

KEY TAKEAWAYS

- Global credit delivered mostly positive returns with US and European loans and European high yield leading the way
- The end of the month brought a significant amount of heartening data, all of which may move the debate in the US from soft-landing to no-landing. There were no surprises from the FOMC (Federal Open Market Committee), which left policy rates unchanged
- In Europe, credit spreads tightened throughout the month despite the moves in interest rates, as continued inflows exceeded primary supply, ensuring a positive “technical” across both investment grade (IG) and high yield (HY)
- While a steady pace of easing across EM is more broadly favored by policy makers, strong progress on the inflation front seems to be prompting some countries to accelerate their pace of rate cuts

HIGH YIELD AND LEVERAGED LOAN TECHNICALS

US Retail Fund Flows

US\$0.4 billion in high yield inflows, US\$0.1 billion in leveraged loan retail inflows MTD (through 01.31)

HY New Issuance*	US	EUROPE
YTD	US\$31.6 bn	US\$9.6 bn
MTD	US\$31.6 bn	US\$9.6 bn
Loan New Issuance*	US	
YTD	US\$136.1 bn	
MTD	US\$136.1 bn	

Main Market Driver

Macro: Strong economic data

Micro: Strong HY Technicals in Europe

Default Rates**

	US	EUR
LTM	5.6%	3.5%

US New Issuance Names (500 mn and above) MTD

Stena International, Hilton Grand Vacations, Chobani LLC, Global Auto, Antero Resources, DirecTV Fin, Aliant Holdings, Acrisure, Tallgrass Energy, CSC Holdings, Caliber Collision, Hub International Ltd, KeHE Distributors, Caesars Entertainment, Merlin Entertainment, Freedom Mortgage, NGL Energy Partners, Talos Production Inc., Nationstar Mortgage Holdings Inc, Rakuten Group, UKG Inc., Kodiak Gas Services, Ineos Finance, Husky Injection, Fiesta Purchaser Inc.

US New Issuance Pipeline (Announced)

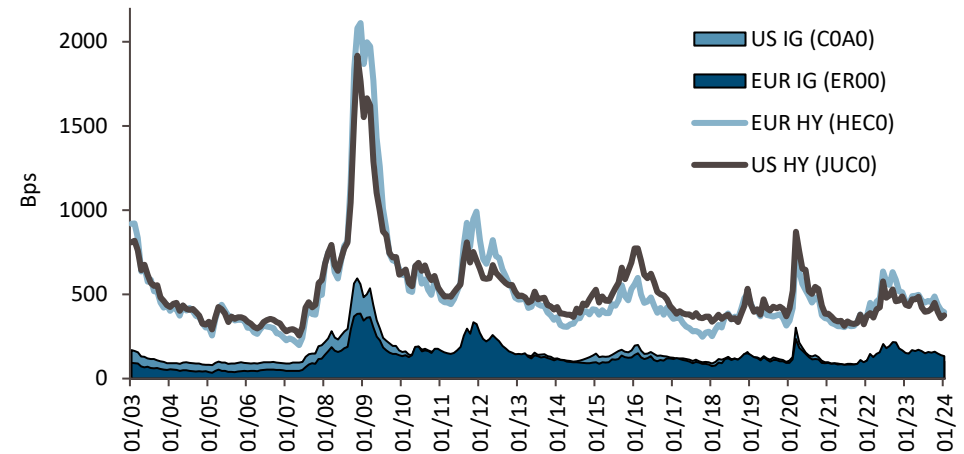
Crash Champions, Artera Services, Consolidated Energy

Note: Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy and should not be construed as investment advice or investment recommendation of those companies.

