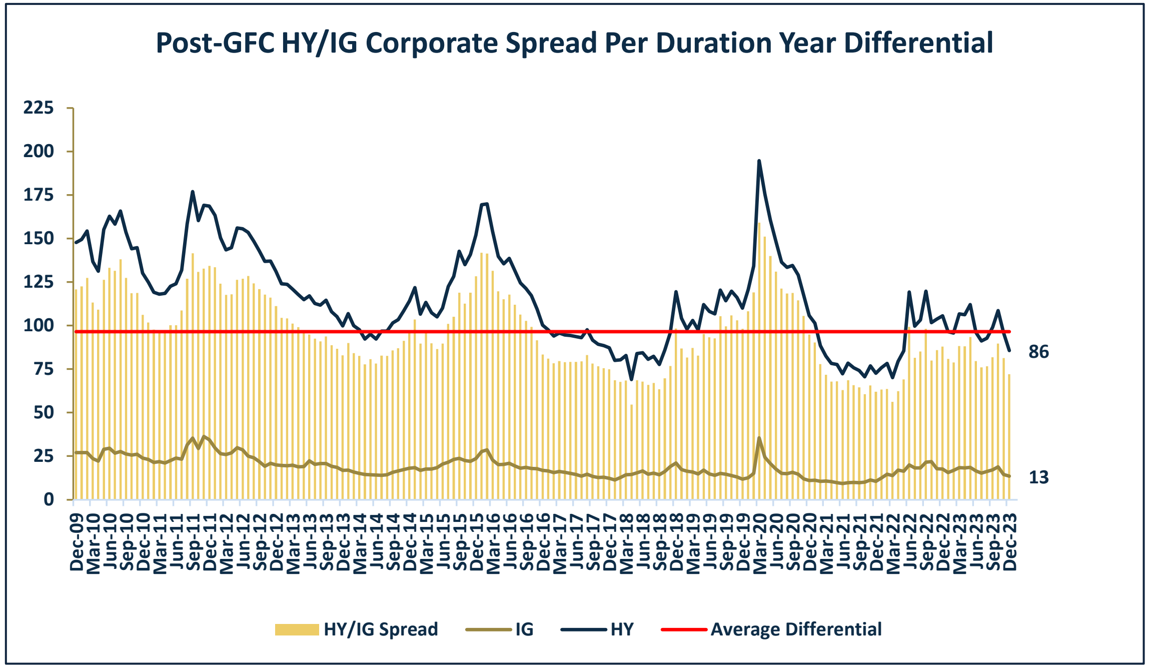
APPENDIX

Appendix – Valuations

US HY vs US IG Corporates as of YE 2023

- Spread differential between US HY and IG has compressed by 80 bps YoY as HY experienced substantial spread compression vis-à-vis IG, i.e. -146 bps vs -31 bps
- Is this justified given the potential for macroeconomic conditions to soften further in 2024?





Sources of Data: BarCap IG and HY Corporate Indices

2023 Spread Changes

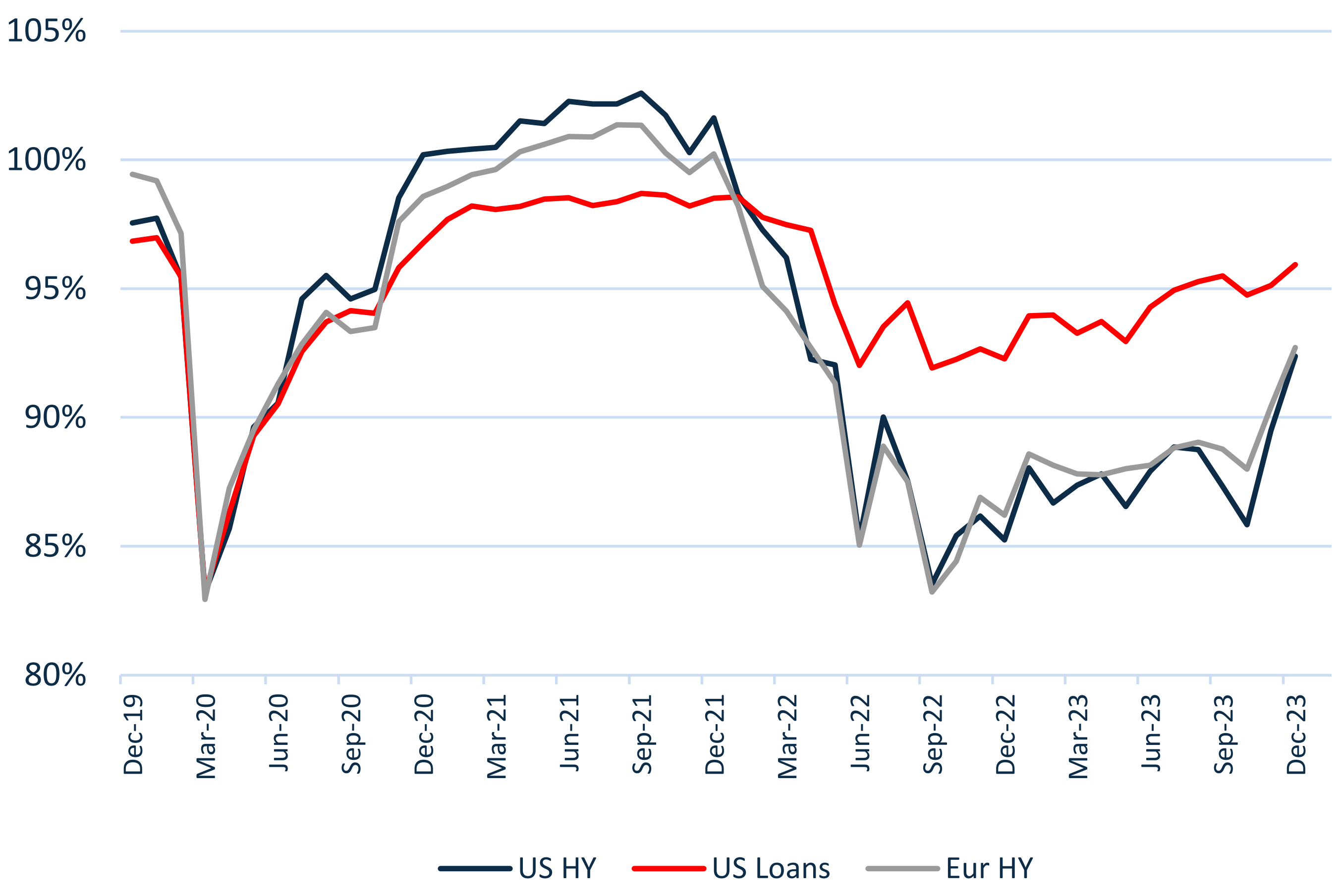
- Leveraged Finance spreads generally saw compression throughout the year and posted largest changes in 4Q
- Low quality outperformance also reflected in spread changes

	Dec '22	Mar '23	Jun '23	Sep '23	Dec '23	YoY Δ	1Q Δ	2Q Δ	3Q Δ	4Q Δ
US IG Corp	**130**	**138**	**122**	**120**	**98**	**-31**	**8**	**-16**	**-1**	**-22**
AAA	*55*	*55*	*47*	*43*	*37*	*-18*	*0*	*-7*	*-4*	*-6*
AA	*69*	*69*	*60*	*57*	*47*	*-22*	*0*	*-9*	*-3*	*-10*
A	*109*	*118*	*103*	*105*	*84*	*-24*	*9*	*-15*	*2*	*-20*
BBB	*159*	*167*	*150*	*146*	*121*	*-38*	*8*	*-17*	*-4*	*-25*
Eur IG Corp	**167**	**169**	**162**	**152**	**137**	**-30**	**2**	**-7**	**-10**	**-14**
AAA	*56*	*98*	*94*	*93*	*69*	*14*	*43*	*-4*	*0*	*-24*
AA	*96*	*106*	*106*	*98*	*91*	*-5*	*11*	*0*	*-9*	*-7*
A	*137*	*142*	*140*	*132*	*119*	*-17*	*5*	*-2*	*-8*	*-12*
BBB	*201*	*199*	*189*	*177*	*160*	*-41*	*-2*	*-10*	*-13*	*-17*
US HY	**468**	**452**	**392**	**395**	**323**	**-146**	**-16**	**-60**	**3**	**-72**
BB	*298*	*286*	*251*	*265*	*201*	*-97*	*-12*	*-35*	*14*	*-64*
B	*495*	*471*	*400*	*396*	*317*	*-179*	*-25*	*-71*	*-4*	*-79*
C	*1032*	*998*	*837*	*846*	*751*	*-280*	*-34*	*-161*	*9*	*-94*
EUR HY	**537**	**520**	**478**	**458**	**436**	**-101**	**-17**	**-42**	**-20**	**-21**
Upper Tier	*362*	*354*	*332*	*317*	*292*	*-70*	*-8*	*-22*	*-15*	*-25*
Middle Tier	*636*	*603*	*550*	*535*	*498*	*-138*	*-33*	*-53*	*-15*	*-37*
Lower Tier	*1265*	*1324*	*1444*	*1252*	*1465*	*200*	*59*	*120*	*-192*	*213*
US Loans	**652**	**609**	**581**	**551**	**528**	**-124**	**-43**	**-28**	**-30**	**-23**
Upper Tier	*349*	*323.9381*	*316*	*322*	*299*	*-50*	*-25*	*-8*	*7*	*-24*
Middle Tier	*678*	*627.0994*	*587*	*550*	*525*	*-152*	*-50*	*-40*	*-37*	*-25*
Lower Tier	*1678*	*1577.585*	*1525*	*1427*	*1479*	*-199*	*-100*	*-53*	*-98*	*52*
US MBS	**51**	**63**	**51**	**66**	**46**	**-5**	**12**	**-12**	**14**	**-20**
US CMBS	**119**	**143**	**134**	**131**	**126**	**7**	**24**	**-9**	**-3**	**-5**
US ABS	**75**	**85**	**68**	**66**	**68**	**-6**	**10**	**-17**	**-2**	**2**
EUR Covered	**84**	**88**	**87**	**84**	**78**	**-5**	**4**	**-1**	**-3**	**-6**
EM Hard	**452**	**484**	**432**	**430**	**383**	**-69**	**32**	**-52**	**-2**	**-47**
EM Corp	**322**	**347**	**309**	**301**	**281**	**-41**	**25**	**-38**	**-8**	**-20**

Sources of Data: BarCap and Credit Suisse Indices

Leveraged Finance Average Prices YE 23

Leveraged Finance Average Prices

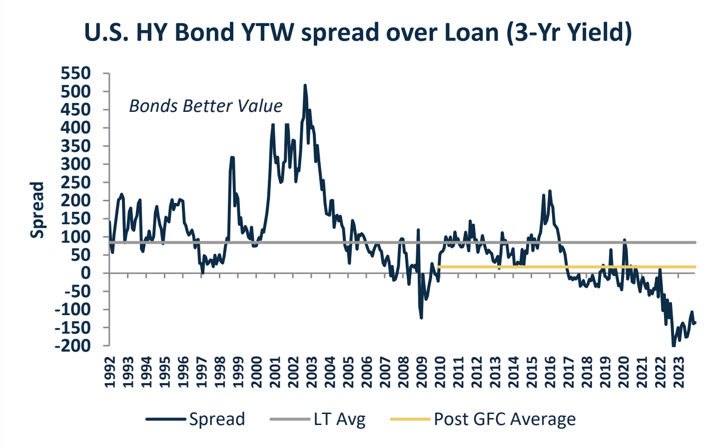


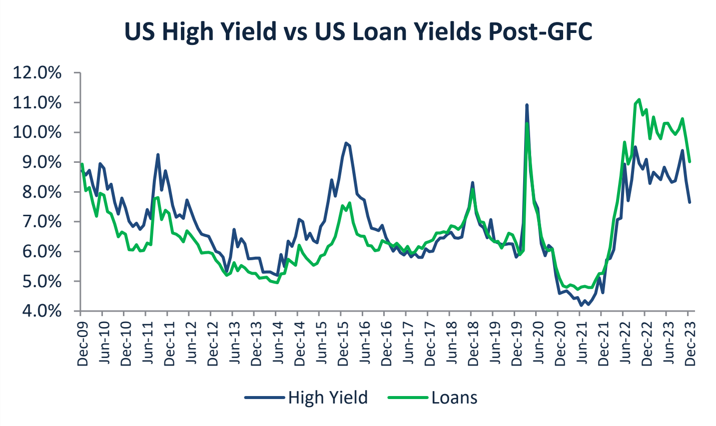
Sources of Data: Credit Suisse Leveraged Finance Indices

Appendix – Cross Sector Relative Value

High Yield Bond versus Leveraged Loans as of YE 2023

- Yields in both markets have dropped well below peaks reached at YE 2022
- Loans now yielding below 10% at 9% at YE 2023 and less cheap versus bonds



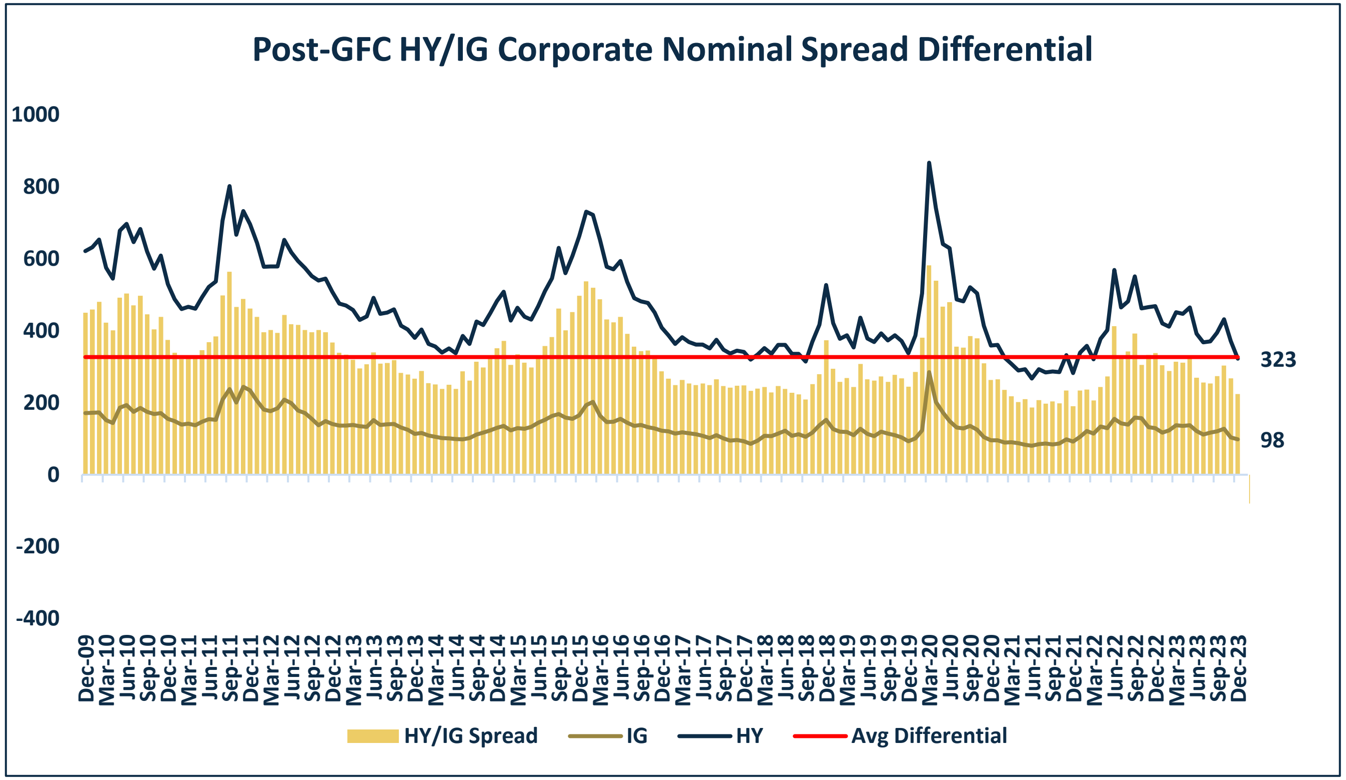


Current Spread	-136
LT Average	84
Post-GFC Average	17
Post-GFC Minimum	-214
Post-GFC Maximum	226
Post-GFC STDEV	84
Z-Score	(2.61)

Source: Credit Suisse HY and Loan Indices

HY/IG Corporate Spread Differential

- Nominal spread differential between US High Yield and Investment Grade Corporates at 225 is well below the average spread of 327 since Dec 2009



Source: BarCap IG and HY Indices.

