GUGGENHEIM

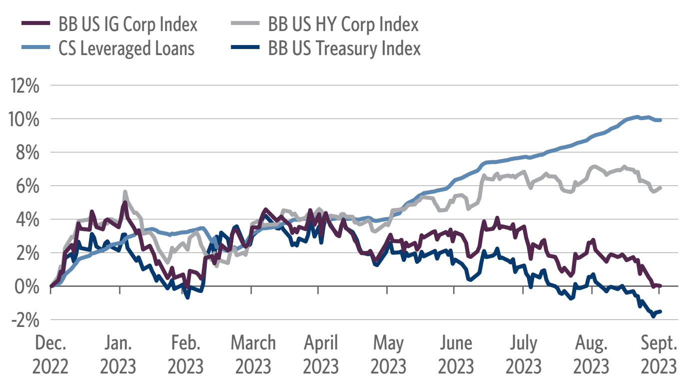
Corporate Credit Quarterly Insights

November 2023

Portfolio Insights

- **High-yield corporate bond spreads were relatively flat while returns continued to track rates. Market option-adjusted spreads remains inside 400 basis points, which we believe suggests the market continues to expect a soft landing.** We continue to expect a mild recession, with risk to spreads widening from current levels. Offsets to that view are the strong fundamentals and technicals that continue to be evident in the market.
- **Bank loan returns continued to benefit from the floating coupon, which accounted for the majority of returns for the quarter and year to date.** While spreads remain wide of the 50th percentile, we believe rising defaults and lower-than-historical recoveries could cause spread widening and volatility.
- **We continue to believe there is opportunity to find good relative value in the market, although we are cautious about overall market spreads.** In the event we do see a rise in defaults and spread widening, given our overall view that any recession will be mild in nature, we think it would be a good opportunity to add risk. Our focus for the quarter remained on the existing portfolio as well as new issue.

Returns by Asset Class



Index	2Q23	3Q23	YTD
CS Leverage Loan Index	3.12%	3.37%	9.91%
BB US HY Corporate Index	1.75%	0.46%	5.86%
BB US IG Corporate Index	-0.29%	-3.09%	0.02%
BB US Treasury Index	-1.38%	-3.06%	-1.52%

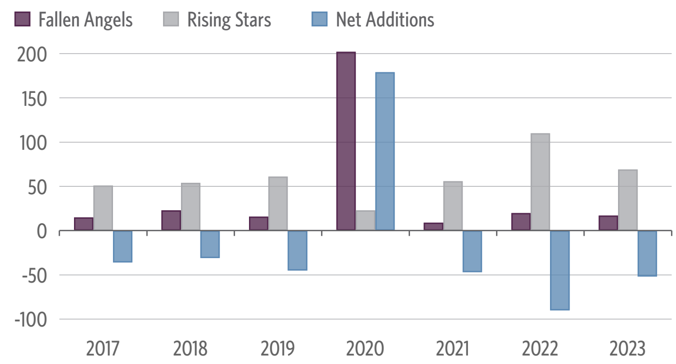
Source: Guggenheim Investments, Credit Suisse, Bloomberg. Data as of 9.30.2023. Past performance does not guarantee future results.

High-Yield Corporate Bond Investment Themes

High-yield corporate bonds returned 0.46 percent in the third quarter, the fourth consecutive positive quarter, although sector performance was mixed. Energy and communications were among the top-performing sectors, returning 1.66 percent and 1.43 percent, respectively. The financials sector was a strong performer as well, but it represents a relatively small portion of the Bloomberg U.S. High-Yield Index. Capital goods, transportation, and utilities sectors lagged the index. By rating, CCC-rated bonds outperformed, returning 2.51 percent, while Bs returned 0.84 percent, and BBs returned 0.39 percent.

High-yield spreads ended the third quarter at 394 basis points, an increase of 4 basis points over the quarter. Spreads remain near their historical averages across the board. Bond yields climbed 38 basis points to 8.88 percent at the end of September amid minimal spread movement and higher Treasury yields. Yields are currently in the mid-80th percentile going since 2000, and the mid-90th percentile since 2010.