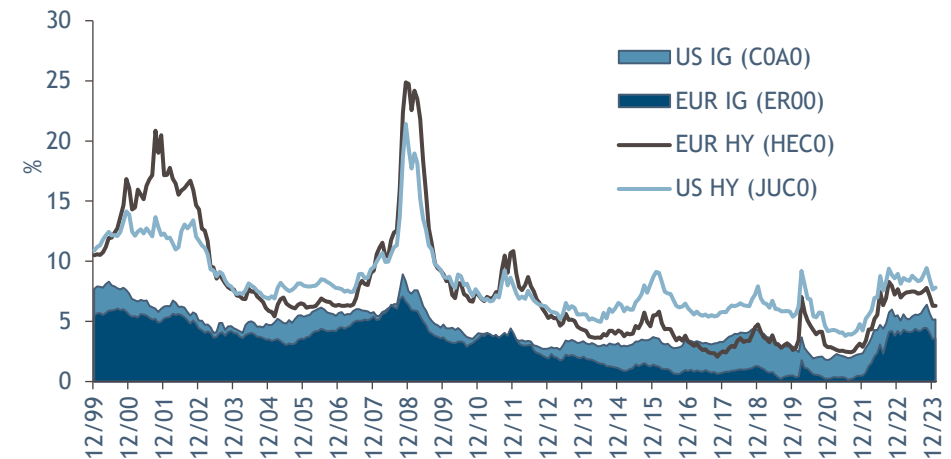
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**Moody's Default Report as of December 31st, 2023. Most recent data available used.

CORPORATE BOND SPREADS (STW) BY INDEX



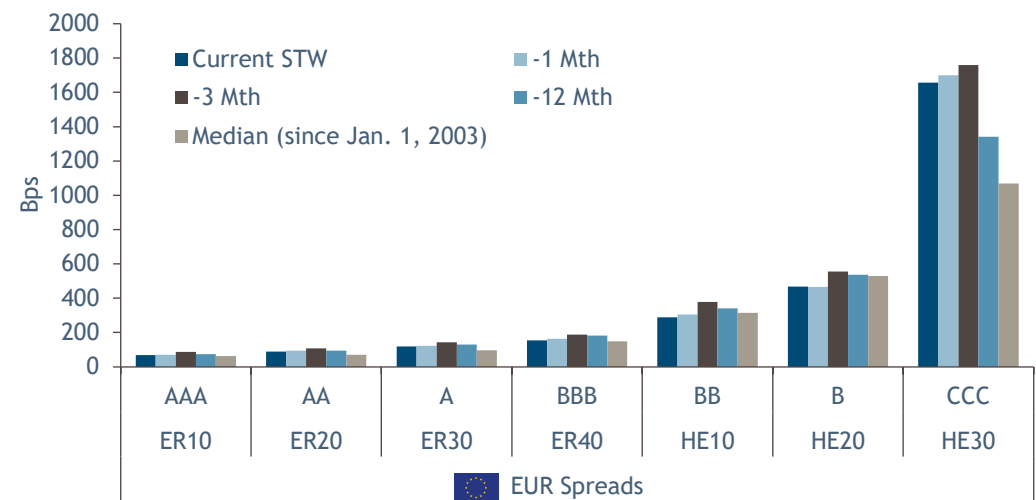
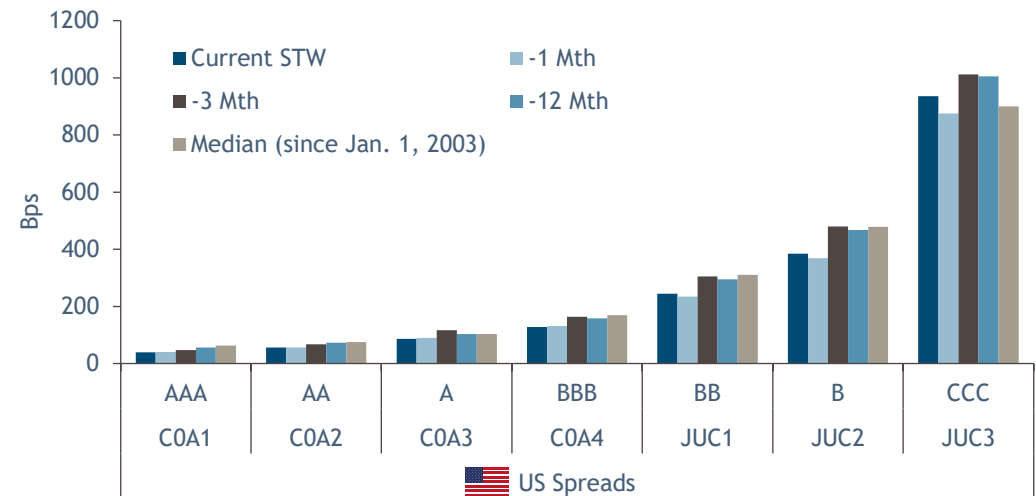
CORPORATE BOND YIELDS (YTW) BY INDEX