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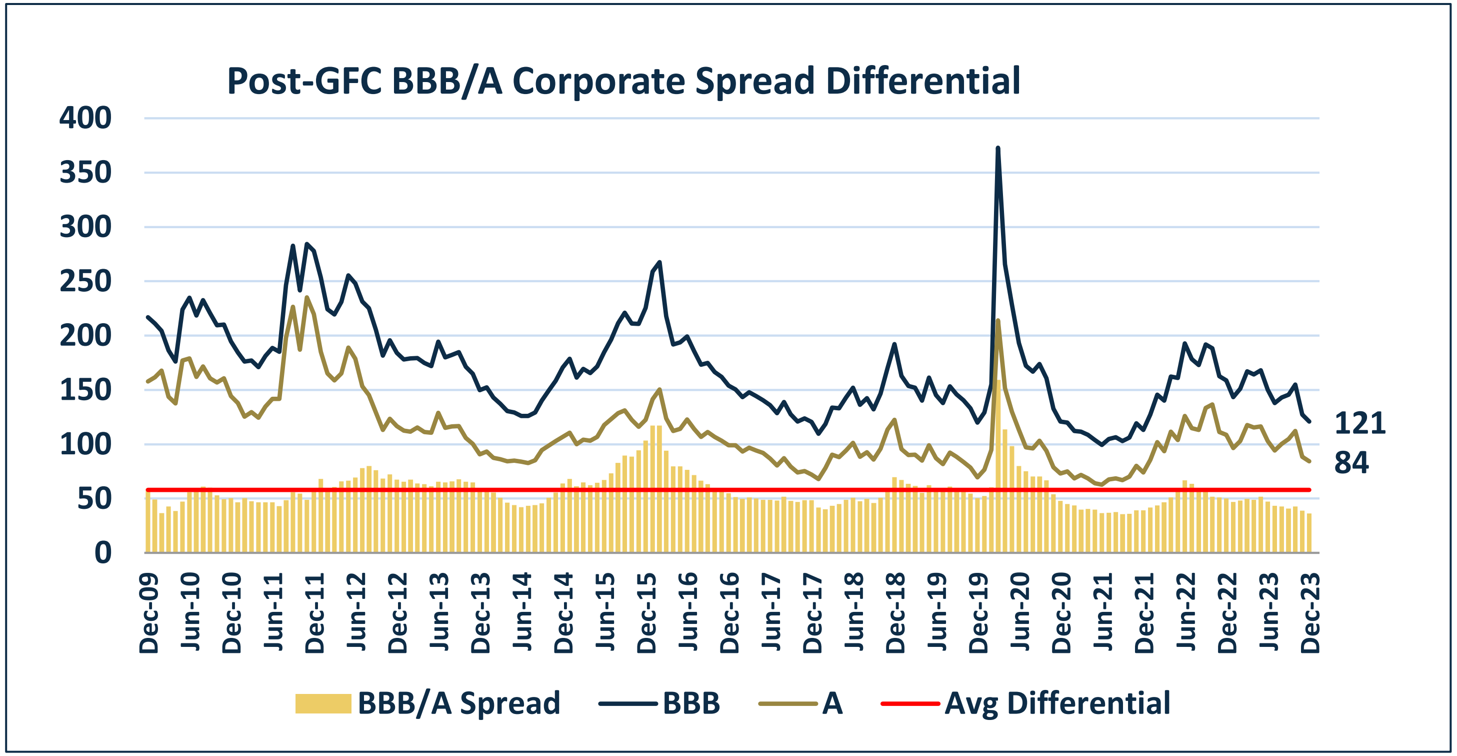
BBB-AA Spread Differential

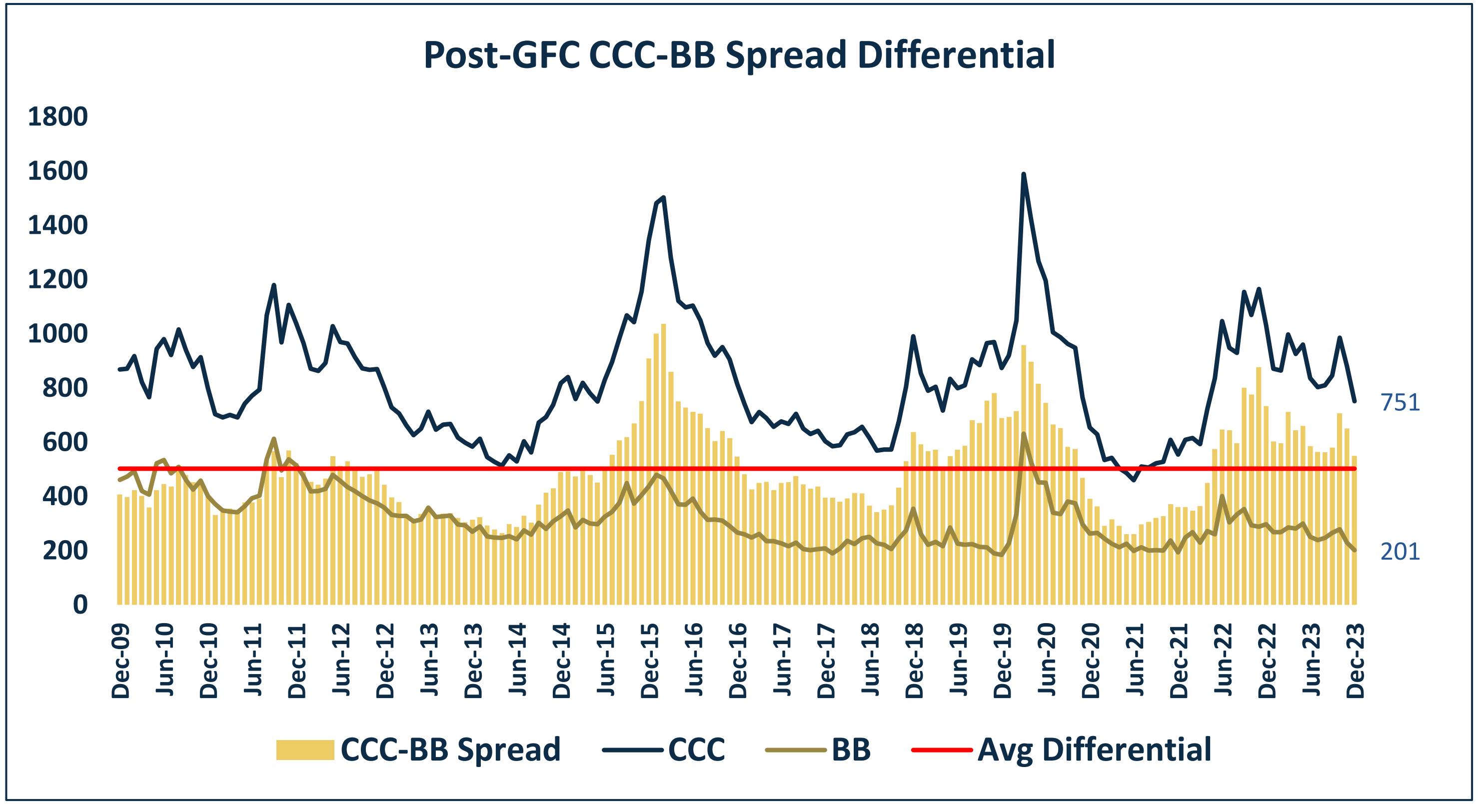
- Spread differential between BBB and A rated IG Corporate credit at 37 bps also indicate that BBB are rich to A rated paper versus LT average of 58 bps.



Source: BarCap IG Corporate Indices

CCC-BB Spread Differential

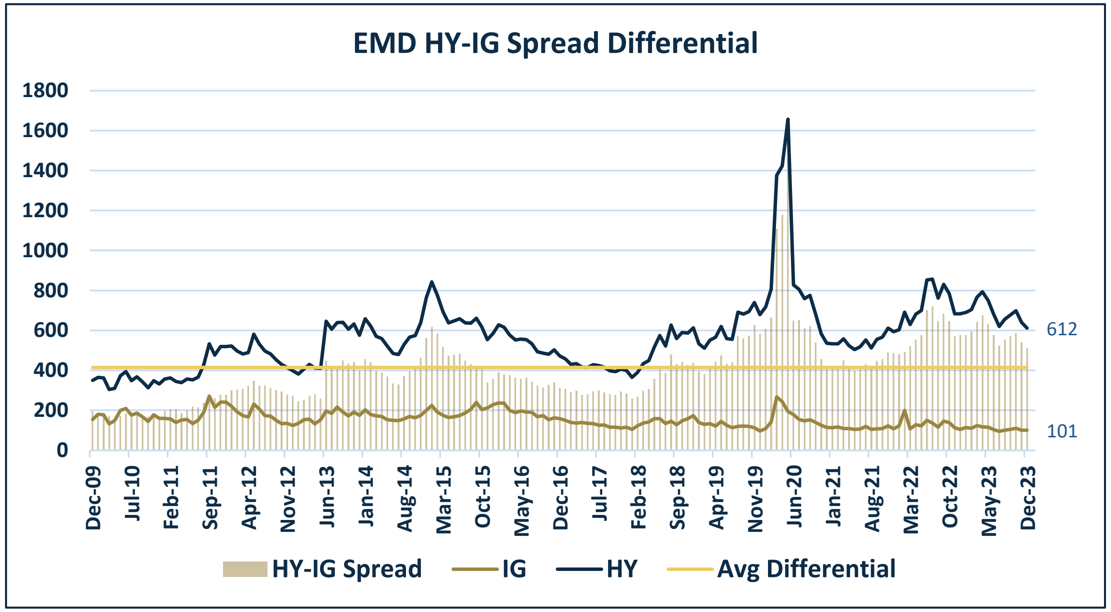
- Spread compression in both rating categories, have caused spread differential to fall significantly from May 2020 at 816 to 550 by YE 23 and slightly above LT average Since Dec 2009 of 503 bps

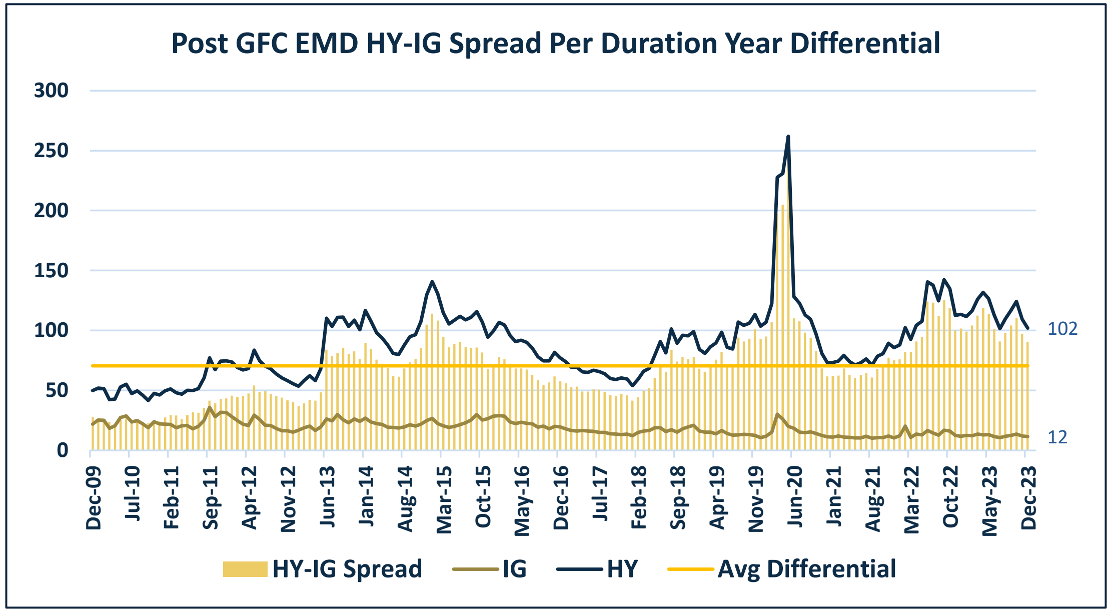


Source: BarCap HY Indices

EMD HY vs EMD IG Sovereigns as of YE 2023

- Spread differential between EMD HY and IG narrowed YE vs 3Q23 from 572 to 511 primarily due to risk-on activity after the change in US monetary policy outlook and spreads narrowed by 4 bps for HC IG and 65 bps for HC EMD.
- Nevertheless, HC HY continues to remain attractive as the current spread between HY and IG is much higher than historical average spread of 414 bps; and has been since 3Q21.
- Adjusted for Duration, the EMD HY-IG relative value on a spread per duration year basis tells the same story





Sources of Data: BarCap EMD Indices

Appendix – Credit Metrics

3Q23 IG Credit Metrics -- Revenues

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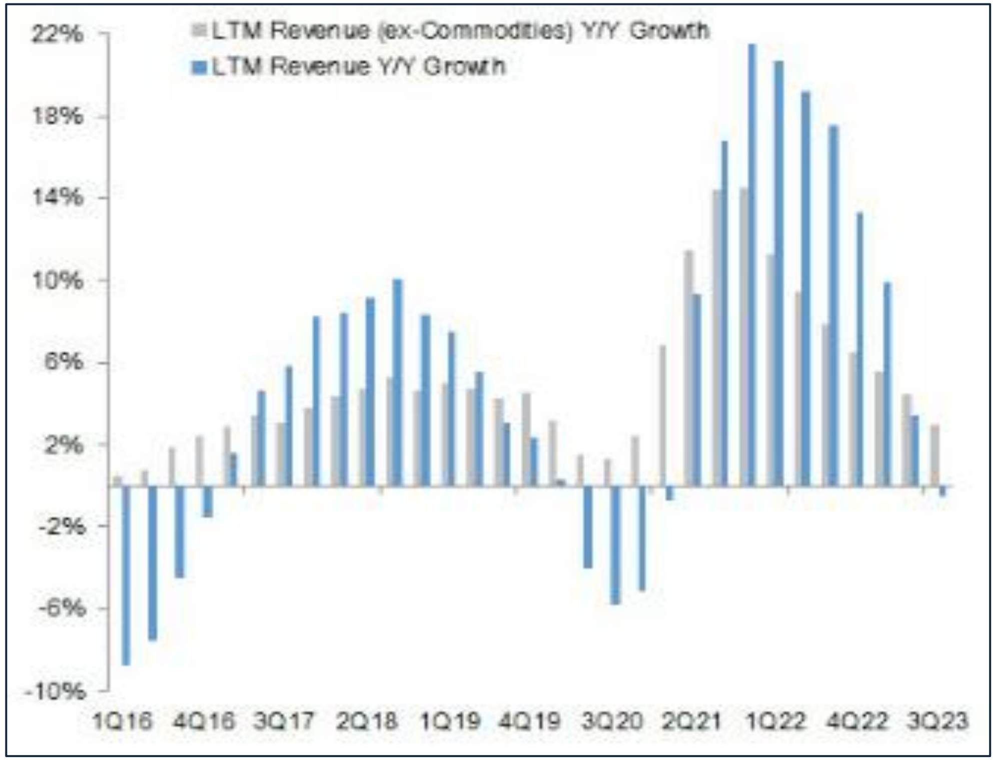
Revenue growth continues to decelerate

- Quarterly Revenue contracted by -0.6% YoY, but was positive 3% YoY ex commodities
- Moreover, 8 out of 18 sectors posted negative quarterly growth while the remainder ranged from 0 to 17% YoY

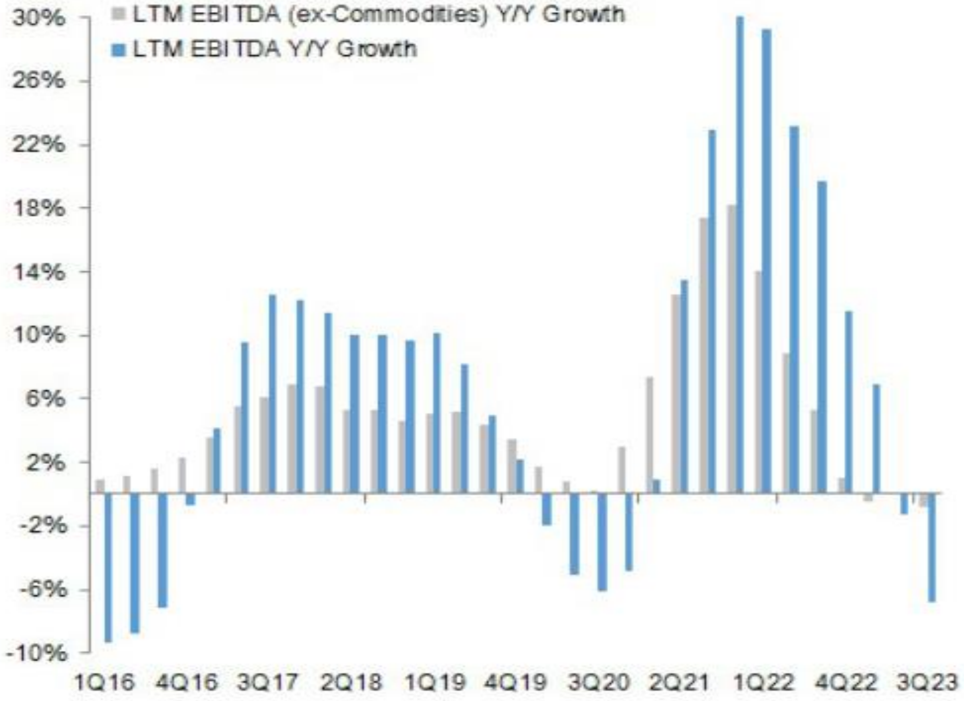


	3Q23	q/q chg	q/q % chg	y/y chg	y/y % chg
Automotive	275.4	5.0	1.8%	40.2	17.1%
Diversified Media	201.4	1.7	0.8%	23.4	13.1%
Healthcare/HMOs	1,756.2	43.8	2.6%	157.6	9.9%
Capital Goods	688.1	(9.3)	-1.3%	37.9	5.8%
Food/Drug Retail	348.1	4.0	1.2%	15.7	4.7%
Telecoms - Yankees	290.6	3.5	1.2%	12.5	4.5%
Food/Beverages	707.9	1.0	0.1%	26.5	3.9%
Non-Food Retail	1,232.0	9.6	0.8%	43.0	3.6%
Cable/TV	175.4	0.3	0.2%	0.7	0.4%
Consumer Products	206.2	1.0	0.5%	0.1	0.0%
Telecoms - Domestic	347.7	0.3	0.1%	(0.4)	-0.1%
Utilities	374.1	(5.2)	-1.4%	(1.3)	-0.4%
Technology	972.9	(3.8)	-0.4%	(16.4)	-1.7%
Transportation	283.1	(7.0)	-2.4%	(10.3)	-3.5%
Pharmaceuticals	736.5	(7.7)	-1.0%	(45.1)	-5.8%
Energy	2,275.5	(109.7)	-4.6%	(255.5)	-10.1%
Metals/Mining	519.1	(3.1)	-0.6%	(62.2)	-10.7%
Chemicals	173.6	(7.8)	-4.3%	(31.9)	-15.5%
Overall	11,563.8	(83.3)	-0.7%	(65.7)	-0.6%
Overall ex-Comm	8,769.1	29.4	0.3%	252.0	3.0%

Source: JP Morgan HG Credit Fundamentals

3Q23 IG Credit Metrics -- EBITDA

- Quarterly EBITDA growth contracted much more sharply than Quarterly Revenue growth YoY to -6.6%
  - Driven by Commodities (Energy, Chemicals, Metals/Mining
  - Ex Commodities, contraction was more modest at -0.5% YoY