The Bloomberg U.S. High-Yield Index par outstanding ended September at $1.38 trillion, relatively unchanged versus the prior quarter as new issuance offset rising stars and bonds being called. U.S. high-yield new issuance volume totaled $41 billion in the third quarter, more than double the prior year, though issuance is down materially compared to the last few years. About 58 percent of year-to-date 2023 issuance was for refinancing, versus 48 percent in 2022. Some 68 percent of issuance for the quarter came in the form of secured bonds, Rising Stars / Fallen Angels



Source: Guggenheim Investments, Bank of America, Bloomberg. Data as of 9.30.2023.

compared to an average of 28 percent over the last six years and 52 percent in the second quarter of 2023. This trend continues to be driven by issuers with loans outstanding refinancing seeking a cheaper alternative in the current bond market. The shrinkage of the market, along with more issuance of secured bonds since 2020, has caused the portion of the market that is first lien/secured to nearly double in the last three years to 29 percent as of the end of September.

The quality of the Bloomberg U.S. High-Yield Index has improved over time as measured by ratings profile. BBs currently comprise about 49 percent of the index, while CCCs make up about 13 percent. There have been $17 billion of fallen angels so far in 2023, compared to $69 billion of rising stars. For context, rising stars have outweighed fallen angels in six out of the last seven years, only reversing at the height of the COVID pandemic.

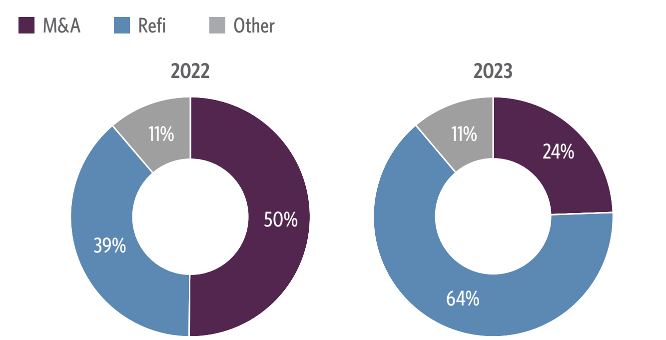
Leveraged Loan Investment Themes

Leveraged loans continued to benefit from the higher base rate as well as modest price appreciation, with the Credit Suisse Leveraged Loan Index returning 3.37 percent overall. Returns remained positive across all sectors in the third quarter and year to date. The top two performing sectors year to date were housing (+11.54 percent) and information technology (+11.26 percent), while the two worst performers were media/telecom (+7.42 percent) and utilities (+8.82 percent). In terms of ratings, CCCs were the best performers in the third quarter, returning 7.04 percent, with split Bs up 5.16 percent and Bs returning 3.73 percent. Continuing the trend this year, BBs continued to lag at +2.20 percent in the third quarter. All three leveraged loan ratings segments remained above the 60th spread percentile at quarter end, with yields above the 90th percentile.

Loan issuance totaled $76.1 billion in the third quarter, outpacing the prior two quarters as a greater number of lower-rated issuers came to market to refinance and a handful of larger M&A transactions were completed. Refi-related issuance continued to dominate year-to-date issuance at almost two-thirds of overall issuance.

The supply/demand technical backdrop continues to be a tailwind for the loan market as CLO issuance, combined with retail flows, continues to outpace new net loan issuance. CLO issuance picked up quarter over quarter, totaling $28.0 billion in the third quarter versus $21.3 billion in the second quarter, but year-to-date issuance of $83.9 billion trails last year's total by 20 percent. Retail flows were positive for the quarter at $1.0 billion. A higher share of the Credit Suisse Leveraged Loan Index trading above par—more than 15 percent of the index at times during the quarter—led to an uptick in repricing activity.

Issuance Composition 2022 vs. 2023



Source: Guggenheim Investments, S&P LCD. As of 9.30.2023.

Loan market fundamentals for the public issuer subset of the index remain relatively strong, but year-over-year growth in revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) is decelerating. Leverage remained unchanged for the fifth consecutive quarter at 5.5x, still below the historical average of 5.8x. Interest coverage continues to decline as rising base rates continue to roll into last 12-month (LTM) interest burdens, down from 4.6x in the first quarter to 4.1x in the second quarter, although it remains above the historical average of 4.0x.

The upgrade/downgrade ratio improved on both a rolling three-month and 12-month basis, up 0.16x to 0.58x and 0.02x to 0.43x, respectively. The loan default rate decreased 0.5 percent over the third quarter to 1.27 percent from 1.71 in the second quarter. The distress ratio (loans priced at 80 par or below) also declined, to 4.36 percent in the third quarter from 6.00 percent in at the end of June.

