

KEY TAKEAWAYS

-In both the US and Europe, credit delivered mostly positive returns, with high yield and investment grade posting positive performance and government bonds declining on the back of higher rates. Emerging Markets (EM) returns were positive this month, largely due to the likelihood of a US soft-landing and the start of the easing cycle in Latin America with Chile's central bank cutting rates by 100 bps

-The US soft-landing narrative gained momentum with employment data continuing to show labor market resilience as inflation moved steadily back towards target

-Towards the end of July, the Federal Reserve (Fed) hiked policy rates by 25 basis points (bps), confirming a fully data-dependent approach going forward and striking a more dovish tone than at previous meetings

-The European Central Bank (ECB) also hiked by 25 bps—the more cautious narrative in Europe was driven by leading indicators suggesting an economic slowdown, and an expectation that inflation will decline meaningfully through the rest of the year

HIGH YIELD AND LEVERAGED LOAN TECHNICALS

US Retail Fund Flows

US\$1.3 billion in high yield inflows, US\$0.1bn billion in leveraged loan retail inflows MTD (through 07.31)

HY New Issuance*	US	EUROPE
YTD	US\$102.3 bn	US\$34.6 bn
MTD	US\$6.7 bn	US\$4.1 bn

Loan New Issuance*	US
YTD	US\$158.5 bn
MTD	US\$23.0 bn

Main Market Driver

Macro: Good economic data

Micro: Solid high yield technical

Default Rates**	US	EUR
LTM	3.8%	3.0%

US New Issuance Names (500 mn and above) MTD

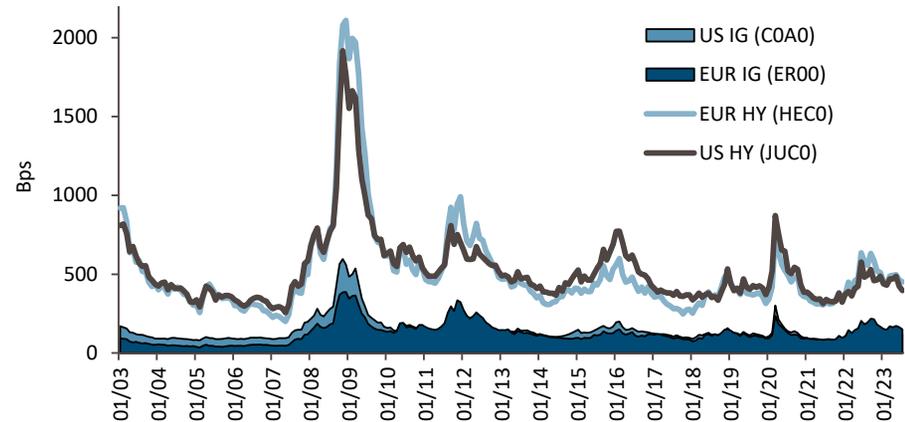
Seadrill Finance, Beacon Roofing Supply, Morgan Automotive Group, Coty Inc., Univision Communications, Brand Industrial Service, Arconic

US New Issuance Pipeline (Announced)

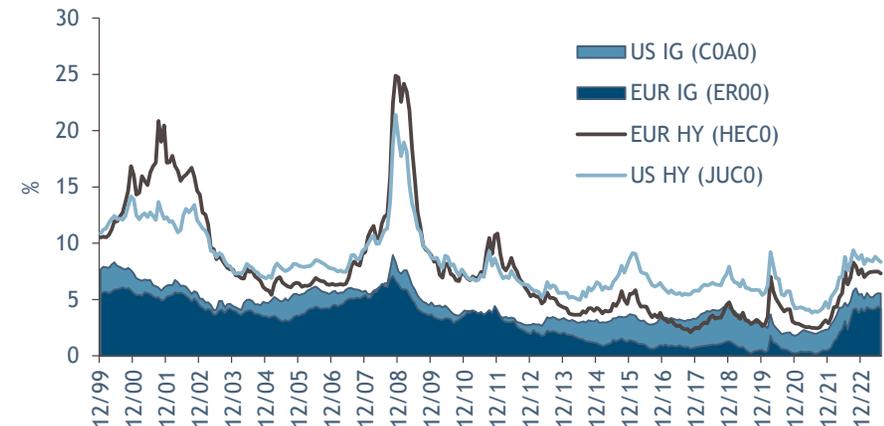
KDC/One Development, LifePoint Health, Veritext

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.