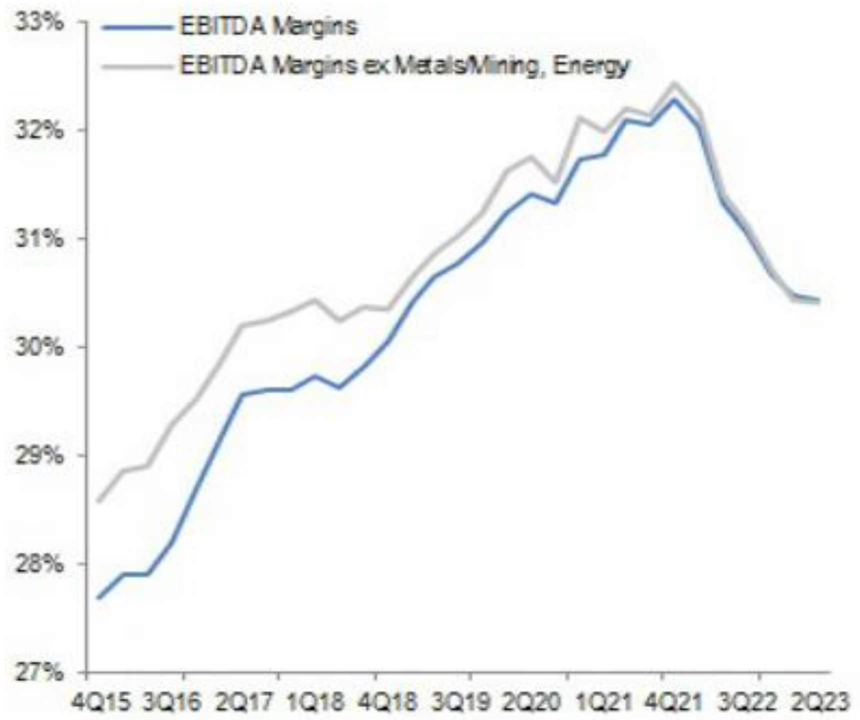
	3Q23	q/q chg	q/q % chg	y/y chg	y/y % chg
Automotive	31.4	0.9	2.9%	4.3	15.9%
Telecoms - Yankees	116.0	2.2	1.9%	12.6	12.2%
Utilities	143.1	3.6	2.6%	14.9	11.6%
Capital Goods	102.9	0.4	0.4%	10.5	11.4%
Healthcare/HMOs	102.1	1.1	1.1%	5.7	5.9%
Diversified Media	35.0	1.8	5.6%	1.5	4.5%
Non-Food Retail	94.3	0.7	0.7%	3.9	4.3%
Food/Beverages	137.9	2.1	1.5%	4.7	3.6%
Telecoms - Domestic	130.3	0.7	0.5%	(1.0)	-0.8%
Technology	329.9	1.6	0.5%	(8.7)	-2.6%
Cable/TV	58.8	0.4	0.8%	(2.6)	-4.2%
Consumer Products	43.9	(0.2)	-0.5%	(2.2)	-4.7%
Food/Drug Retail	34.3	1.7	5.1%	(1.9)	-5.3%
Pharmaceuticals	266.0	(11.0)	-4.0%	(29.4)	-9.9%
Transportation	64.3	(3.6)	-5.3%	(7.4)	-10.3%
Energy	542.7	(55.6)	-9.3%	(97.3)	-15.2%
Chemicals	28.3	(1.9)	-6.3%	(14.4)	-33.7%
Metals/Mining	112.7	0.5	0.5%	(61.7)	-35.4%
Overall	2,374.0	(54.7)	-2.3%	(168.3)	-6.6%
Overall ex-Comm	1,718.5	0.3	0.0%	(9.3)	-0.5%

Source: JP Morgan HG Credit Fundamentals

3Q23 IG Credit Metrics – EBITDA Margins

- EBITDA Margins have been falling since the high in 4Q21 and are back to pre-COVID levels

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

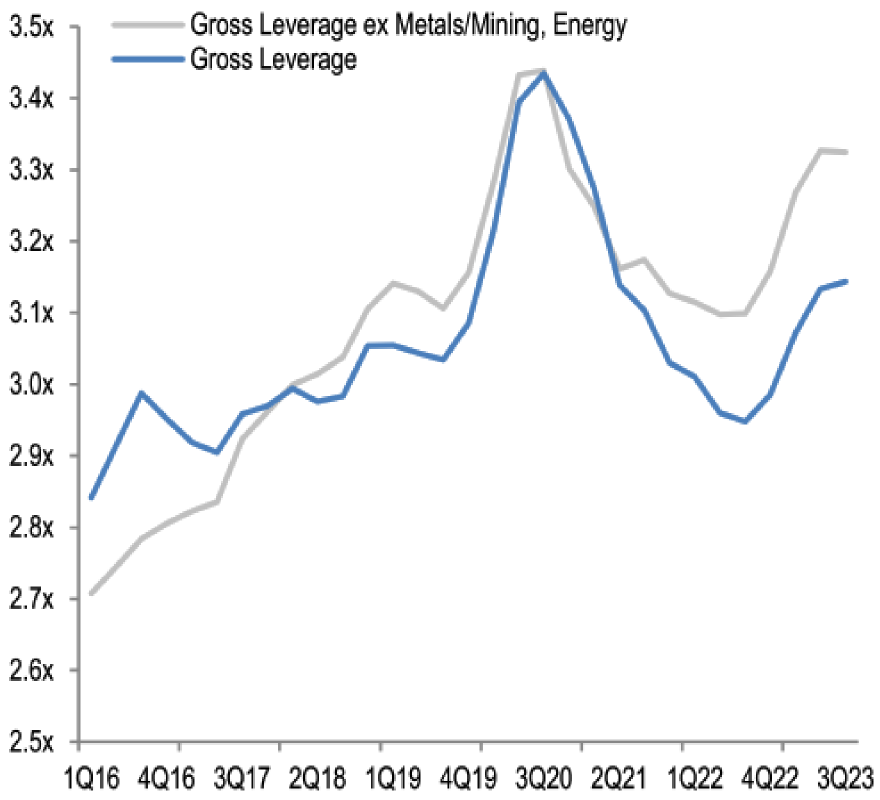


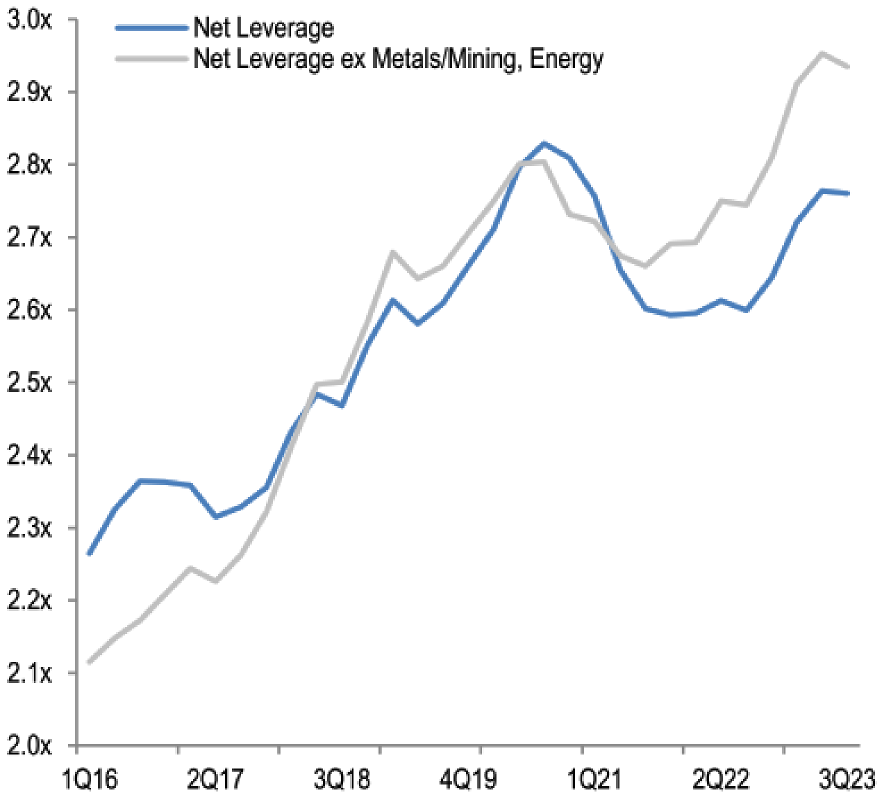
	3Q23	q/q chg	y/y chg
Utilities	38.7%	-0.1%	2.1%
Energy	30.7%	0.1%	1.2%
Capital Goods	17.9%	0.0%	0.4%
Telecoms - Yankees	34.9%	-0.5%	0.3%
Food/Drug Retail	35.5%	0.2%	0.0%
Non-Food Retail	13.1%	0.1%	0.0%
Telecoms - Domestic	37.5%	0.1%	0.0%
Automotive	11.2%	-0.3%	0.0%
Food/Beverages	32.9%	0.1%	-0.2%
Healthcare/HMOs	8.2%	-0.1%	-0.4%
Consumer Products	21.5%	-0.1%	-1.4%
Cable/TV	33.4%	0.2%	-1.6%
Transportation	38.5%	-0.8%	-2.8%
Pharmaceuticals	39.5%	-2.6%	-3.1%
Technology	33.0%	-1.0%	-3.7%
Chemicals	17.8%	-0.7%	-3.9%
Diversified Media	19.3%	1.2%	-4.1%
Metals/Mining	31.1%	0.8%	-9.4%
Overall	**30.5%**	**-0.2%**	**-0.9%**
Overall ex-comm	**30.5%**	**-0.3%**	**-1.0%**

Source: JP Morgan IG Credit Fundamentals

3Q23 IG Credit Metrics – Leverage

- Gross and Net Leverage rose by 0.2x ending 3Q23 at 3.1x and 2.8x respectively

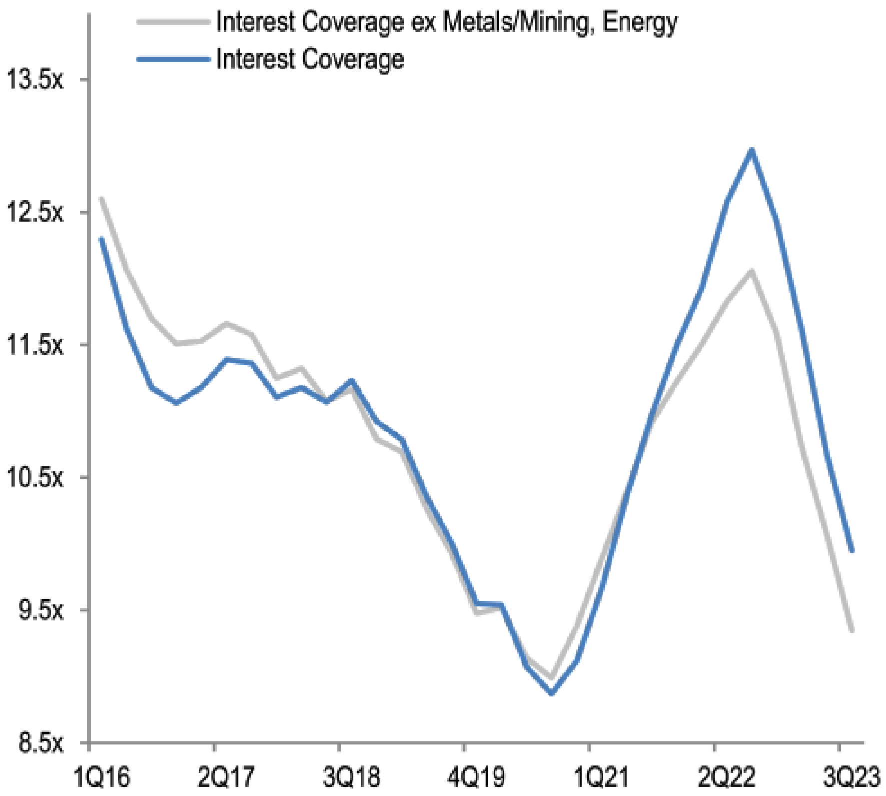




Source: JP Morgan HG Credit Fundamentals

2Q23 IG Credit Metrics – Interest Coverage

- Quarterly Interest Expense growth continues to rise due to higher rates, up 17.1% YoY and 3.6% QoQ in 3Q23
- Interest Coverage continues to fall from last high reached in 3Q22 (12.9x)
  - As of 3Q23 it stands at 9.9x, which is below levels in 2019.



	3Q23	q/q chg	y/y chg
Telecoms - Yankees	11.2	-0.4	2.2
Automotive	18.2	-0.3	2.1
Food/Drug Retail	10.2	0.4	0.1
Utilities	4.7	0.0	-0.1
Food/Beverages	9.3	-0.1	-0.2
Capital Goods	14.7	-0.9	-0.6
Cable/TV	7.8	-0.1	-0.7
Diversified Media	5.1	0.3	-0.9
Non-Food Retail	11.2	-0.3	-1.8
Healthcare/HMOs	8.9	-0.5	-2.0
Transportation	10.5	-0.8	-2.1
Telecoms - Domestic	8.4	-0.4	-2.1
Energy	15.9	-1.7	-4.1
Chemicals	8.5	-0.8	-6.0
Pharma/Medical Products	13.7	-2.5	-7.1
Consumer Products	14.7	-1.5	-11.1
Technology	18.8	-1.4	-11.2
Metals/Mining	25.5	-1.2	-19.3
Overall	**9.9**	**-0.7**	**-3.0**
Overall ex-comm	**9.3**	**-0.7**	**-2.7**

Source: JP Morgan HG Credit Fundamentals

2Q23 High Yield Credit Fundamentals

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3Q23 High-yield credit metric highlights

Quarterly 3Q23	Q/Q	Y/Y	LTM as of 3Q23	Q/Q	Y/Y
Revenue	1.0%	-0.6%	Revenue	-0.3%	1.5%
EBITDA	3.1%	0.3%	EBITDA	0.1%	2.8%
Capex	2.0%	18.4%	Capex	4.1%	20.8%
Interest expense	0.7%	13.3%	Interest expense	3.5%	16.3%
Total debt	-0.2%	1.1%	Cash & equivalents	-2.7%	-2.7%

LTM	3Q23	2Q23	3Q22	Q/Q	Y/Y
Leverage (Debt/EBITDA)	3.96x	3.99x	3.84x	-0.03x	0.12x
Net Leverage ((Debt-Cash)/EBITDA)	3.44x	3.46x	3.31x	-0.01x	0.13x
EBITDA Margin	16.0%	16.1%	16.0%	0.2%	0.6%
Coverage (EBITDA/Net Int Exp)	5.03x	5.12x	5.77x	-0.09x	-0.74x
EBITDA-Capex/Net Int Exp	2.92x	3.03x	3.84x	-0.11x	-0.93x

Source: JP Morgan High Yield Credit Fundamentals

3Q23 High Yield Credit Metrics

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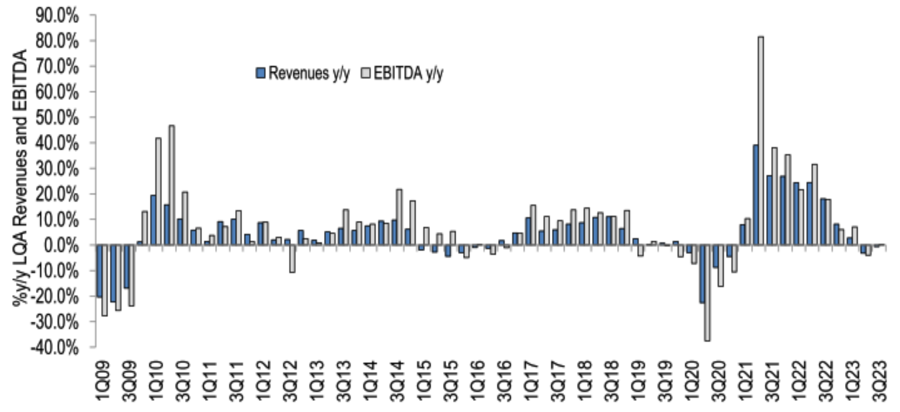
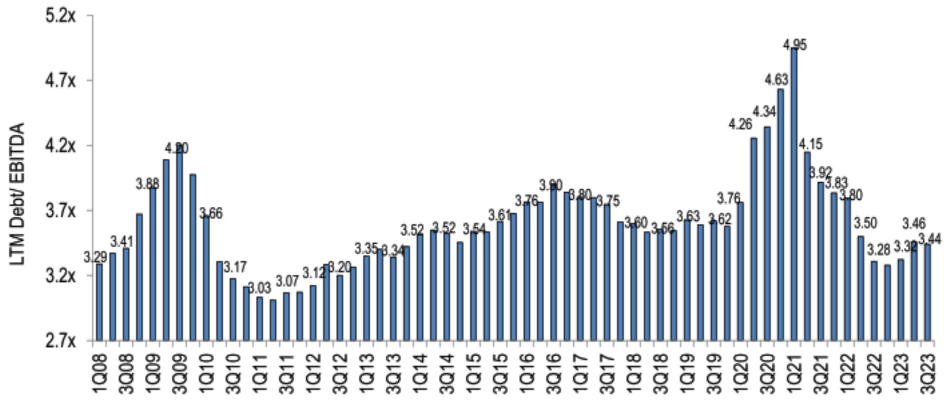
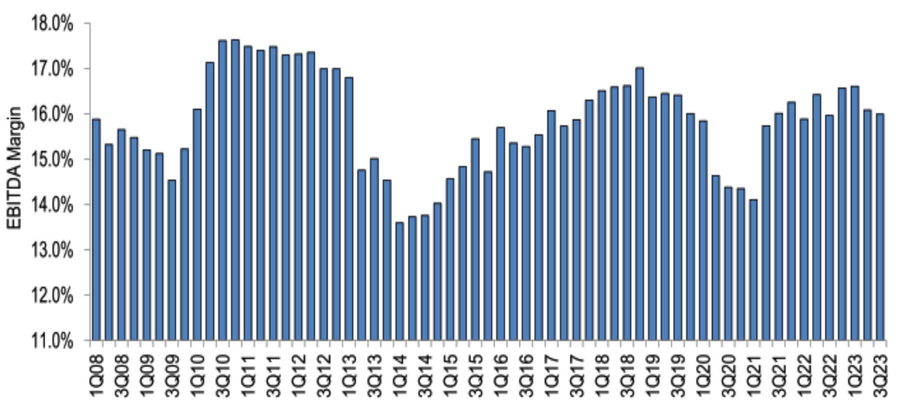
Top and bottom-line figures for HY companies have contracted over the last two quarters



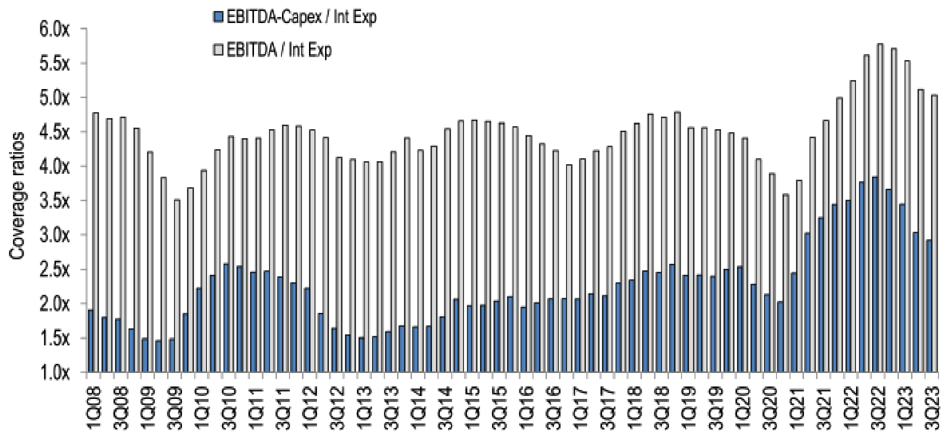
Net Leverage ticked lower in 3Q



Profit margins dip but remain slightly above their historical average of 15.8%



Coverage ratio for HY companies decreased for a fourth consecutive quarter to a 7-quarter low



