GUGGENHEIM

Corporate Credit Quarterly Insights

February 2024

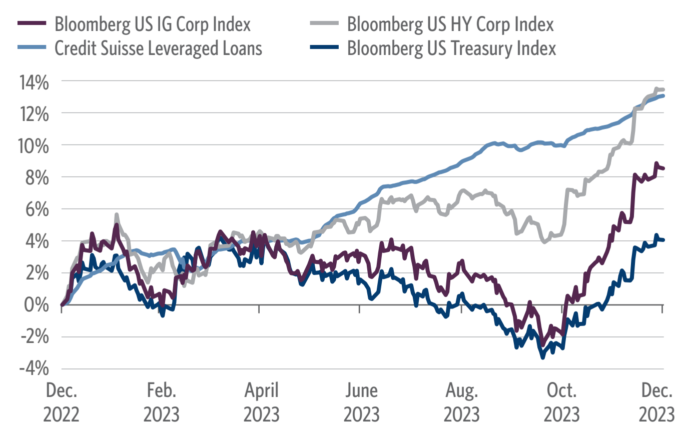
Portfolio Insights

- **Leveraged credit ended the year with a strong finish.** High-yield corporate bonds benefited from significant spread and rate tightening, with index-level option-adjusted spreads tightening 71 basis points during the fourth quarter and the five-year Treasury yield moving 76 basis points tighter. Bank loan returns were lower than high yield during the quarter, but they continued their consistent trajectory, benefitting from the higher-than-average coupon. While we believe the prospects for a soft landing have increased due to the dovish pivot that the Federal Reserve (Fed) made during the fourth quarter, we continue to strike a more cautious tone on credit given that we see growing tail risk in both the high-yield and bank loan markets.

- After lagging for most of the year, a strong fourth quarter moved high-yield returns higher than loan returns for the year. While spreads in high yield are significantly tighter, relative to historical levels and to discount margins to maturity (DMMs) in bank loans, **we continue to favor high yield versus loans at this point**. While both markets have growing tail risk in the higher-for-longer rate environment, we think the risk is more pronounced in loans given the floating rate nature of the coupons and relatively weaker credit metrics, especially interest coverage.

- The New Year has begun with robust new issuance in both markets. Given our concerns regarding the tail risk and likely credit pressures (even in a soft-landing scenario) we believe credit selection is growing in importance. As a result, our participation rate continues to be lower than normal on new issue and **we are taking opportunities to trim risk in credits which we believe may ultimately struggle** with higher-for-longer borrowing costs.

Returns by Asset Class



Index	3Q23	4Q23	2023
Credit Suisse Leveraged Loan Index	3.37%	2.85%	13.04%
Bloomberg US HY Corporate Index	0.46%	7.16%	13.45%
Bloomberg US IG Corporate Index	-3.09%	8.50%	8.52%
Bloomberg US Treasury Index	-3.06%	5.66%	4.05%

Source: Guggenheim Investments, Credit Suisse, Bloomberg. Data as of 12.31.2023. Past performance does not guarantee future results.

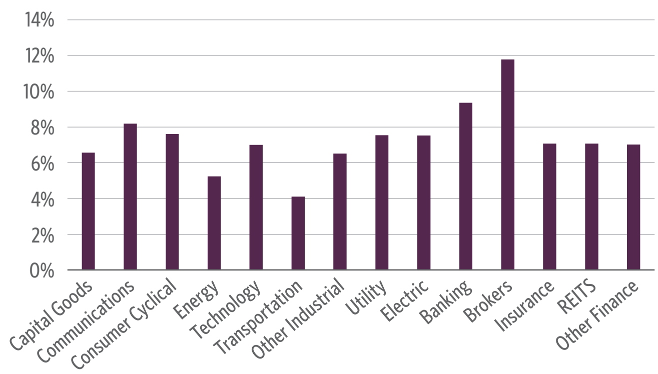
High-Yield Corporate Bond Investment Themes

High-yield corporate bonds generated strong returns with positive performance across sectors in the fourth quarter. Brokers and banking, which are both small portions of the Bloomberg U.S. High-Yield Corporate Bond Index, were the top performers followed by a narrow band of several sectors including communications and consumer cyclicals. Energy was one of the underperformers amid lower commodity prices.