CORPORATE BOND SPREADS (STW) - JANUARY 31, 2024

	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)	
US	COA0	IG	103	106	134	127	131	
	JUC0	HY	376	358	449	439	453	
	JUC4	BB/B	309	294	382	371	386	
	COA1	AAA	40	41	48	56	63	
	COA2	AA	56	56	68	73	75	
	COA3	A	87	90	117	104	103	
	COA4	BBB	128	132	164	158	170	
	JUC1	BB	245	234	305	295	311	
	JUC2	B	385	369	480	468	479	
	JUC3	CCC	936	875	1012	1005	900	
	EM	EMCL	All	245	245	268	274	305
	EUR	ER00	IG	133	139	161	153	117
HEC0		HY	395	407	488	455	432	
ER10		AAA	68	70	87	73	63	
ER20		AA	89	94	108	95	71	
ER30		A	119	123	142	129	96	
ER40		BBB	154	163	188	182	148	
HE10		BB	289	306	378	340	315	
HE20		B	467	465	556	537	529	
HE30		CCC	1656	1700	1760	1341	1068	

CORPORATE BOND SPREADS (STW)



MARKET PERFORMANCE % AND STATISTICS - JANUARY 31, 2024

		Performance Summary (%)				Characteristics			Performance History (% annualised)					
High Yield		MTD	Pr. Mth	QTD	YTD	DTW (yrs)	YTW (%)	STW (bps)	1 Year	2 Year	3 Year	4 Year	5 Year	
JUC0	US HY	0.01	3.69	0.01	0.01	3.63	7.81	376	9.18	1.82	1.90	3.02	4.26	
JC4N	US HY BB-B	0.06	3.38	0.06	0.06	3.70	7.14	310	8.60	1.80	1.70	2.81	4.18	
HEC0	Euro HY	0.83	2.90	0.83	0.83	2.95	6.29	395	9.42	0.76	0.95	1.44	2.91	
HEC5	Euro HY BB-B	0.69	2.94	0.69	0.69	3.03	5.76	344	9.56	0.84	0.87	1.19	2.46	
Investment Grade														
COA0	US IG	0.15	4.04	0.15	0.15	6.77	5.16	103	4.49	-2.66	-2.73	-0.63	2.24	
C4NF	US BBB Corporates	0.16	4.24	0.16	0.16	6.91	5.34	122	5.25	-2.61	-2.57	-0.47	2.65	
ER00	Europe IG	0.09	2.76	0.09	0.09	4.44	3.58	133	5.98	-2.90	-2.67	-1.68	-0.12	
EN40	Europe BBB	0.18	2.90	0.18	0.18	4.45	3.70	145	6.30	3.10	2.06	1.54	1.23	
Governments (7-10 Year Indices)														
G4O2	US Treasuries 7-10 Yrs	0.02	3.85	0.02	0.02	7.23	3.93	1	0.20	-5.01	-4.75	-2.33	0.22	
G4L0	UK Gilts 7-10 Yrs	-1.78	5.09	-1.78	-1.78	7.55	3.74	-2	0.86	-6.01	-6.12	-4.12	-2.06	
G4D0	German Fed Govt 7-10 Yrs	-0.64	3.51	-0.64	-0.64	7.73	2.07	0	3.69	-6.51	-5.64	-4.16	-2.53	
Equities														
S&P	S&P 500 incl. Dividends	1.68	4.53	1.68	1.68				20.79	5.28	10.97	12.50	14.28	
DAX	DAX Index	0.91	3.31	0.91	0.91	YTM (%)	Discount Margin		11.74	4.53	7.96	6.82	8.63	
Loans														
								bps (3yr life)						
CS Leveraged Loan Index		0.78	1.61	0.78	0.78	9.21		529	11.08	5.98	5.47	4.98	5.24	
CS Western European Leveraged Loan Index		1.32	1.19	1.32	1.32	7.80		480	10.93	4.83	4.55	4.11	4.16	