Source: JPM High Yield Credit Fundamentals

3Q23 Leveraged Loan Credit Fundamentals

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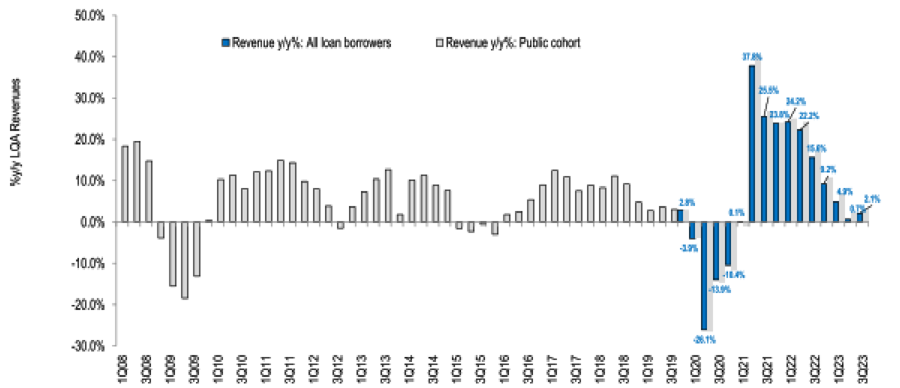
Quarterly 3Q23	Q/Q	Y/Y	LTM as of 3Q23	Q/Q	Y/Y
Revenue	1.2%	2.1%	Revenue	0.6%	4.7%
EBITDA	0.9%	5.5%	EBITDA	1.5%	8.3%
Capex	-5.1%	5.5%	Capex	1.4%	17.0%
Interest expense	4.1%	27.3%	Interest expense	6.0%	34.7%
Total Debt	-0.3%	0.5%	Cash & Equivalents	0.4%	-4.1%

LTM	3Q23	2Q23	3Q22	Q/Q	Y/Y
Leverage (Debt/EBITDA)	4.88x	4.96x	5.09x	-0.08x	-0.22x
Net Leverage ((Debt-Cash)/EBITDA)	4.40x	4.47x	4.56x	-0.07x	-0.16x
EBITDA Margin	16.3%	15.6%	15.7%	0.7%	0.5%
Coverage (EBITDA/Net Int Exp)	3.20x	3.30x	4.14x	-0.10x	-0.94x
EBITDA-Capex/Net Int Exp	2.17x	2.26x	2.83x	-0.09x	-0.66x

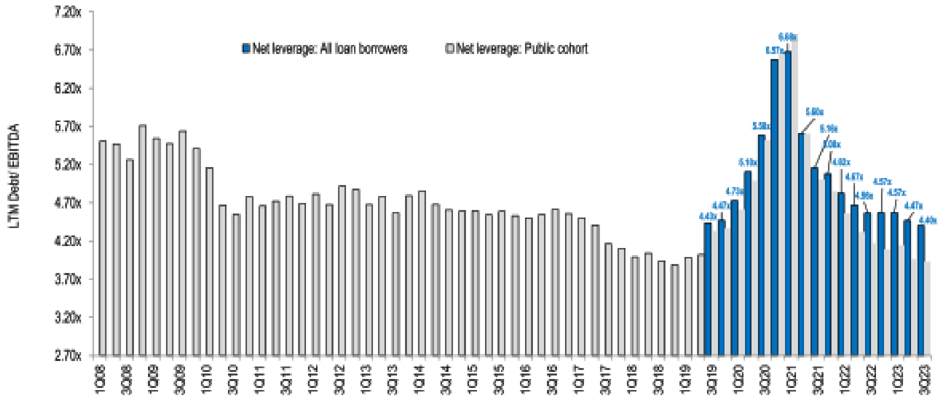
Source: JP Morgan Leveraged Loan Credit Fundamentals

2Q23 Leveraged Loan Credit Metrics

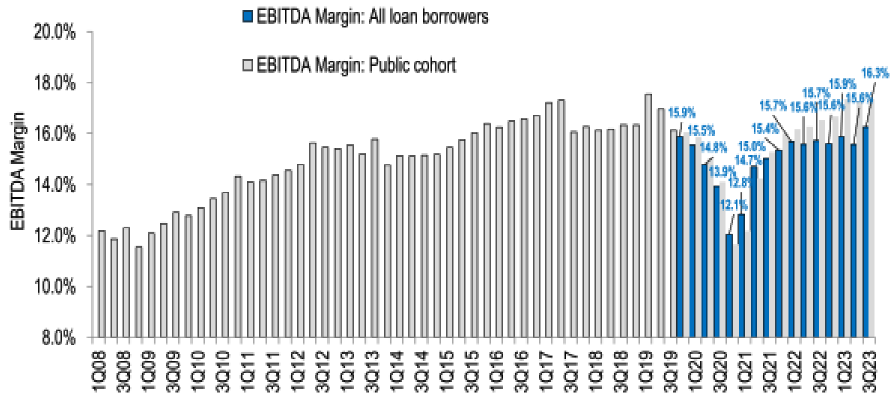
Revenue growth for loan companies was modestly positive for a second consecutive quarter



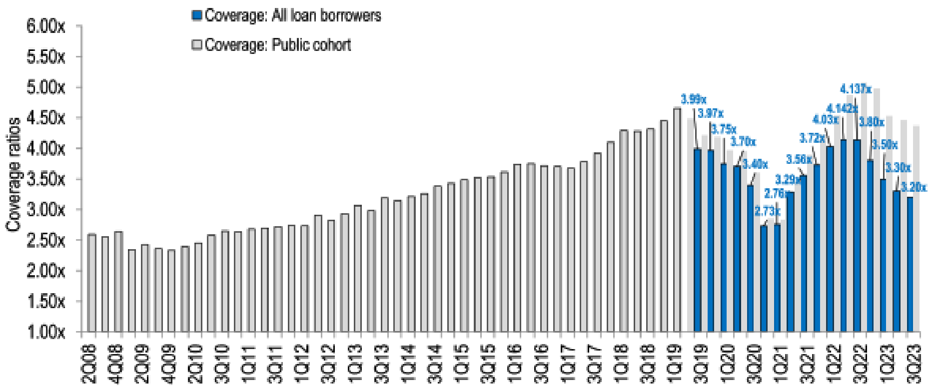
Net Leverage decreased to its lowest level since at least 2019



Profitability has remained resilient over the last several quarters



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



Source: JPM Leveraged Loan Credit Fundamentals

Appendix – Default Activity, Distressed, Recoveries & Rating Actions

2023 US Default Activity

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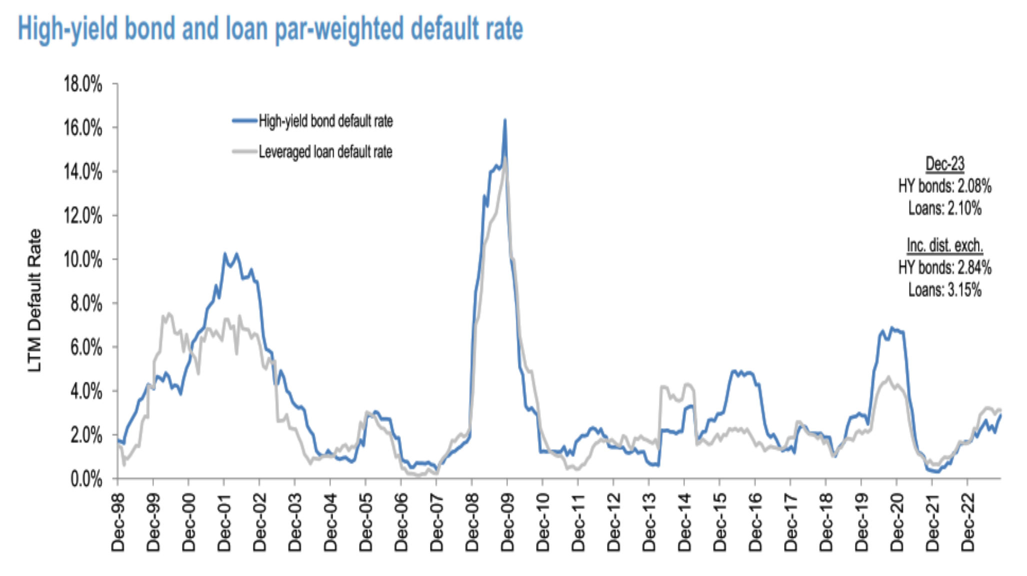
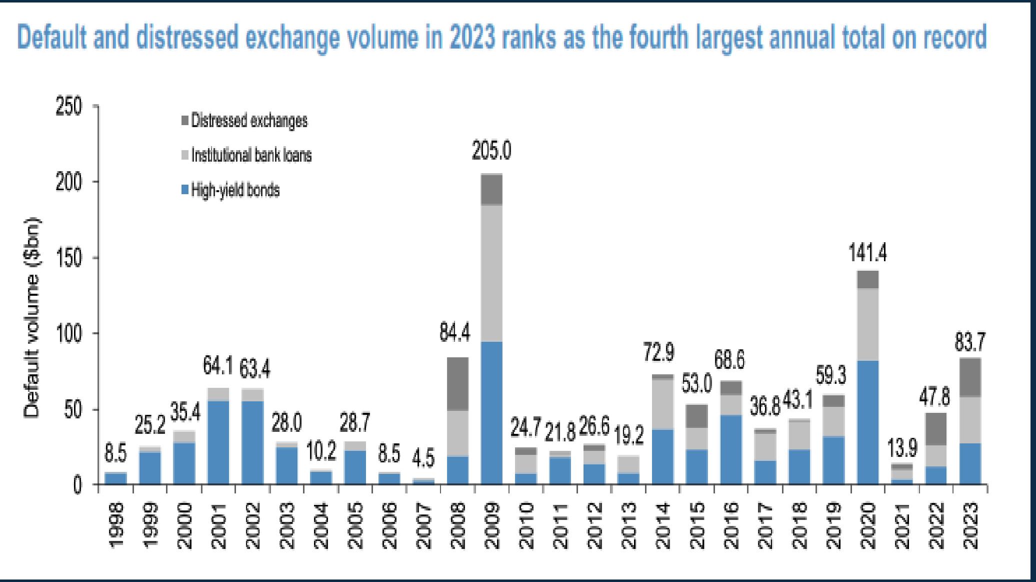




Source: JP Morgan Default Monitor

- At YE23, including distressed exchanges, LTM par weighted default rates for bonds & loans rose to 2.84% and 3.15%, respectively
  - Up from 1.65% and 1.64% at YE22
  - 25-year averages now at 3.4% and 3%, respectively
- In 2023
  - 41 companies defaulted totaling $58.3bn: bonds ($27.5 bn) and loans ($30.7bn)
  - 47 companies completed distressed exchanges totaling $25.4bn in bonds ($10.1vn) and loans ($15.3bn); high since 2008 and 3x 15-year average
  - Total default/distressed activity of $83.7bn represents a 75% YoY increase and 4th largest annual total on record
  - Distressed exchange volume representing 30% of total default/distressed activity for the year, compared with 45% last year and a 15-year average of 16%
- 2023 was marked by large credit-specific defaults in Healthcare (24% of total volume); Technology (13%), Broadcasting (13%); Retail (8%) and Telecom (8%)
- JPM expects higher default rates due to slower growth, continued restrictive capital markets, rising fundamental headwinds, high rates, high distressed exchange activity
  - Default rates to be 2.75% and 3.25%, respectively in 2024
  - And will worsen to 3% & 3.75% respectively in 2025

Largest Defaults in 2023

Twenty largest defaults/distressed transactions in 2023

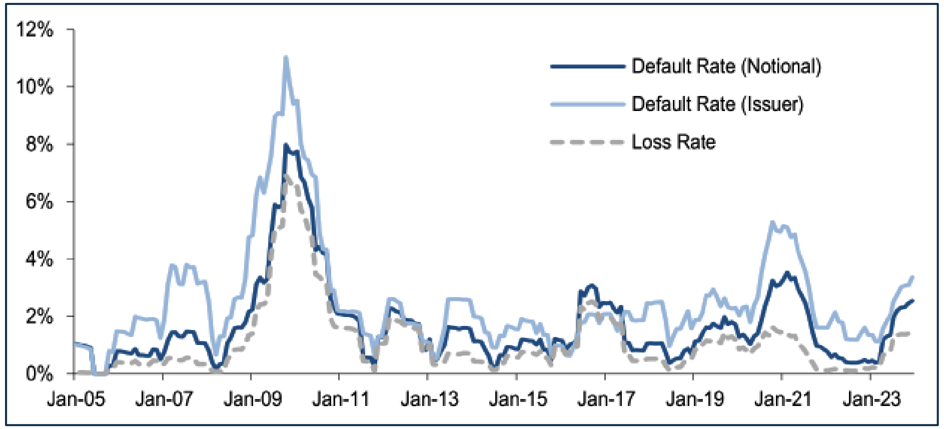
Date	Company	Bonds ($mn)	Loans ($mn)	Total ($mn)	Industry	Action
15-Apr-23	Envision Healthcare	938.9	9,413.7	10,352.6	Healthcare	Filed Chapter 11
15-Feb-23	Diamond Sports	4,783.5	3,819.6	8,603.1	Broadcasting	Filed Chapter 11
1-Nov-23	Ligado Networks	4,179.6	-	4,179.6	Telecommunications	Missed Prn. payment
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-Oct-23	Air Methods	500.0	1,171.9	1,671.9	Healthcare	Filed Chapter 11
15-Oct-23	WeWork	1,626.2	-	1,626.2	Financial	Missed Int. payment
4-Apr-23	Travelport	-	1,986.0	1,986.0	Services	Distressed exch.
1-Oct-23	Audacy (Entercom Media Corp)	1,000.0	632.4	1,632.4	Broadcasting	Missed Int. payment
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.
15-Oct-23	Rite Aid	1,362.2	-	1,362.2	Retail	Filed Chapter 11
1-Sep-23	Carvana	1,326.2	-	1,326.2	Automotive	Distressed exch.
29-Jun-23	Exela	1,271.2	-	1,271.2	Technology	Distressed exch.
5-May-23	WeWork	1,047.8	-	1,047.8	Financial	Distressed exch.
24-Oct-23	Pretium Packaging	-	1,042.4	1,042.4	Paper and Packaging	Distressed exch.
	Total	**27,627.4**	**26,558.6**	**54,185.9**		

Source: JP Morgan Default Monitor

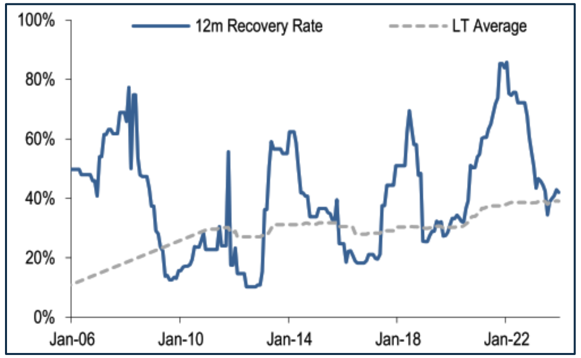
European Default, Recovery and Distressed

Default rate rose to 2.54%, up from 0.41% last year

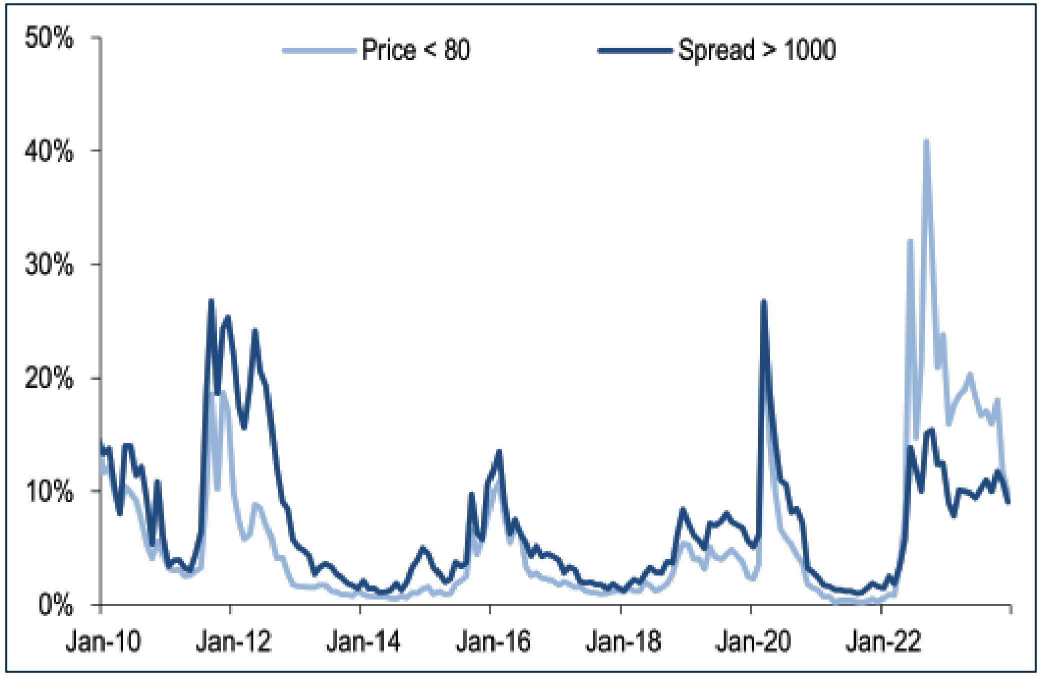
- Lower than US HY default rate, above LT Avg of 1.8%
- 41 issuers, combined notional of €11.4bn



Recovery rates have dropped to 42% down from 55% in 2022, but near the LT average of 39%.