CORPORATE BOND SPREADS (STW) BY INDEX



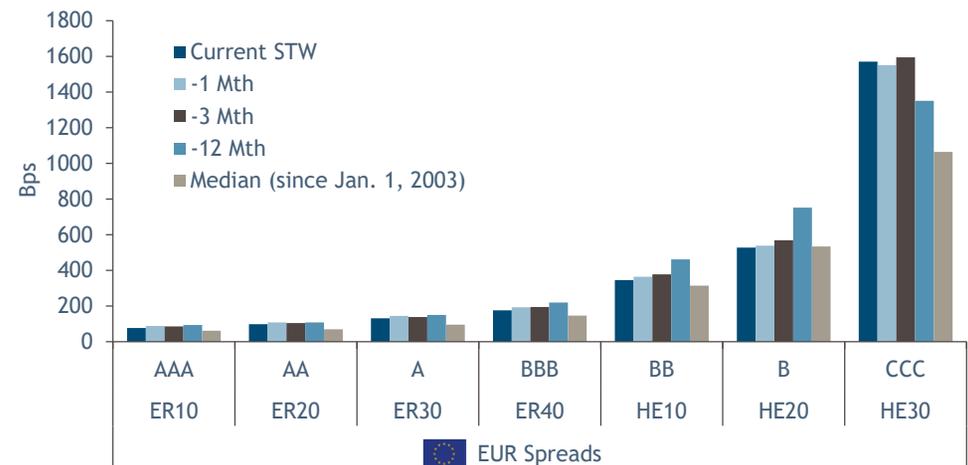
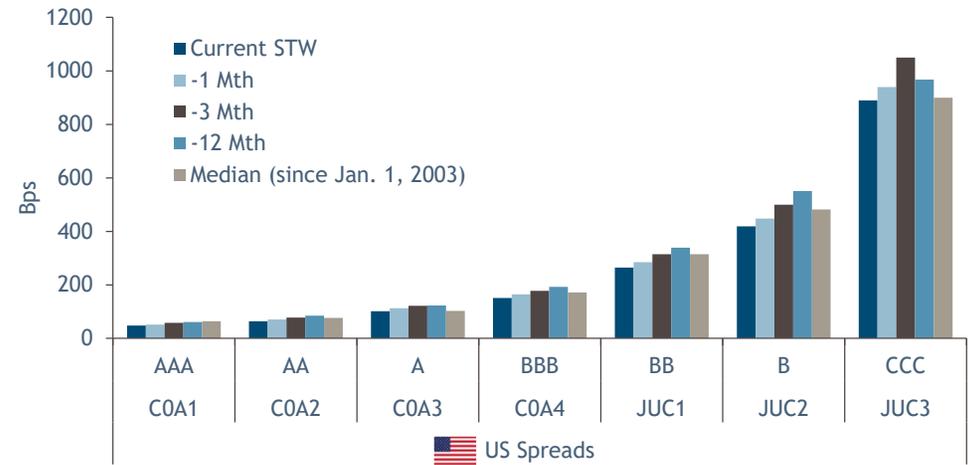
CORPORATE BOND YIELDS (YTW) BY INDEX



CORPORATE BOND SPREADS (STW) - July 31, 2023

	Index	Rating	Current STW	-1 Mth	-3 Mth	-12 Mth	Median (since Jan. 1, 2003)
US	COA0	IG	121	134	144	154	132
	JUC0	HY	397	424	470	481	462
	JUC4	BB/B	332	359	398	424	391
	COA1	AAA	48	52	58	61	64
	COA2	AA	64	71	78	85	77
	COA3	A	102	113	122	123	103
	COA4	BBB	151	165	178	193	172
	JUC1	BB	265	285	315	339	315
	JUC2	B	419	448	500	551	482
	JUC3	CCC	890	940	1050	968	900
EM	EMCL	All	253	274	311	366	310
EUR	ER00	IG	150	164	163	181	116
	HEC0	HY	451	464	492	580	432
	ER10	AAA	77	89	86	94	62
	ER20	AA	99	108	105	108	70
	ER30	A	132	145	139	150	96
	ER40	BBB	176	193	195	220	147
	HE10	BB	346	365	378	462	315
	HE20	B	528	539	569	752	534
	HE30	CCC	1571	1551	1595	1351	1065

CORPORATE BOND SPREADS (STW)



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MARKET PERFORMANCE % AND STATISTICS - July 31, 2023