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

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CREDIT MARKET UPDATE

US:

After a very strong two months, US fixed income credit paused, just managing to eke out a positive gain in January. The end of the month brought a significant amount of heartening data, all of which may move the debate in the US from soft-landing to no-landing. There were no surprises from the Federal Open Market Committee (FOMC), which left policy rates unchanged. Chairman Powell pushed back on the possibility of a March cut, but the Committee removed the policy tightening bias from its monthly statement. Economic data releases painted a continued picture of strength: consumer confidence hit a 2-year high, the manufacturing PMI significantly beat expectations driven by a large rise in new orders, the JOLT (Job Openings and Labor Turnover Survey) report showed openings unexpectedly rising, and—likely more concerning for the FOMC—there was an uptick in average hourly earnings.

EUROPE:

In Europe, credit markets gained in January from excess returns, while the rates market produced negative performance as rates rose for much of the month before turning lower at month-end. At the January European Central Bank (ECB) meeting, Christine Lagarde confirmed the ongoing data-dependent approach, but did not push back as firmly as expected against suggestions that the central bank would cut rates in the near term. This softer stance caused interest rates to turn lower later in the month, particularly as other prominent ECB members struck a more dovish tone. Market concerns about US regional banks also returned late in the month, helping rates move lower. Credit spreads tightened throughout the month despite the moves in interest rates, as continued inflows exceeded primary supply, ensuring a positive “technical” across both investment grade (IG) and high yield (HY). The recent theme of “compression” within the asset class continued, with BBBs outperforming single As and HY outperforming IG. Higher beta segments of the market—including subordinated financials and corporate hybrids—performed well, as investors looked to deploy cash into higher yielding opportunities. Meanwhile, longer duration credit underperformed because of the rates move.

EM:

Emerging Market (EM) debt delivered mixed returns in January, with high yield generating positive returns and investment grade delivering modestly negative performance. China

announced more stimulus to counter deflation and to kick-start the economy, and the People’s Bank of China (PBoC) made a large cut to its Reserve Requirement Ratio (RRR) to free up bank reserves for additional lending. This followed from reports that the authorities were considering additional fiscal stimulus through the issuance of a 1tn yuan special bond and a 2tn yuan package to support the stock market. Also in Asia, South Korean semiconductor companies reported positive operating performance in Q4 2023 for the first time in more than a year on the back of growth in AI related chips and a general price recovery that gained momentum in the second half of 2023. In EM, rate-cutting cycles remain underway amid easing inflation and supportive global financial conditions. While a steady pace of easing is more broadly favored by policy makers, strong progress on the inflation front seems to be prompting some countries to accelerate the cycle. At the end of the month, we saw Colombia and Hungary’s central banks start easing, with a pick-up in pace expected. Brazil’s central bank maintained its assumed pace of cuts, while Chile’s central bank accelerated. Looking ahead, markets continue to price significantly more rate cuts even as continued growth resilience and stickier core disinflation make a case for deeper cuts that much harder.