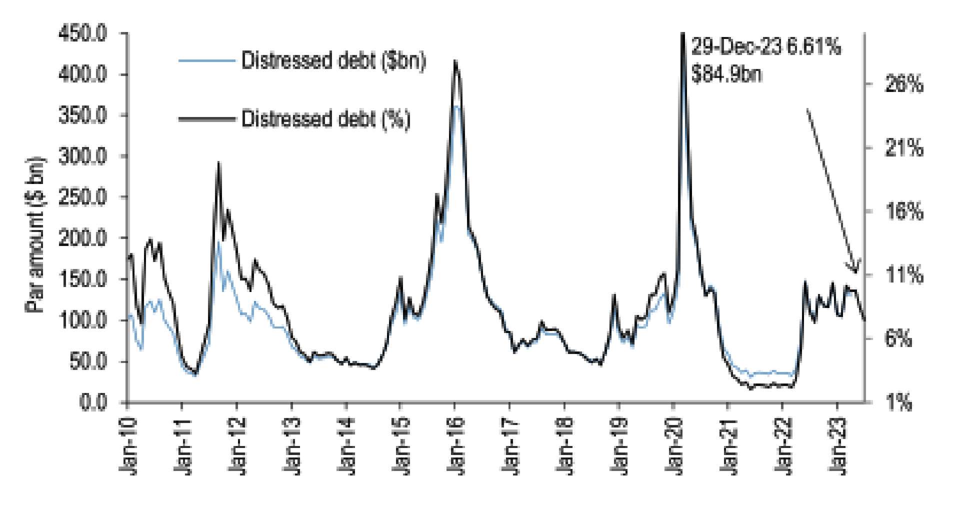


- Distressed Ratio (Prices at <80) have fallen to 9.1%
  - But the average differential in non-distressed bonds and distressed bonds (with latter pricing lower and former pricing higher) has risen to 33 points versus 20 points at YE 22.

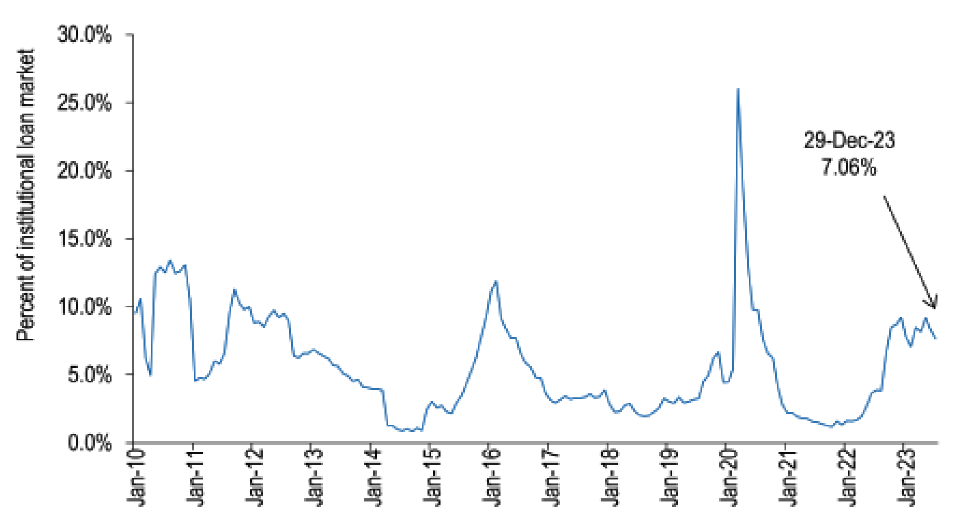


Source: JP Morgan High Yield Talking Points 2024-01-09

Distressed Debt (High Yield Bonds)



Distressed Debt (Loans)



Source: JP Morgan Default Monitor

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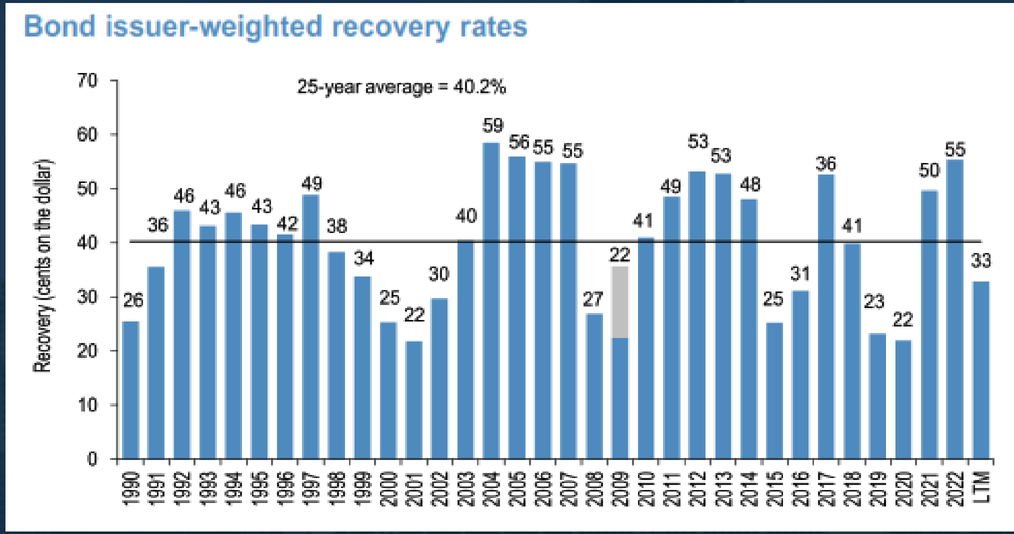
Distressed HY Bond Universe YE23

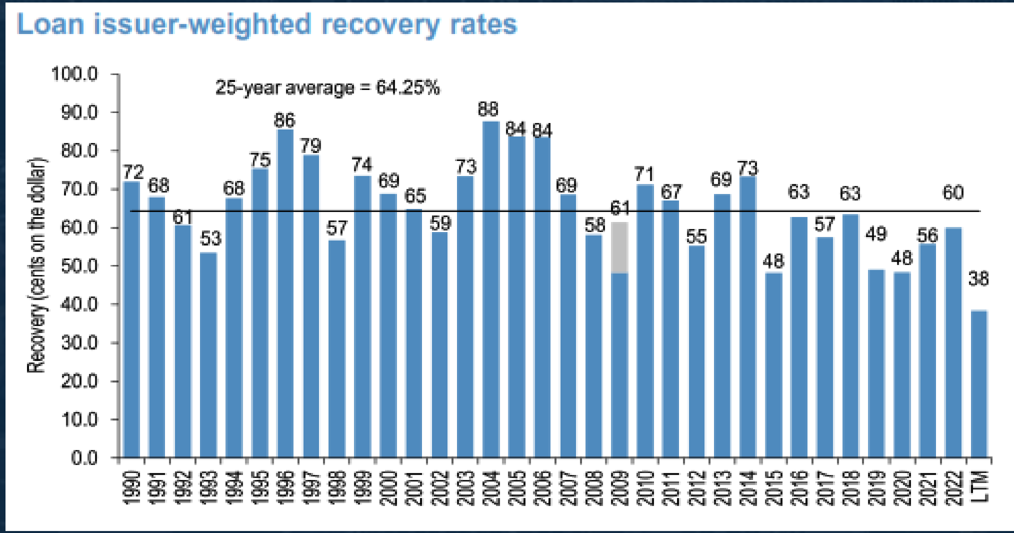
- HY Bond Distressed (trading at spread >1000 bps) has fallen since last quarter from 7.1% of the HY market to 6.6% (representing $84.9bn of par)
- March 2020 distressed represented 32% of market
- Majority is concentrated in Healthcare (22%), Cable & Satellite (17%), Telecommunications (16%) and Technology (11%)

Distressed Leveraged Loan Universe YE23

- Loan Distressed (trading at <=$80) has risen from 6.2% last quarter to 7.1% (representing $102bn of par)
- Majority is concentrated in Technology 22%, Healthcare (19%), and Services (12%)

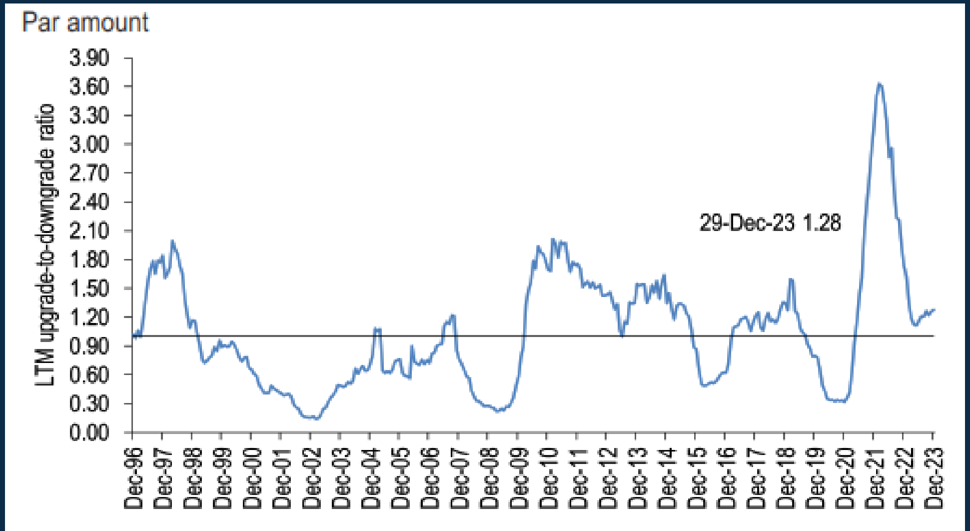
Recovery Rates continue to trend downward



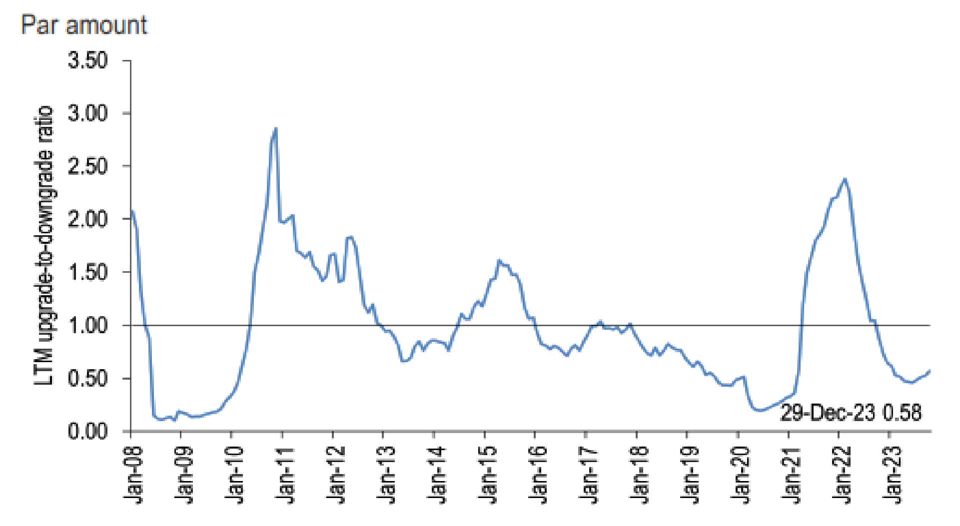


Source: JP Morgan Default Monitor

HY Bond Upgrade/Downgrade Ratios



Loan Upgrade/Downgrade Ratios



Source: JP Morgan Default Monitor

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High Yield Bonds

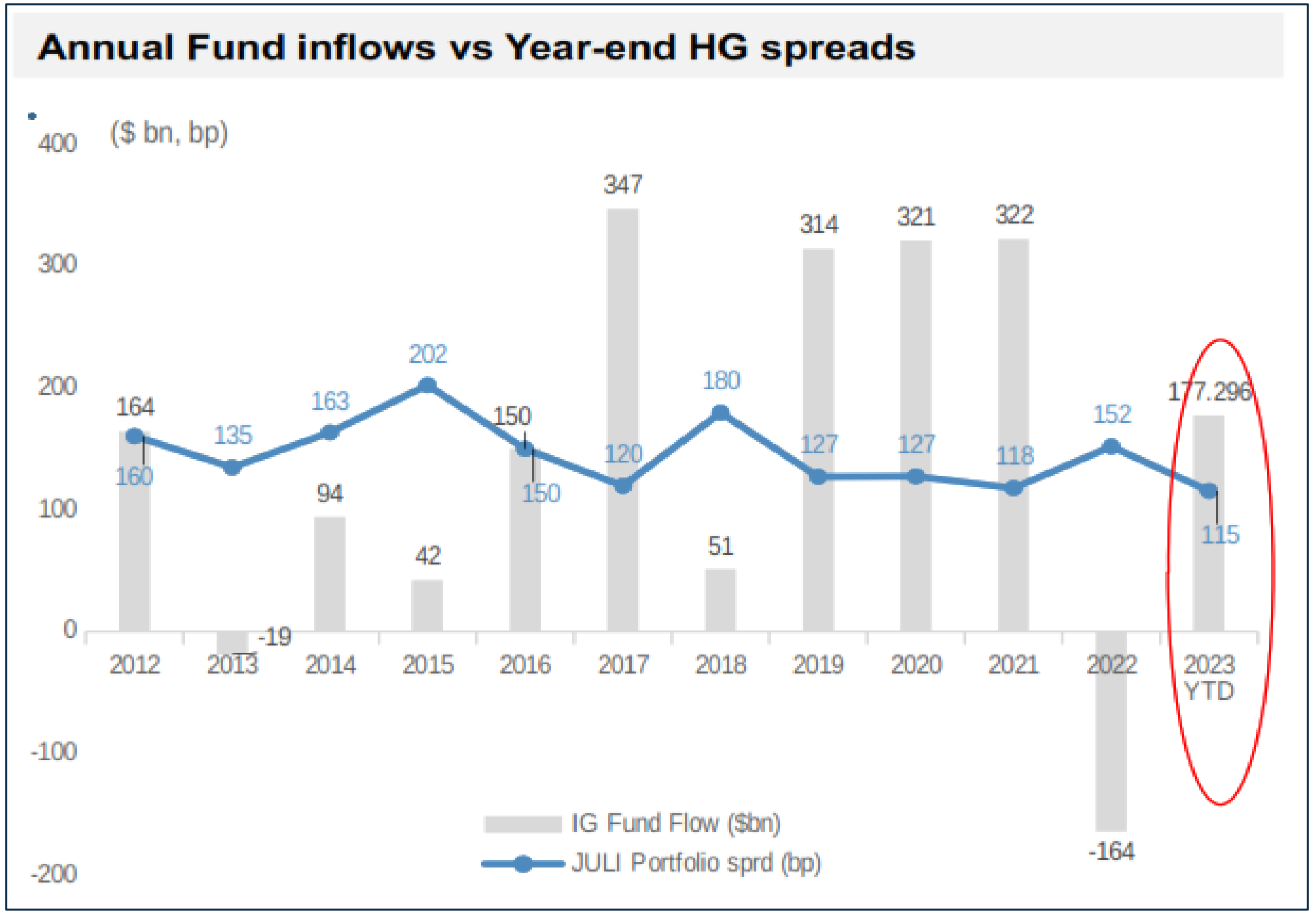
- 2023 number of downgrades outpaced upgrades by one, 267 vs 266; by volume upgrades ($486b) outpaced downgrades ($381bn)
- LTM upgrade/downgrade ratio by issuer was 1:1 and by volume 1.3:1
  - Compare ratio by issuer to 2.46:1 in March 2022 and 0.34:1 in December 2020
- 2023 saw 21 rising stars ($123bn) vs. 11 fallen angels ($13.9bn)
- Resulting in $109bn contraction of the US HY market, on top of the $206bn contraction in last 2 years

Leveraged LoanS

- Loan ratings actions remained negative with downgrades outpacing upgrades over the last 20 consecutive months
- LTM upgrade/downgrade ratio by issuer was 0.43:1, by volume 0.53:1