		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	1.43	1.62	1.43	6.85	3.90	8.34	397	4.16	-1.92	2.09	2.33	3.24
JC4N	US HY BB-B	1.23	1.35	1.23	6.16	3.98	7.67	331	3.45	-1.91	1.46	2.24	3.33
HEC0	Euro HY	1.10	0.53	1.10	5.50	3.10	7.31	451	4.72	-3.40	0.87	0.40	1.26
HEC5	Euro HY BB-B	1.14	0.64	1.14	5.86	3.22	6.78	400	4.92	-3.20	0.70	0.05	0.89
Investment Grade													
COA0	US IG	0.43	0.28	0.43	3.68	6.88	5.53	121	-1.06	-6.88	-4.11	-0.31	1.76
C4NF	US BBB Corporates	0.49	0.53	0.49	4.24	7.04	5.71	143	-0.13	-7.14	-3.69	-0.15	1.96
ER00	Europe IG	1.00	-0.42	1.00	3.06	4.54	4.22	150	-3.49	-6.64	-3.48	-2.70	-1.03
EN40	Europe BBB	1.03	-0.39	1.03	3.53	4.57	4.35	164	-2.84	-1.43	-0.96	-0.72	-0.58
Governments (7-10 Year Indices)													
G402	US Treasuries 7-10 Yrs	-0.59	-1.27	-0.59	1.01	7.43	3.97	1	-6.61	-7.93	-6.44	-1.76	0.58
G4L0	UK Gilts 7-10 Yrs	1.28	-1.67	1.28	-2.05	7.22	4.24	-6	-14.03	-10.90	-8.32	-5.17	-2.71
G4D0	German Fed Govt 7-10 Yrs	-0.14	-1.08	-0.14	1.76	7.60	2.39	-4	-10.85	-10.09	-6.94	-5.20	-2.79
Equities													
S&P	S&P 500 incl. Dividends	3.21	6.61	3.21	20.64				12.99	3.79	13.69	13.25	12.18
DAX	DAX Index	1.85	3.09	1.85	18.12	YTM (%)	Discount Margin		21.97	2.86	10.13	7.78	5.13
Loans								bps (3yr life)					
CS Leveraged Loan Index		1.30	2.24	1.30	7.71	9.72		571	9.49	4.19	5.96	4.12	4.12
CS Western European Leveraged Loan Index		1.15	0.95	1.15	7.90	9.07		539	9.36	2.99	4.85	3.19	3.08

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

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CREDIT MARKET UPDATE

US:

US credit delivered mostly positive returns, with high yield and investment grade posting positive performance and Treasuries declining on the back of higher rates. We believe policy rates are now likely to be at—or close to—their peak, while a soft-landing scenario appears increasingly likely. The US soft-landing narrative gained momentum with employment data continuing to show labor market resilience as inflation moved steadily back towards target. At the end of the month, we saw a large amount of strong US data including Q2 GDP that came in well ahead of consensus. Muted primary issuance supported the risk-on mood this month as HY outperformed IG. Towards the end of July, the Federal Reserve (Fed) hiked policy rates by 25 basis points, confirming a fully data-dependent approach going forward and striking a more dovish tone than at previous meetings. This more cautious narrative was largely supported by demonstrated progress on taming inflation.

EUROPE:

European credit markets delivered mostly positive returns, with high yield and investment grade posting positive performance and European government bonds declining on the back of higher rates. We believe policy rates are now likely to be at—or close to—their peak. Towards the end of July, the European Central Bank (ECB) hiked policy rates by 25 basis points, confirming a fully data-dependent approach going forward. The more cautious narrative in Europe was driven by leading indicators suggesting an economic slowdown, and an expectation that inflation will decline meaningfully through the rest of the year. In Europe, preliminary July PMI (Purchasing Managers' Index) data showed further deterioration in both manufacturing and service sectors, with the European Composite dropping below expectations. German manufacturing was a notable disappointment. At the same time, the ECB Bank Lending Survey showed another reduction in both corporate and consumer lending, as financial conditions continue to tighten. Meanwhile, inflation remained stubbornly high with reported headline inflation ticking down only slightly in June and core inflation unchanged. The Eurozone Q2 GDP was slightly better than expected but reflects a lower growth outlook than in the US.

EM:

Emerging Markets (EM) returns were positive this month. Throughout Asia, industrial recovery

is proceeding at different speeds. Korea's manufacturing data shows signs of recovery, and Japan's factory output is moving higher, with both regions benefitting from their large auto sectors. However, Taiwan lagged this month (even in the tech sector), particularly in relation to Korea. The CCP (Chinese Communist Party) Politburo's meeting at the close of the month eased some concerns that policy was not responding to a significant loss in growth momentum with an acknowledgment that the reopening recovery has been challenged by insufficient domestic and slowing external demand, thereby stressing the need to strengthen macro policy support and buffers for key sectors—presumably those more vulnerable to Western restrictions. Latin America is poised to reap the benefits of their early and aggressive hiking as inflation moves lower. Chile's central bank already started its easing cycle, cutting rates by 100 basis points, with Brazil's central bank expected to start cutting rates soon.

OUTLOOK

We continued to see a clear divergence in July between economic data from the US and from Europe with the US data once again broadly surprising to the upside and European data generally disappointing. Spreads were tighter and rates were range-bound, with the market relatively quiet given the time of year. As we appear to be approaching the end of the rate hiking cycles at both the ECB and the Fed, we believe credit markets can continue to perform strongly while maintaining a vigilant eye on potential future actions from the Bank of England and the Bank of Japan. The fear of interest rate-induced losses that spurred outflows from credit markets over the last 12-18 months is now starting to reverse. Yields continue to be attractive in our view—and outside of a few challenged sectors, corporates are in good shape and reporting positive earnings. As we continue to add diversification within our portfolios, we maintain that adding yield to a portfolio can help mitigate both rate and risk volatility.

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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;
G402 - 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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