OUTLOOK

January saw various central banks approach the beginning of rate cutting as inflation data broadly continued to trend lower despite continued strong economic and jobs data in the US. While we expect some rate volatility to continue, an abatement of the duration headwinds investors faced over the last two years seems imminent and may even provide a tailwind to fixed income returns. While economic growth is slowing—particularly in Europe—we believe corporate balance sheets are well positioned across global credit. As we have been saying, corporate credit balance sheets entered this cycle in good fundamental shape with low leverage and high coverage, and with a relatively benign maturity profile. Default activity has largely remained concentrated in certain sectors (e.g., healthcare, tech) where leverage was high, and in others (e.g., telecom) with secular concerns. Large sectors in credit, such as energy, continue to perform well. While maturities do begin to pick up in 2025 in the US—and are more significant in 2024 for Europe—financing markets remain open to good credits.

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Important Information

The following indices referenced in the snapshot are ICE BofA indices:

JUC0 - ICE BofA US Cash Pay High Yield Constrained Index
JUC1 - ICE BofA BB US Cash Pay High Yield Constrained Index;
JUC2 - ICE BofA Single-B US Cash Pay High Yield Constrained Index;
JUC3 - ICE BofA CCC and Lower US Cash Pay High Yield Constrained Index;
JUC4 - ICE BofA BB-B US Cash Pay High Yield Constrained Index;
JC4N - ICE BofA BB-B US Non-Financial Cash Pay High Yield Constrained Index;
HEC0 - ICE BofA Euro High Yield Constrained Index;
HE10 - ICE BofA BB Euro High Yield Index;
HE20 - ICE BofA Single-B Euro High Yield Index;
HE30 - ICE BofA CCC & Lower Euro High Yield Index;
HEC5 - ICE BofA BB-B Euro Non-Financial High Yield Constrained Index;
COA0 - ICE BofA US Corporate Index;
COA1 - ICE BofA AAA US Corporate Index;
COA2 - ICE BofA AA US Corporate Index;
COA3 - ICE BofA Single-A US Corporate Index;
COA4 - ICE BofA BBB US Corporate Index;
C4NF - ICE BofA BBB US Non-Financial Corporate Index;
ER00 - ICE BofA Euro Corporate Index;
ER10 - ICE BofA AAA Euro Corporate Index;
ER20 - ICE BofA AA Euro Corporate Index;
ER30 - ICE BofA Single-A Euro Corporate Index;
ER40 - ICE BofA BBB Euro Corporate Index;
EN40 - ICE BofA BBB Euro Non-Financial Index;
G4O2 - ICE BofA 7-10 Year US Treasury Index
G4L0 - ICE BofA 7-10 Year UK Gilt Index
G4D0 - ICE BofA 7-10 Year German Government Index;
EMCL - ICE BofA US Emerging Markets Liquid Corporate Plus Index.

S&P 500 - The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. DAX - The German Stock Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The equities use free float shares in the index calculation.

CS Leveraged Loan Index - The CS Leveraged Loan Index is designed to mirror the investable universe of US dollar denominated leveraged loan market. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have a minimum outstanding balance of \$100 million for all facilities except TL A facilities (TL A facilities need a minimum outstanding balance of US\$1 billion), issuers domiciled in developed countries, at least one year long tenor, be rated "5B" or lower, fully funded and priced by a third party vendor at month-end.

CS Western European Leveraged Loan Index - The CS Western European Leveraged Loan Index is designed to mirror the investable universe of the Western European leveraged loan market. Loans denominated in US dollar or Western European Currencies are eligible for inclusion. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have minimum outstanding balance of \$100 million (in local currency), issuers with assets located in or revenues derived from Western Europe, at least one year long tenor, be rated "5B" or lower, fully funded and priced by a third party vendor at month-end.

All performance, duration, yield and spread data downloaded from Bloomberg. Markit iBoxx USD Leveraged Loan (IBOXLTRI), S&P 500 incl. Dividends, and DAX figures from Bloomberg. You cannot invest directly into an index.

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