Appendix – Technicals

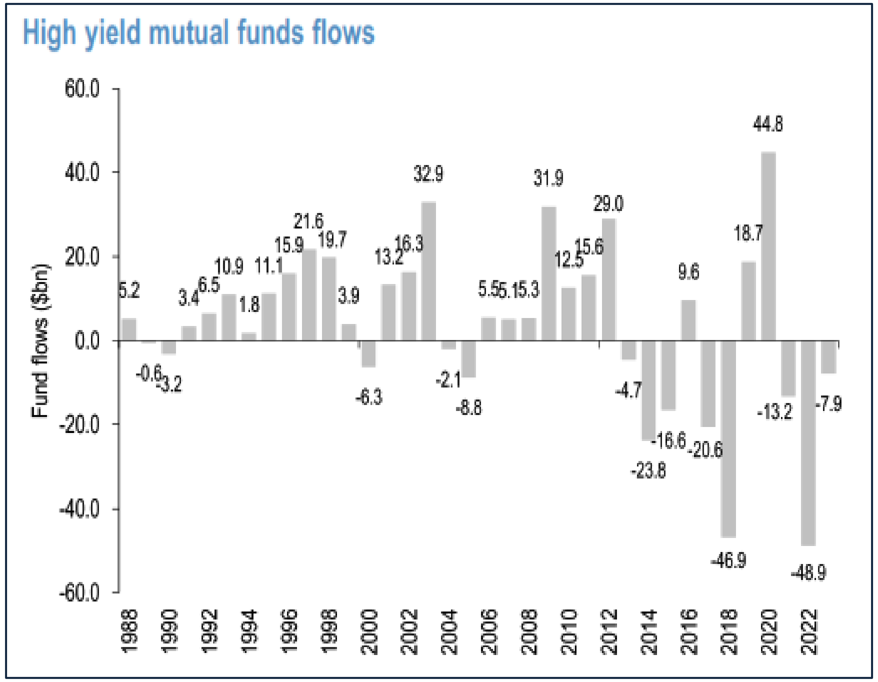
2023 IG Fund Flows

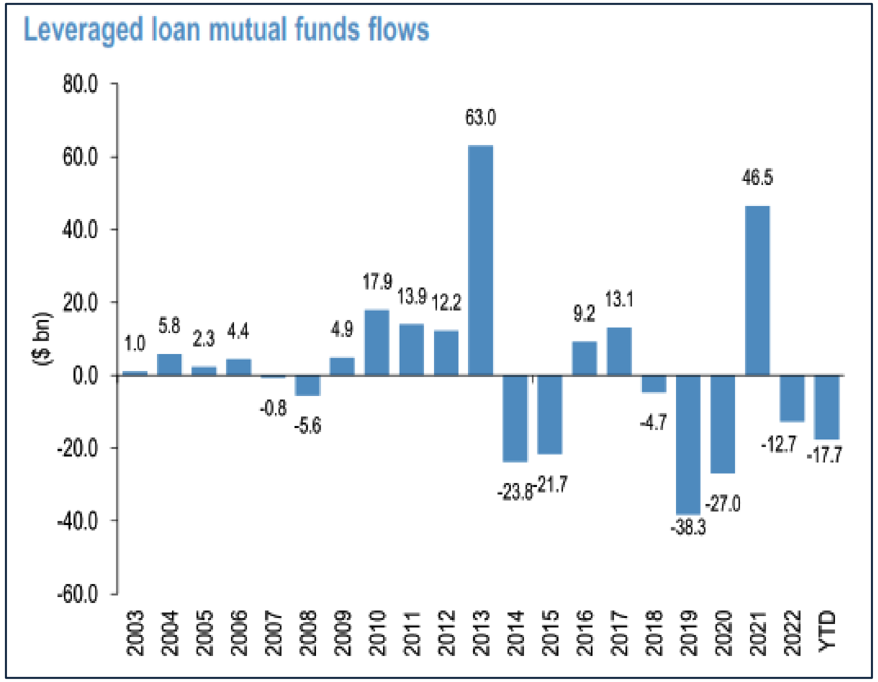


2023 inflows into IG fund more than offset outflows during the year prior

Source: JP Morgan US Credit Market Update December 28, 2023

2023 Leveraged Finance Fund Flows



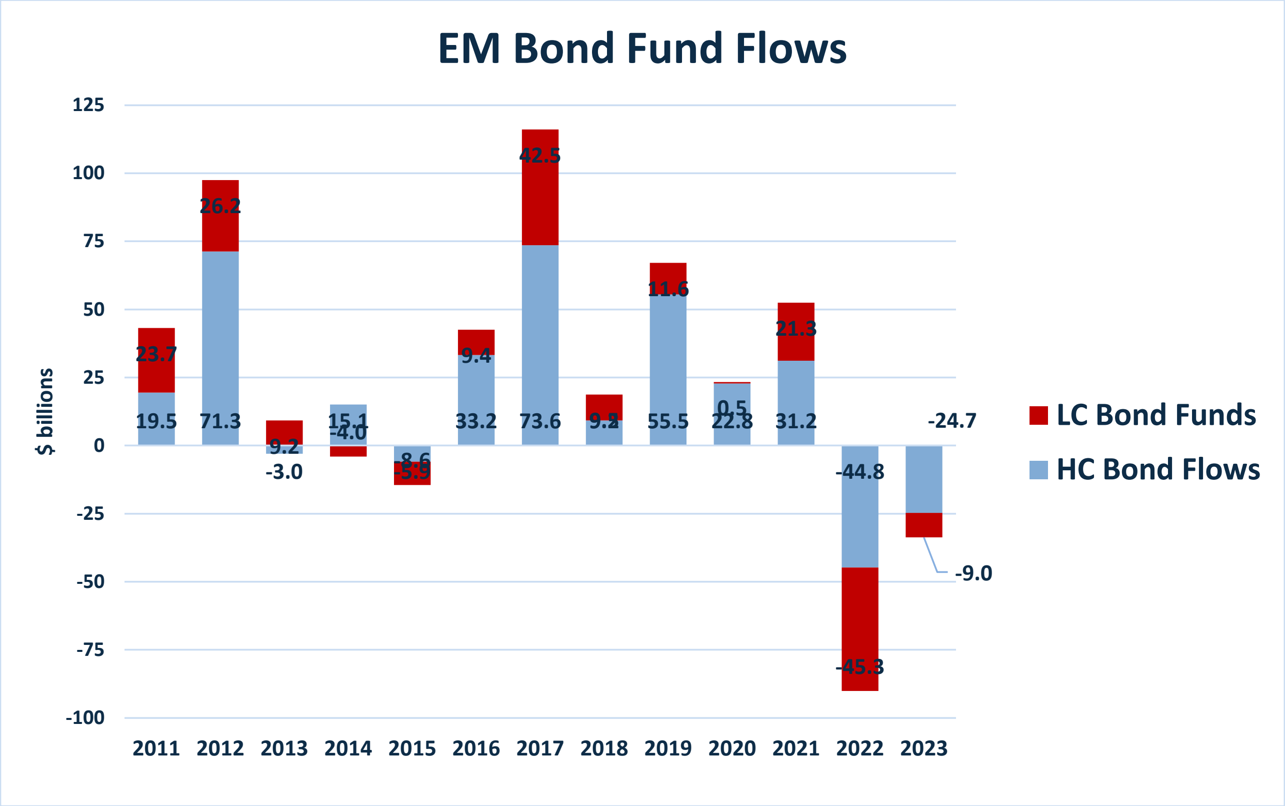


2023 shows evidence of improved technical support for bonds over loans as outflows from the former have subsided much more significantly YoY than loans

- **HY Fund Flows**
  - 2023 outflows totaled -$7.9bn, but inflows in Nov/Dec totaled $15.4bn
- **Loan Fund Flows**
  - 2023 outflows totaled -$17.7bn, inflows during the rally in Nov/Dec only totaled a mere $1bn

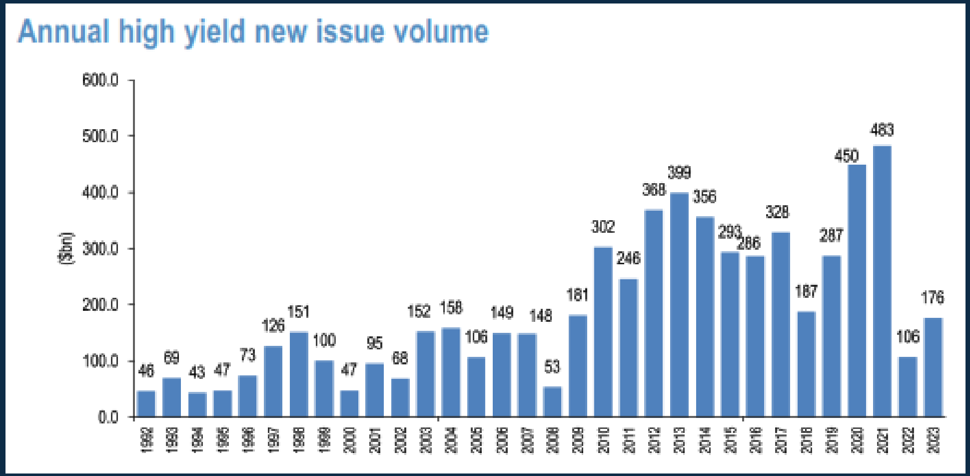
Source: JP Morgan HY Bond and Leveraged Loan Market Monitor. As of 31 December 2023.

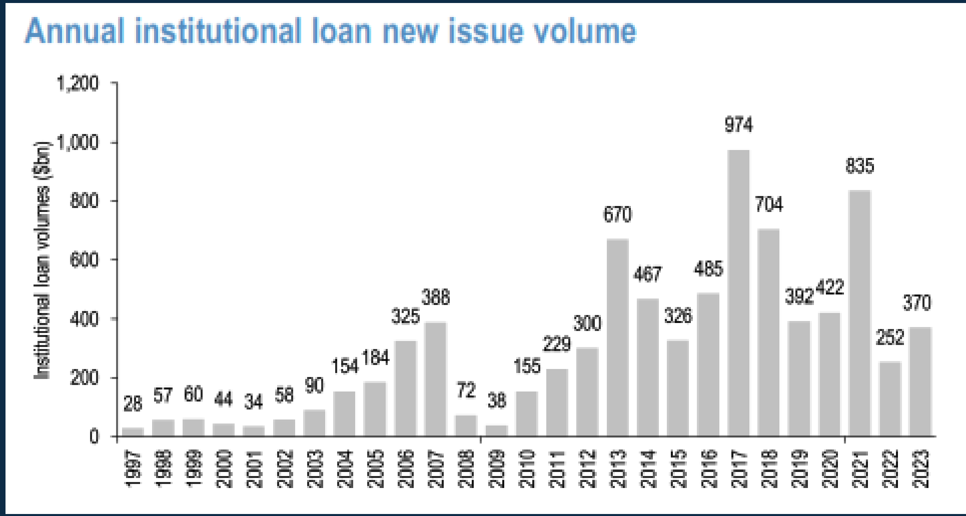
2023 EM Bond Flows as of YE



Source: JPM EM Flows Weekly

YTD New Issue Activity





Source: JP Morgan High Yield Bond and Leveraged Loan Market Monitor. As of 31 December 2023.

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High Yield Bonds

- 2023 HY issuance totaled \$175.9bn, 2nd lightest volume since 2009
  - Refinancing represented 66% of total gross volume
  - Acquisitions financing 22%
  - General corporate financing 11%
  - Dividend financing 1%
- A large portion of new issuance came from: Energy 23%, Financials 11% and Industrials 10%

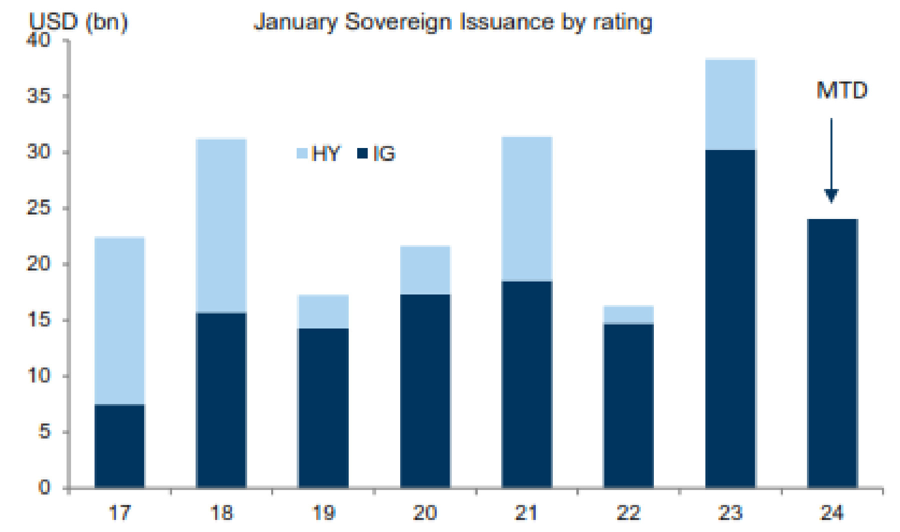
Leveraged Loans

- Loan issuance has also come back to life as Dec produced the 2nd heaviest volume since Nov 2021.
- YTD, Loan issuance totaled \$370.1bn
  - Repricing 19%
  - Refinancing represented 59% of total volume
  - Acquisition financing 16%
  - Dividend financing 4%
  - General corporate financing 1%
- A large portion of new issuance came from: Tech 14%, Services 11%, Financials 10%

EMD Issuance

- 2023 USD EMD issuance reached $93bn, 20% increase over 022 but below median since 2016 of $122bn per year.
  - Lower issuance due to higher funding costs
  - Sizeable group of sovereigns in distress with no capital market access
- But January off to a great start with Jan 2024 issuance already equal to 41% of last year's total issuance
  - Majority to date has been IG issuance

Exhibit 1: Gross EM Sovereign USD issuance is off to a strong start



Source: Morgan Stanley EM Sovereign Credit Monitor 2024-01-09

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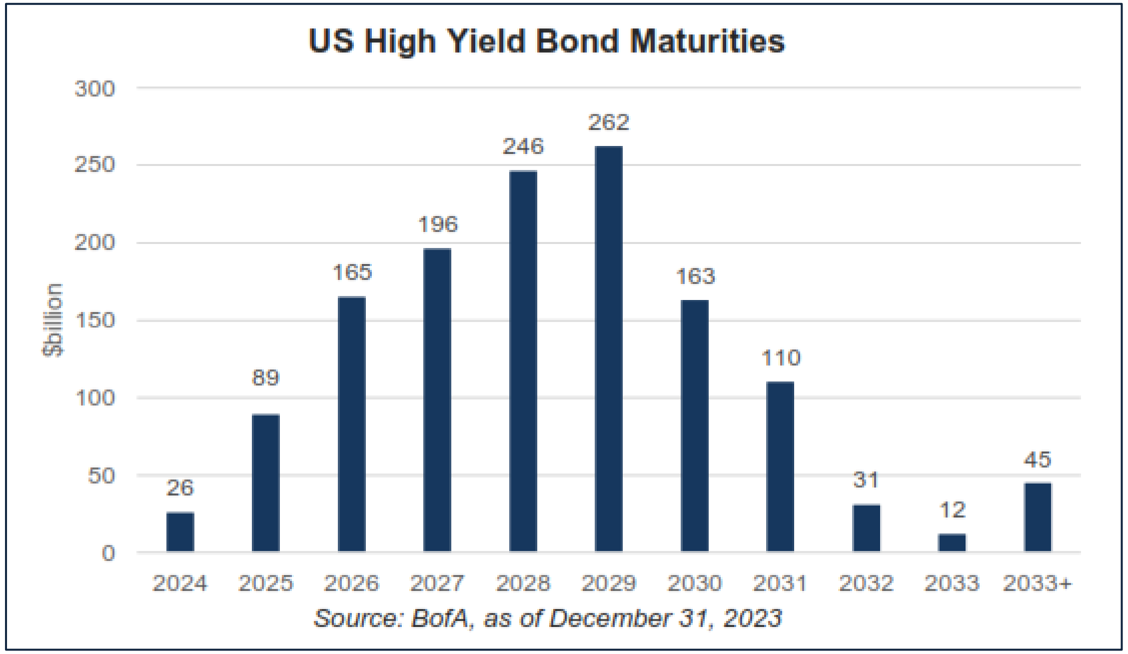
Maturity Walls in Global Fixed Income

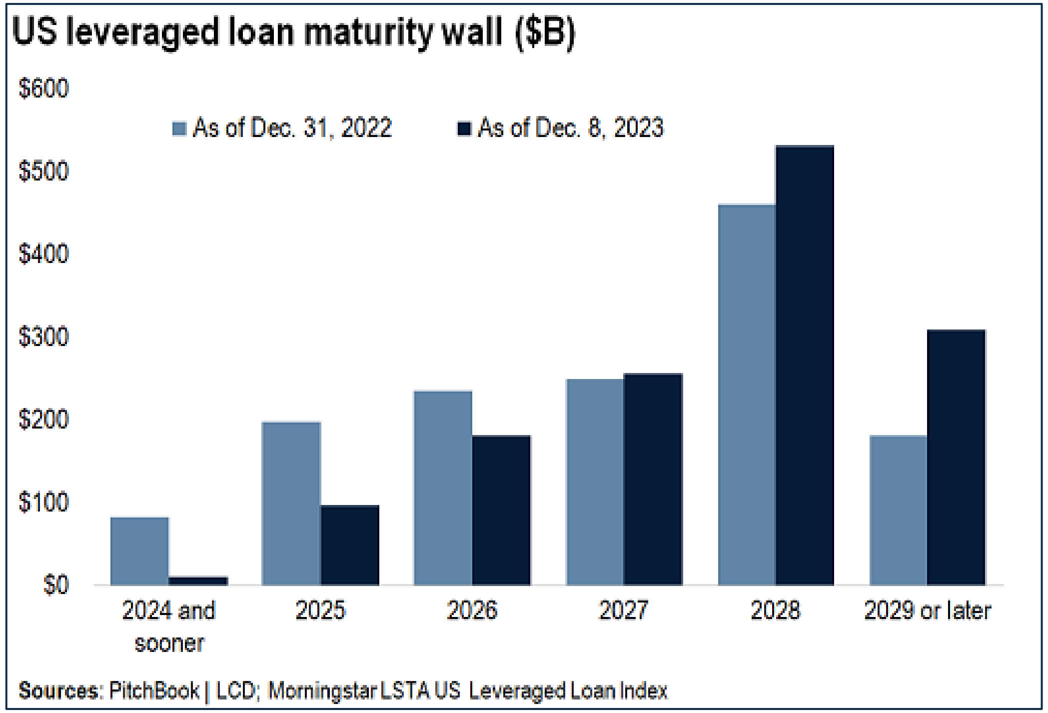
US High Yield Bond Market Maturity Wall



- Many higher quality companies termed out debt during the pandemic years at record low rates and recently new issuance has been muted versus prior years
  - Only $26bn (2% of the market) of HY bonds mature in 2024
  - But this is followed by $89bn (7% of the market) in 2025 and $165bn (13% of the market) in 2026.
  - >90% of issuers have no debt maturing before 2025, and >55% have no maturities prior to 2027.
  - Annual maturities peak at $262bn in 2029 (20% of the market)

Sources: BofA & NCRAM

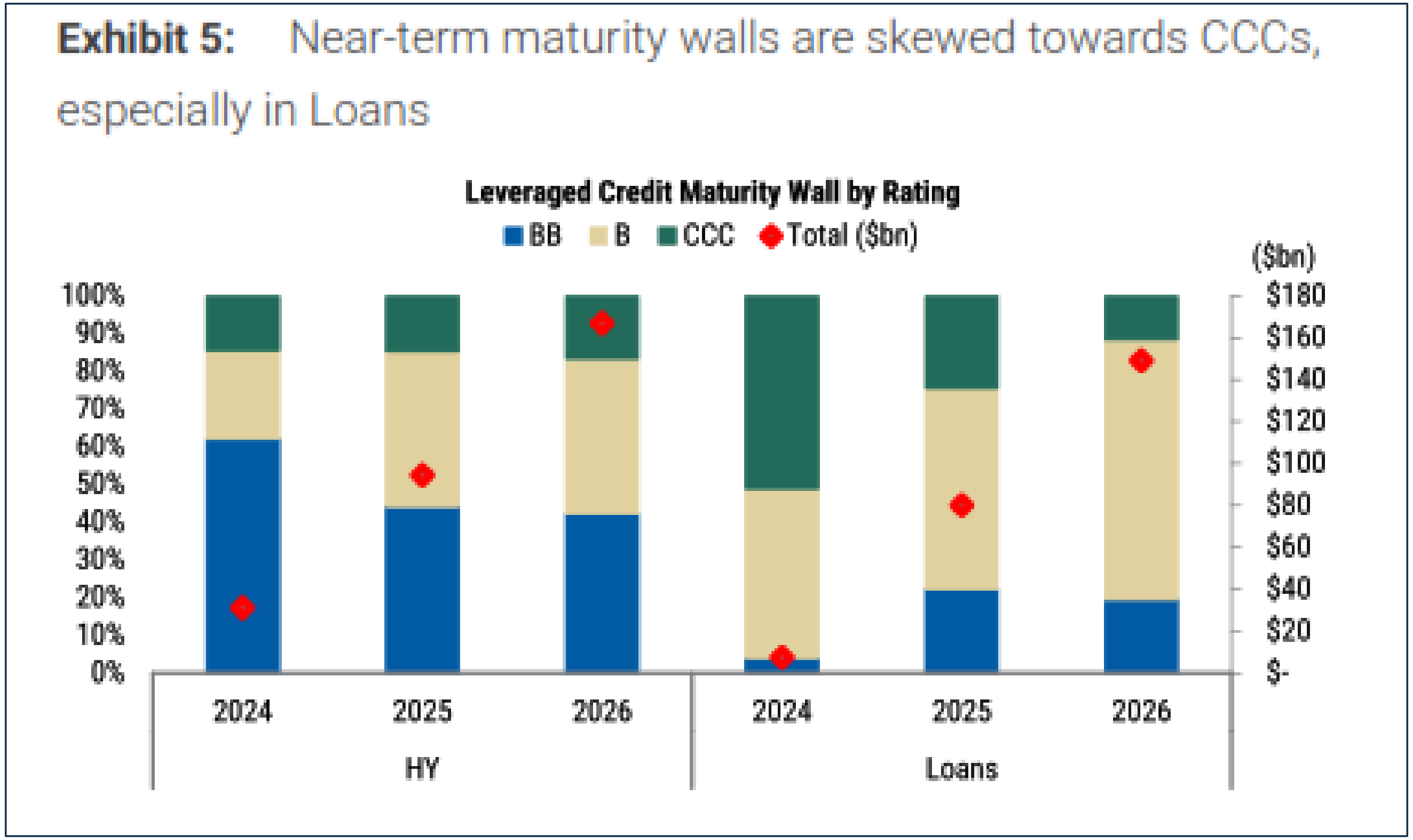
US Leveraged Loan Market Maturity Wall



- Refinancing and extension activity in 2023 helped to significantly reduce near term maturity pressures and maturity wall more back-ended now
  - $96bn (6.7% of the market) of US loans are set to mature in 2025 (half of what it was at YE 22)
  - This is followed by $181bn (12.6% of the market) in 2026.
  - 51% of 2025 maturities is from B- issuers
  - Annual maturities peak at $532bn (37.2% of the market) in 2028