Macro Review

Many forecasters are extrapolating this year's economic strength without recognizing growth has benefited from a number of factors that are unlikely to be repeated, namely a huge expansion of the fiscal deficit, a major slowdown in inflation, consumers and companies drawing down cash stockpiles, and a rebound in labor supply. As these factors fade, the headwinds from tight monetary policy will be more apparent—headwinds that will only strengthen as a growing share of low-cost debt rolls over amid tightening credit conditions. And the longer monetary conditions stay tight, the greater the likelihood that the recent economic trajectory cannot continue, especially given the substantial additional restraint that will be imposed by the recent rapid rise in long-term borrowing costs.

Uncertainty is elevated, and rightfully so given the diverging signals in the data. This uncertainty extends to the Federal Reserve, which looks set to hold off on further rate hikes while waiting to see if the data start to align better with softening conditions on the ground reflected in the Beige Book and other anecdotal reporting. We continue to think the gravitational pull of tight money and credit conditions will slow the economy and cool inflation over the next year, paving the way for a recession in the first half of 2024 and the likely policy and market response: more rate cuts than the Fed is projecting and lower long-term interest rates as the market prices in a lower neutral rate.

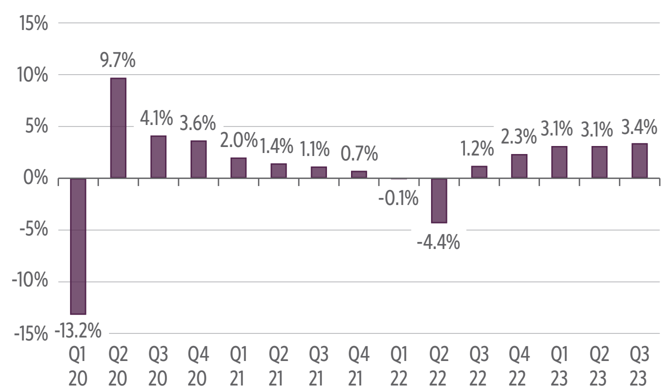
This highly uncertain macro environment favors platforms with a rigorous and active credit selection that seeks to underwrite for performance in all phases of the economic cycle.

About Corporate Credit Quarterly Insights

Corporate Credit Quarterly Insights (CCQI), prepared by Guggenheim Investments' Corporate Credit Group, provides insights on the market for high-yield corporate bonds and leveraged loans, including fundamental and technical drivers of performance, portfolio positioning, and areas of opportunity going forward. Our Corporate Credit Group utilizes a bottom-up approach to credit selection as the primary driver of alpha and leverages a deep pool of credit research analysts, organized by industry teams, to maximize risk-adjusted return potential.

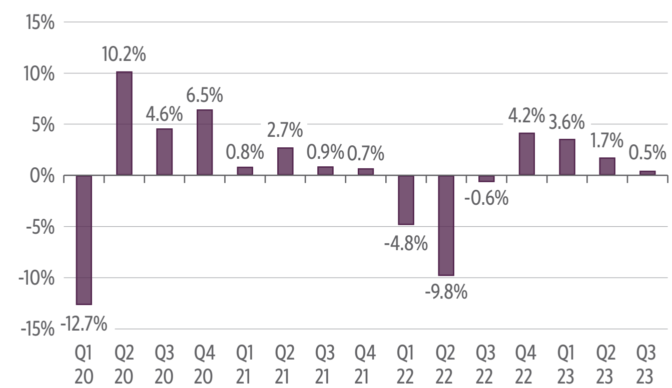
Corporate Credit Snapshot

Leveraged Loan Returns



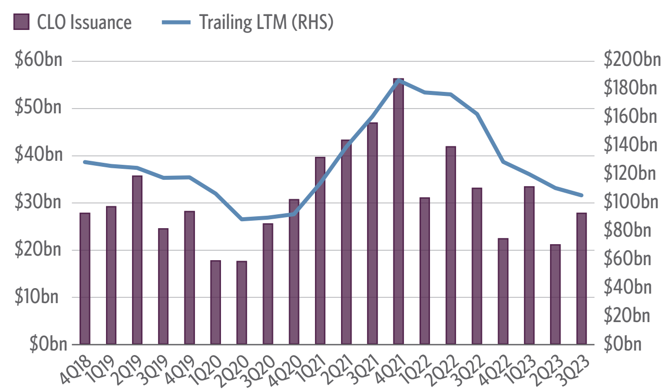
Source: Guggenheim Investments, Credit Suisse Leveraged Loan Index. Data as of 9.30.2023. Past performance does not guarantee future results.