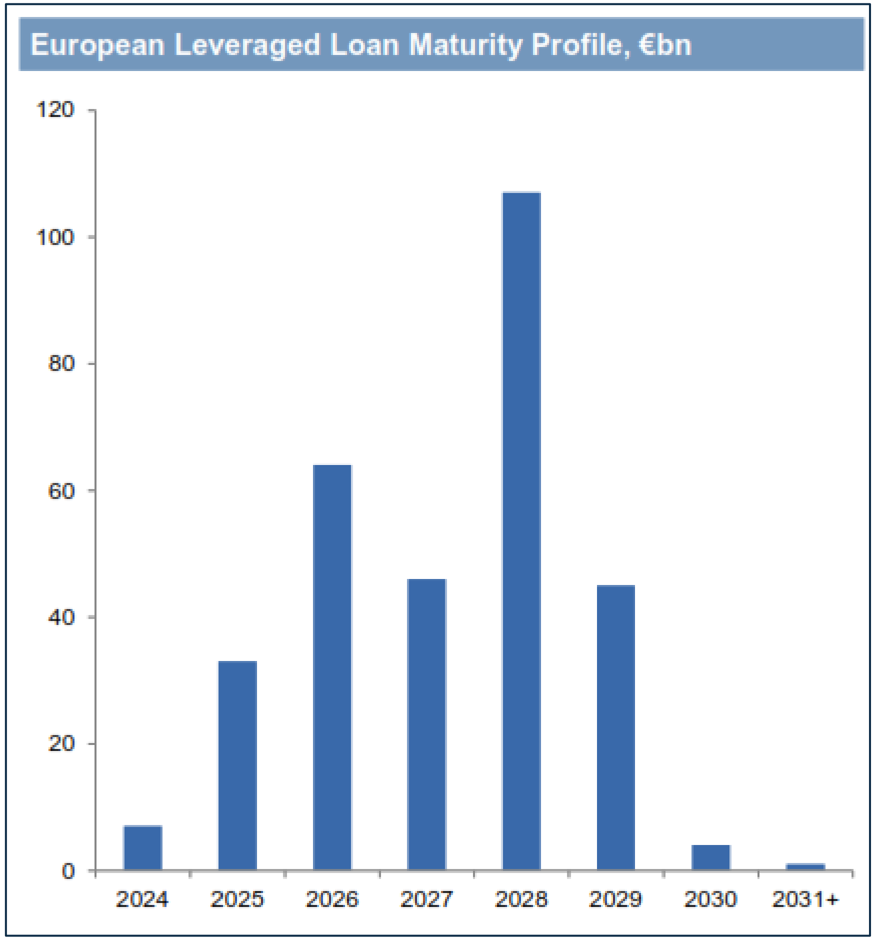
Source: NCRAM & Pitchbook

US Leveraged Finance Maturity Wall Concentrated in CCC Bucket



Source: Morgan Stanley Leveraged Finance Strategy 2024-01-16

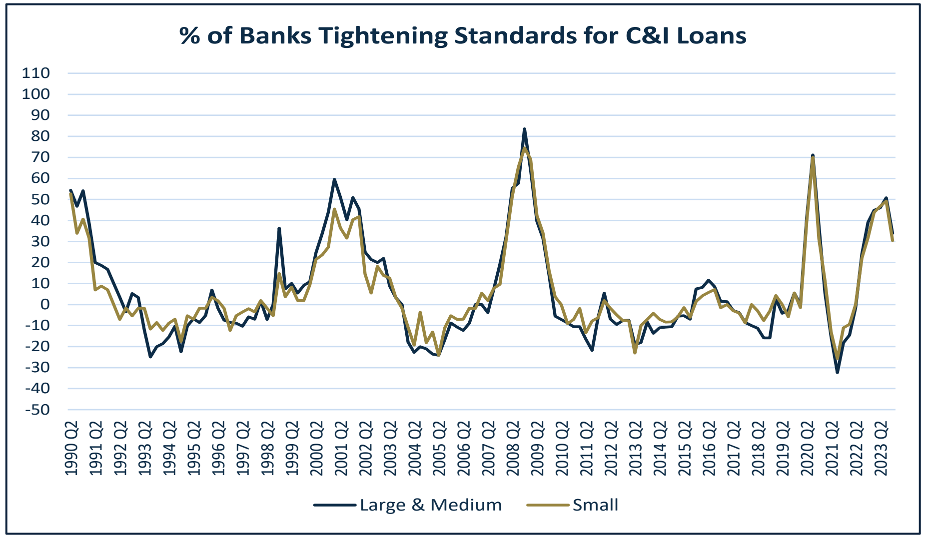
Maturity Wall
European Credit

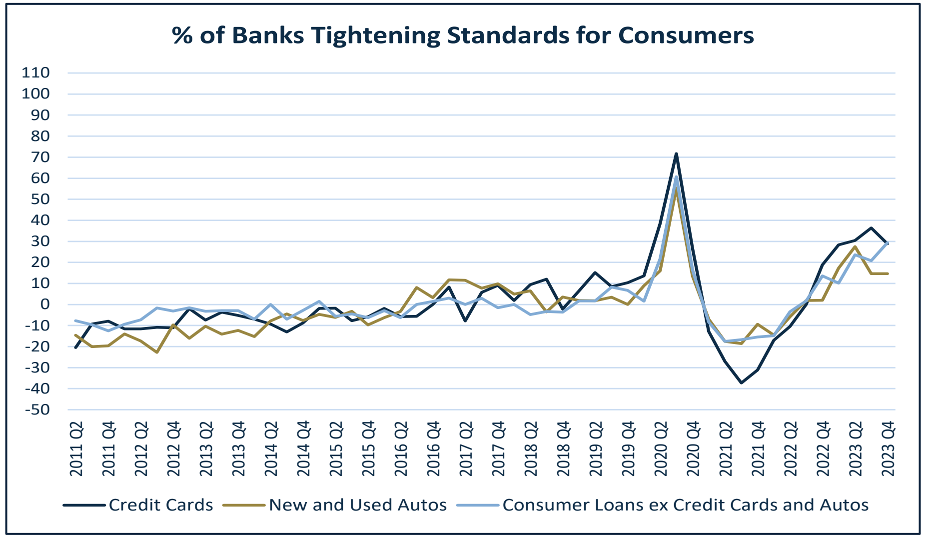


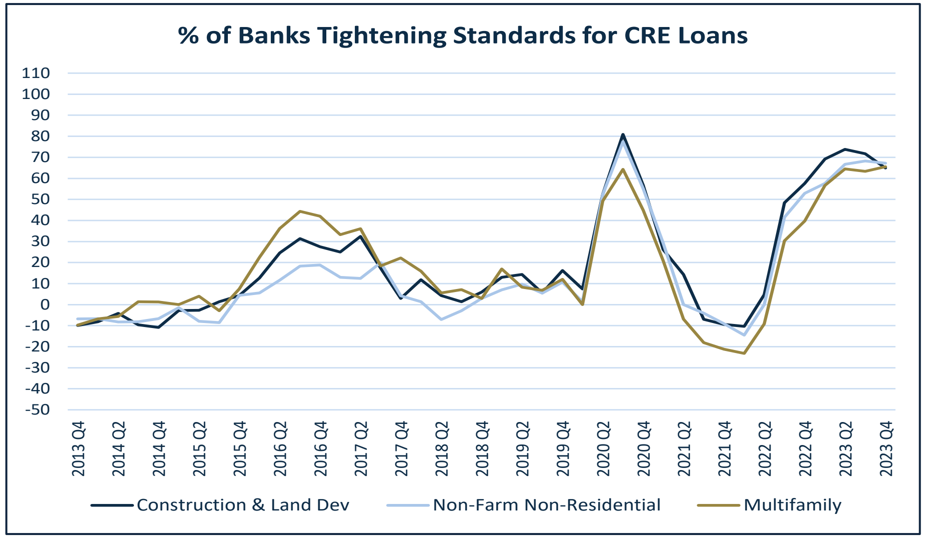
Source: JP Morgan European Credit Outlook & Strategy 2024

Appendix – Capital Markets Conditions

U.S. Banks Lending Standards October 2023 Survey





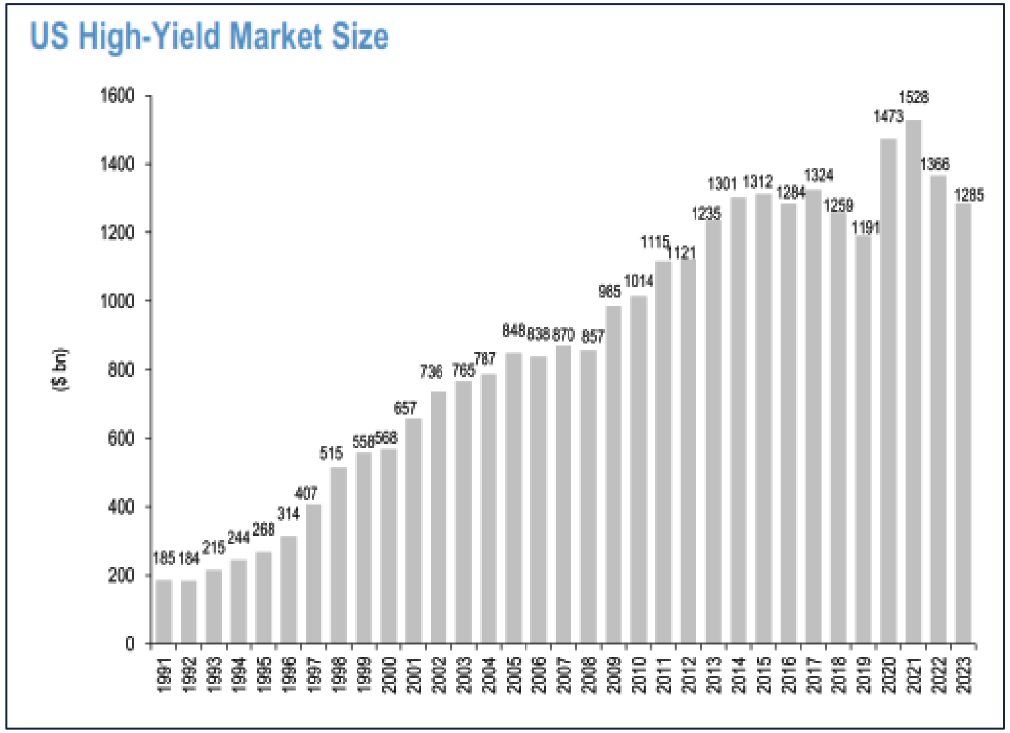


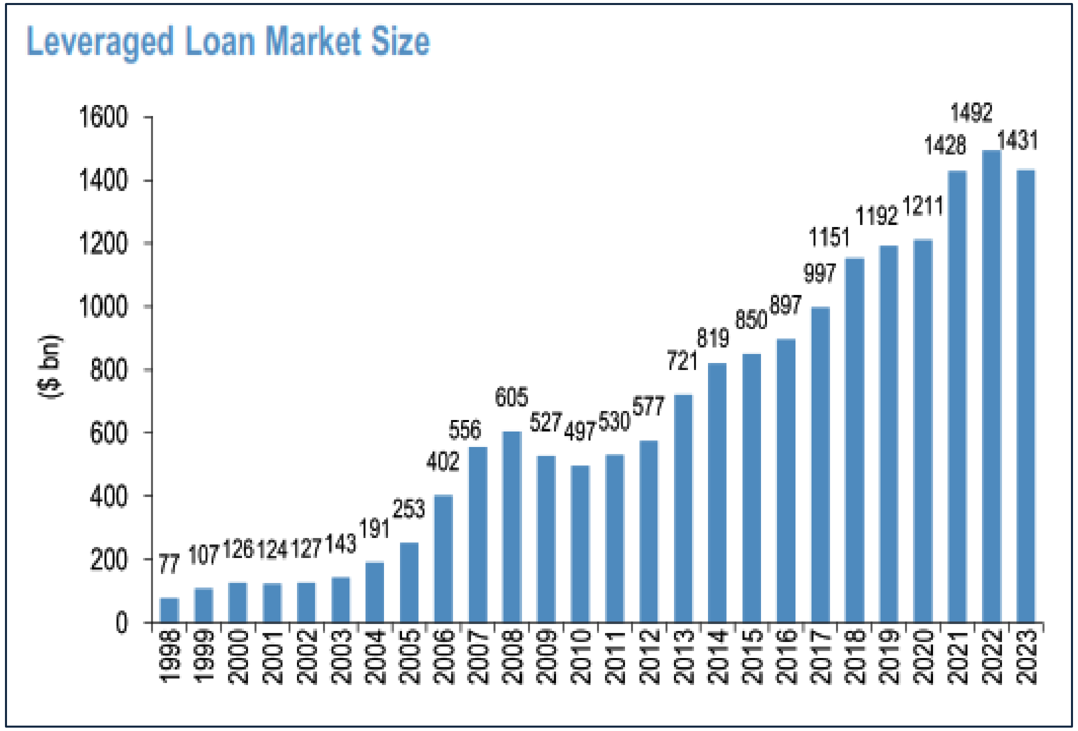
- Banks continue to tighten lending standards across all loan types
- However, there appears to be some easing relative to July, as a lower % of banks have reported tightening of standards or widening of loan spreads
- % of banks reporting increased demand for C&I and CRE loans is rising
- % of banks reporting increased demand for consumer loans is falling

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

Appendix – Market Composition

U.S. Leveraged Finance Market Size

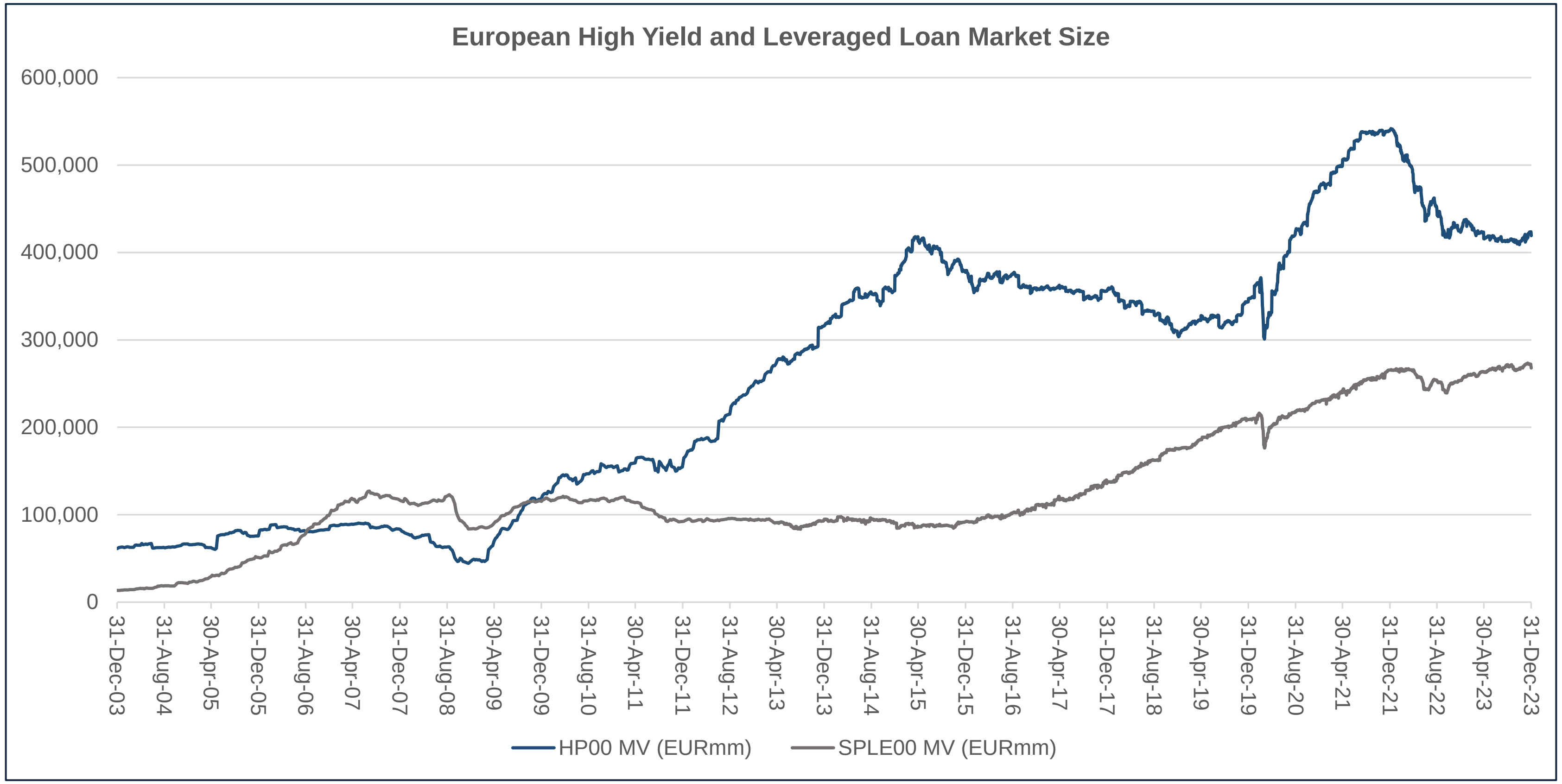




- High Yield market size has contracted by $243bn since its peak in 2021, now standing at 1.285 tn
- Loan market size has contracted by only $61bn since its peak in 2021, now standing at 1.43 tn.

Source: JP Morgan High Yield and Leveraged Loan Market Monitor

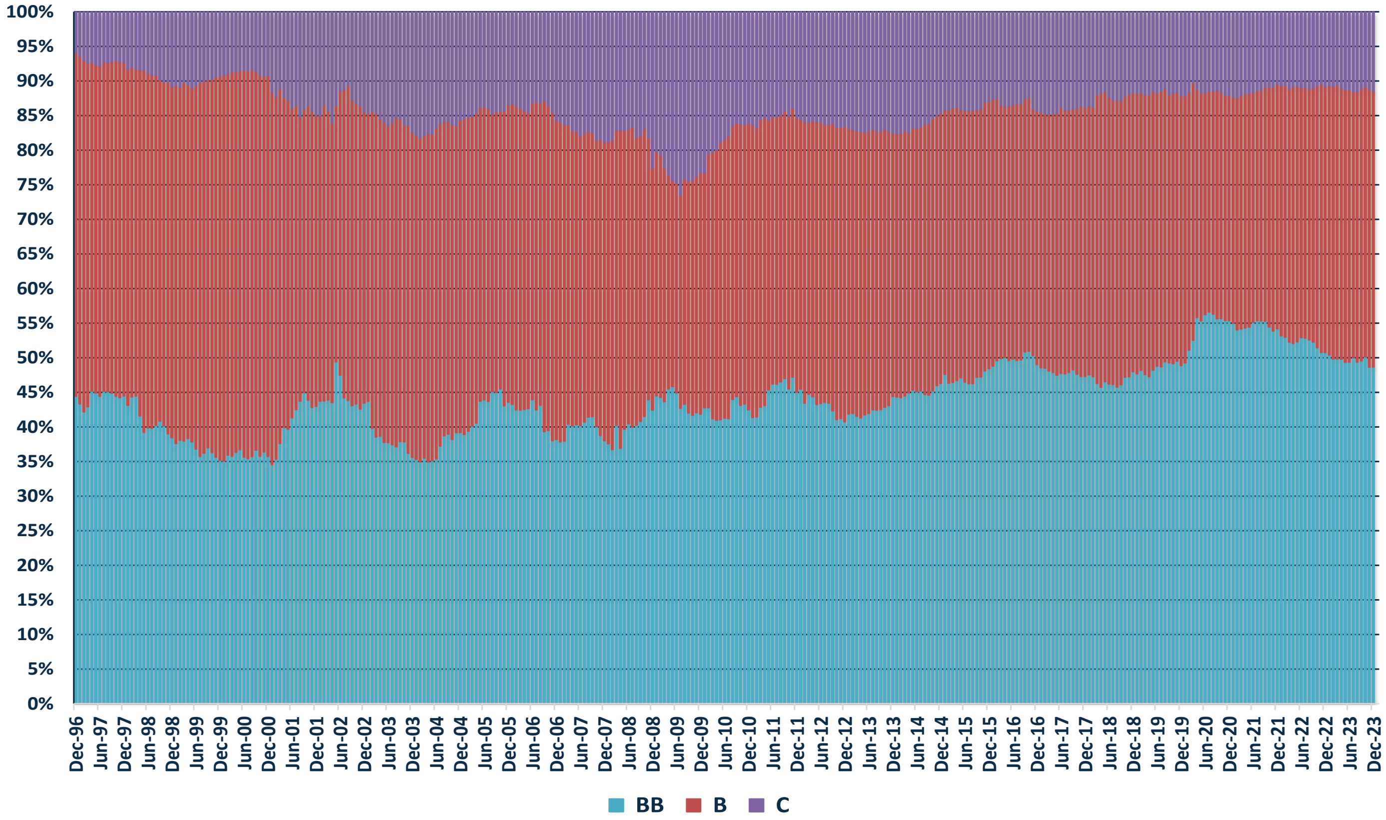
European Leveraged Finance Market Size



- As in the US markets, European High Yield market size has also contracted by $243bn since its peak in 2021, now standing at approximately €419bn
- Loan market size has continued to grow to €270bn, much smaller than the U.S. Loan market.

Source: NCRAM, ICE BofA and Morningstar/LCD

Quality Breakdown of US High Yield Market

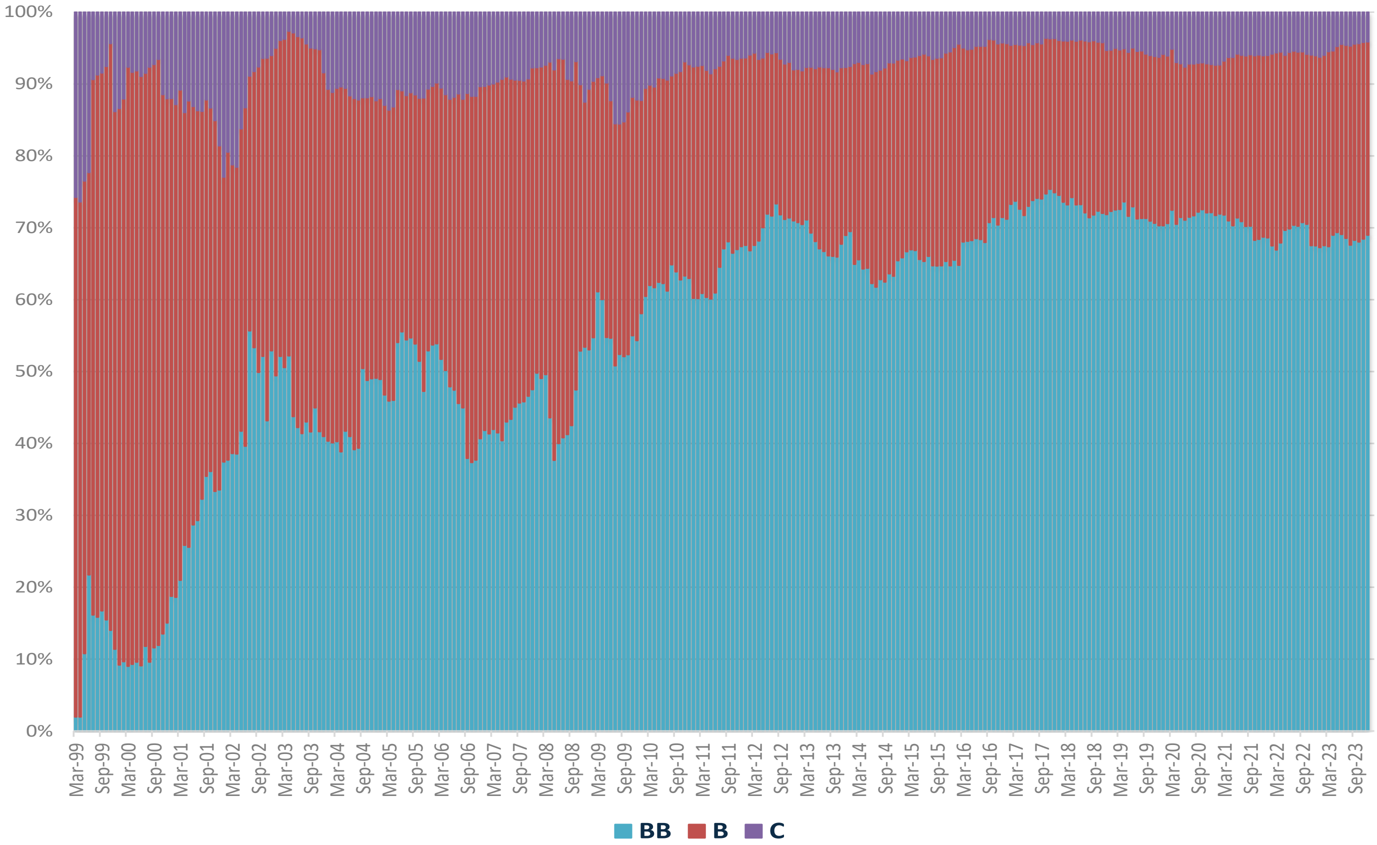


TOTAL MARKET CHARACTERISTICS	
No. of Issues	1837
Total Market Value (mn)	1238
Spread to Worst	363
Effective Duration	3.31
Yield to Worst	7.69
Par Weighted Coupon	6.08
Par Weighted Price	92.9

- The BB component is now only 49% of the HY market, down from the high reached in mid-2020 of 57%, when higher quality HY companies still had access to the capital markets at rock bottom interest rates.
- The C component now comprises 11% of the HY market, which has been the average over the last 5 years and down significantly from 26% in mid-2009.

Source: BofA/ML High Yield Indices

Quality Breakdown of European High Yield Market

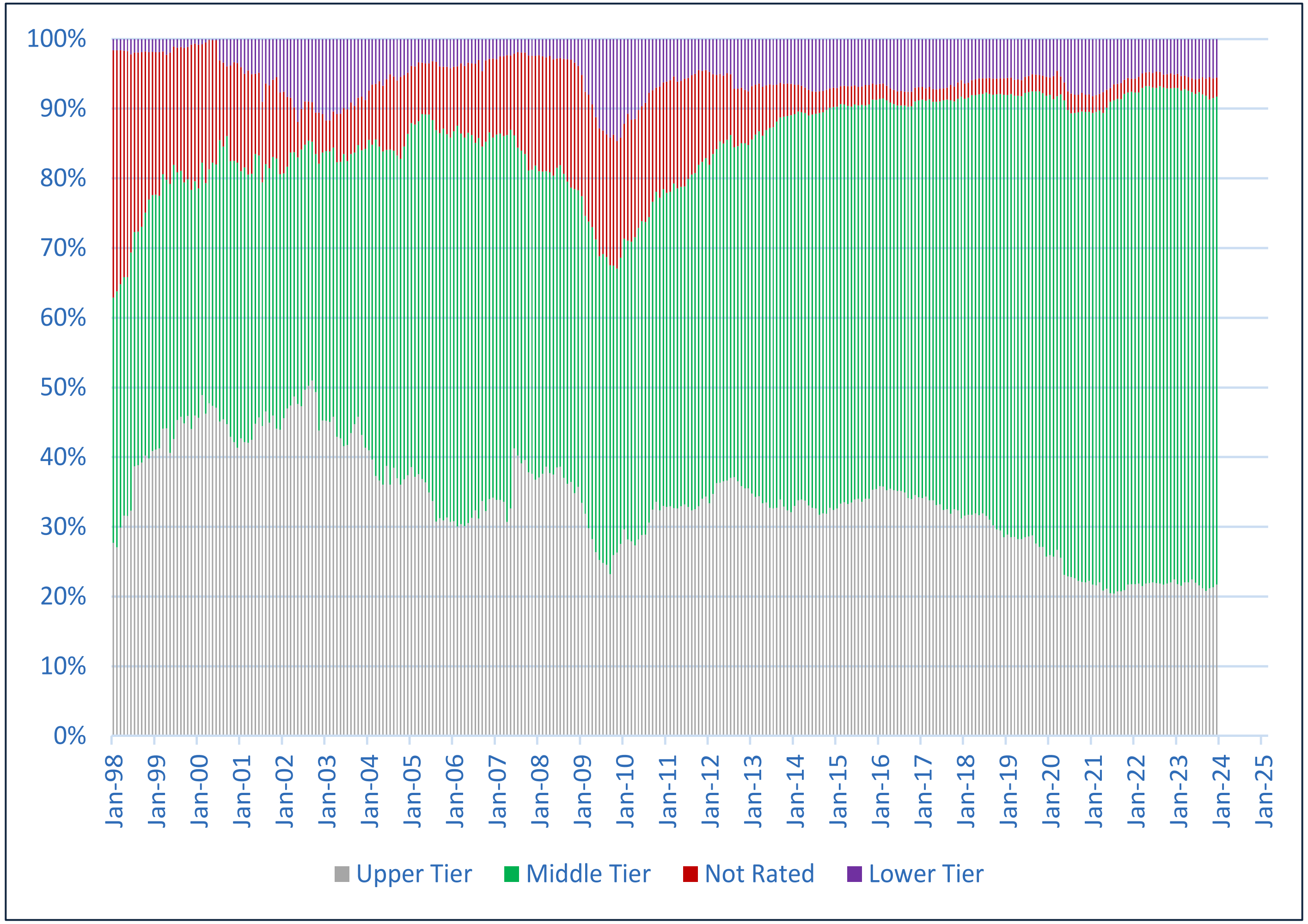


TOTAL MARKET CHARACTERISTICS	
No. of Issues	701
Total Market Value (mn)	373
Spread to Worst	406
Effective Duration	2.79
Yield to Worst	6.30
Par Weighted Coupon	4.17
Par Weighted Price	92.3

- European HY market is much higher quality than the U.S. market with the BB component compromising about 70% of the market over the last 5 years.
- The C component is now only 4% of the market, much lower than 15% seen in mid-2009 and 23% during the 2002 distressed cycle.

Source: BofA/ML High Yield Indices

Quality Breakdown of U.S. Leveraged Loan Market



TOTAL MARKET CHARACTERISTICS	
No. of Issues	1632
Total Market Value (mn)	1400.3
Discount Margin (3-Yr)	528
Years to Maturity	4.1
Par Weighted Coupon	9.36
Par Weighted Price Excl Defaults	95.9
Average Rating	B

Source: Credit Suisse Leveraged Loan Index

2023 Notable Events

2023 Timeline

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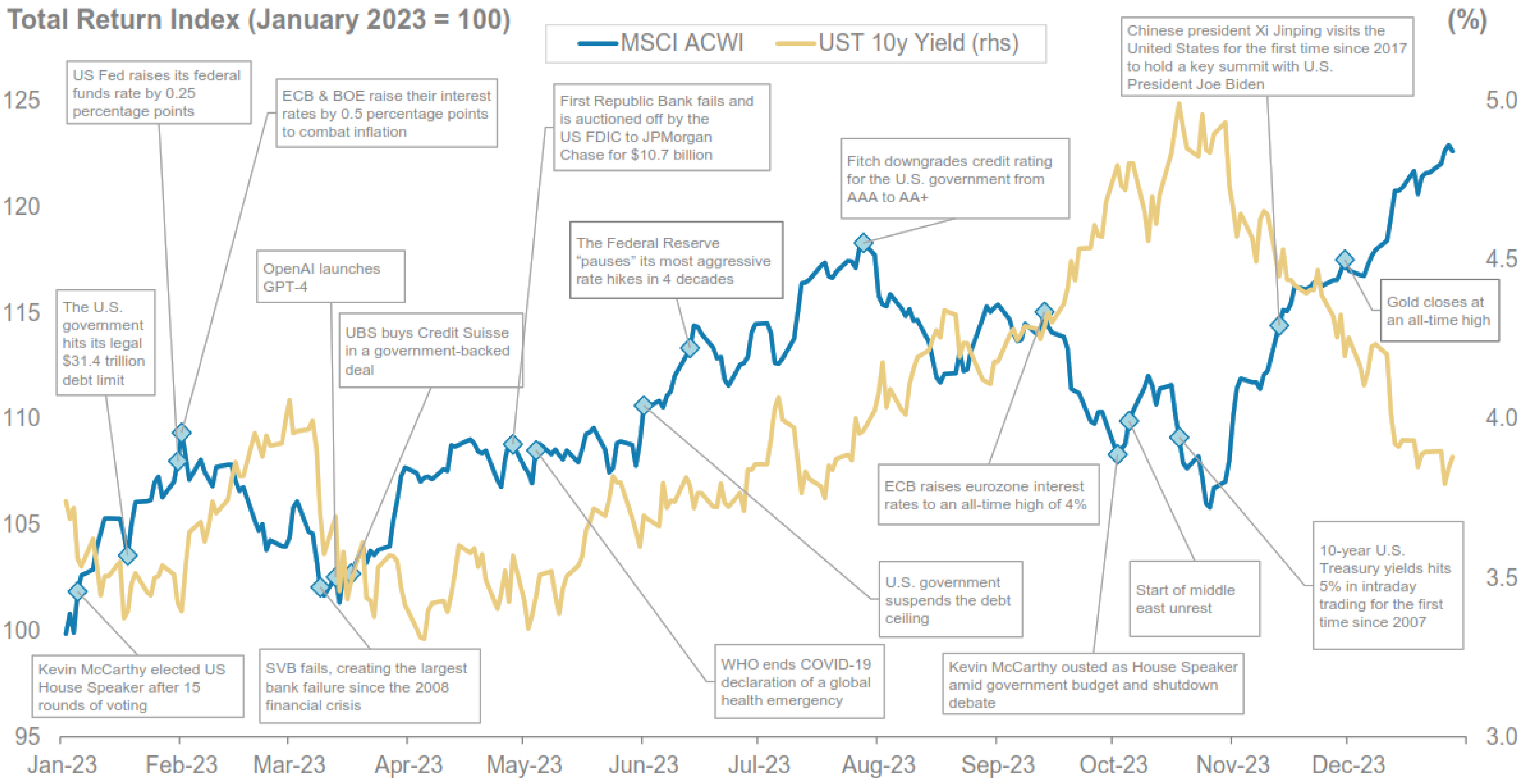

Source: Morgan Stanley

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Considerations and risks related to asset classes:

Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

Hedge Fund investing is speculative and involves significant risk including the risk of losing some or all of the invested capital. Hedge fund strategies may participate in the buying and selling of equity and debt securities, private investments funds, non-readily realisable investments, illiquid investments suspension of trading, concentrated investments, developed and emerging market investments. Hedge fund strategies may be exposed to risks stemming from usage of leverage, derivatives, futures, options, over-the-counter derivative transactions. Counterparty and ISDA arrangements may pose potential risk. Furthermore, hedge fund strategies may be exposed to the risk of market disruptions, volatility and governmental interventions.

Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally do not allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

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