High-Yield Returns



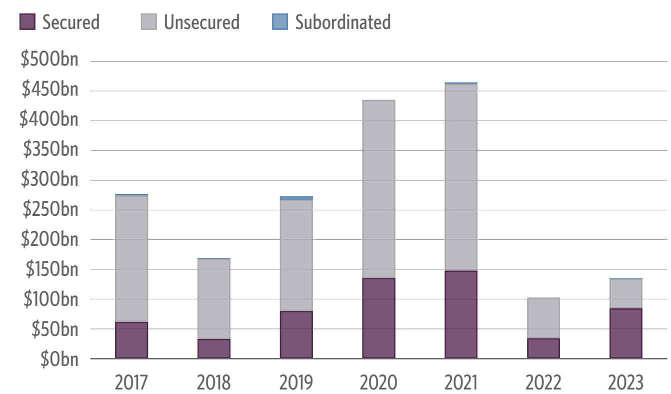
Source: Guggenheim Investments, Bloomberg U.S. High-Yield Index. Data as of 9.30.2023. Past performance does not guarantee future results.

U.S. CLO Issuance



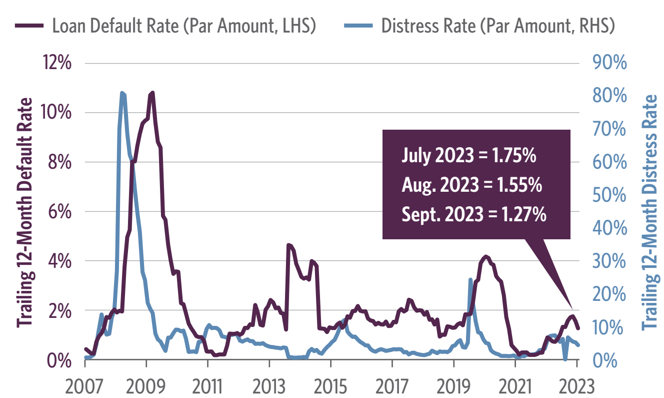
Source: Guggenheim Investments, S&P LCD. Data as of 9.30.2023.

U.S. High-Yield New Issuance Volume



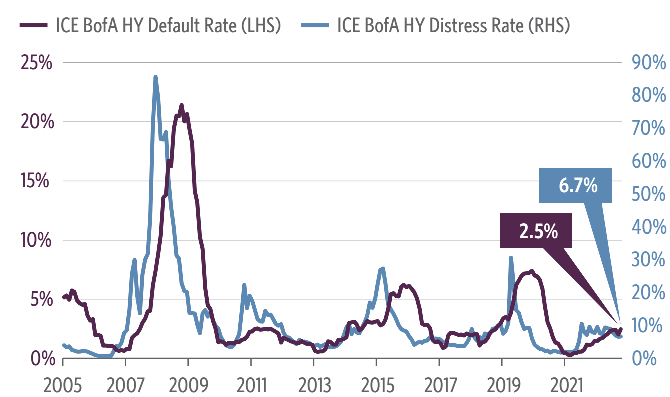
Source: Guggenheim Investments, S&P LCD. Data as of 9.30.2023.

LTM Leverage Loan Default and Distress Rates



Source: Guggenheim Investments, S&P LCD. Default rate of full LCD Index as of 9.30.2023.

High Yield LTM Default and Distress Rates



Source: Guggenheim Investments, ICE BofA. Data as of 9.30.2023. Distress rate includes bonds trading at option-adjusted spread greater than 1,000 basis points.

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The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the USD-denominated leveraged loan market. The **Bloomberg US Corporate Bond Index (IG)** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The **Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Basis point: one basis point is equal to 0.01 percent. **M&A:** Mergers and acquisitions. **EBITDA:** Earnings before interest, taxes, depreciation, and amortization.

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

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