Higher quality outperformed during the fourth quarter even as CCCs outperformed in the first three quarters of the year. BBs, supported by their higher duration, returned 7.36 percent, followed by Bs at 7.01 percent, and CCCs at 6.92 percent. Spreads ended September at 323 basis points, moving 71 basis points lower in the fourth quarter. Higher-quality spreads are tight compared to their historical averages.

New issuance volume totaled $41 billion in the fourth quarter, nearly triple the comparable period in the prior year. Full year 2023 issuance totaled $176 billion, up 72 percent compared to the prior year but down materially versus issuance over the last few years. About 63 percent of 2023 issuance was for refinancing vs. 48 percent in 2022. Just over half of issuance for the quarter came in the form of secured bonds, compared to an average of 28 percent over the last six years. This trend continues to be partially driven by issuers with loans outstanding refinancing in the bond market as a cheaper alternative.

Q4 Industry Returns



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2023.

High yield mutual funds and ETFs experienced outflows in October, but the shift in tone from the Fed and general sentiment led to strong inflows in November and December. Overall, the quarter experienced inflows of $6.5 billion, driven entirely by ETFs and offset by outflows from mutual funds.

High-yield fundamentals remain solid overall with net leverage and interest coverage metrics continuing to be healthier than historical levels. Rating agency downgrades remained muted, with quarterly downgrades to upgrades ending the quarter with a ratio of 1.1:1. At 2.4 percent, the trailing twelve-month default rate increased slightly relative to last quarter and remains below its long-term average of 4 percent. The distress rate ticked lower to 6.3 percent from 6.7 percent in September.

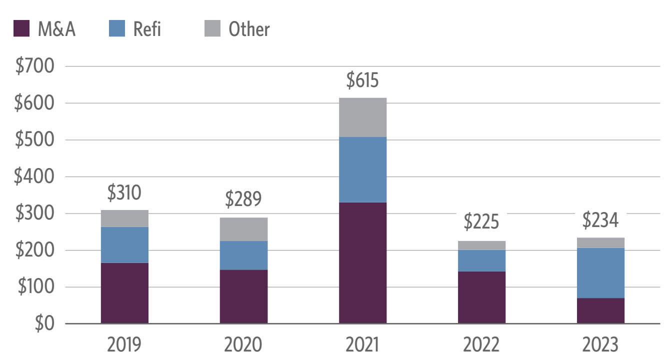
Leveraged Loan Investment Themes

Leveraged loan returns remained positive across all sectors in the fourth quarter and for the year-to-date period. The top two performing industries for the full year period were housing (15.02 percent) and information technology (14.37 percent), while the two worst relative performers were media/telecom (10.72 percent) and retail (10.92 percent). For the full year, lower ratings categories outperformed, with split B-rated issuers at 20.3 percent and CCCs at 16.1 percent. Single Bs (14.4 percent) and BBs (10.1 percent) lagged given their lower average coupon and higher average price.

Leveraged loan DMMs ended the year at ~545 basis points, 10 basis points tighter versus third-quarter end and 75 basis points tighter versus the start of the year. On a percentile basis, compared to their long-term historical average, loan DMMs for both single-Bs and BBs ended 2023 around their 50th percentile. Yield percentiles, given the high base rate, remain elevated near their 85th percentile, albeit down from mid-90th percentile at the end of the third quarter.

Loan issuance totaled $55.7 billion in the fourth quarter, down from the third quarter but higher than the first two quarters by a small margin. New issue volume came in at $234 billion for the year, which was slightly higher than 2022's post-Global Financial Crisis (GFC) low of $225 billion. The supply/demand technical backdrop continued to support loan secondary prices, as CLO issuance combined with retail flows outpaced net new loan issuance for the fifth consecutive quarter.

Loan Issuance by Type



Source: Guggenheim Investments, S&P LCD. Data as of 12.31.2023.

M&A volume, typically the driver of new loan issuance, continued to lag in the fourth quarter, bringing the full-year tally to a post-GFC low of $70 billion. As a result, refinancing volume accounted for a record 58 percent of total issuance at $137 billion. CLO issuance picked up quarter over quarter to $31.9 billion, bringing issuance for the year to $116 billion, down 10 percent relative to 2022 but in line with the 10-year average.

Leveraged loan market fundamentals are mixed. Among leveraged loan issuers, leverage remained unchanged for the sixth 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 LTM interest burdens, ending the third quarter at 3.8x versus 4.1x in the second quarter, according to the most recently available data. Downgrades continue to outpace upgrades on both a three-month and 12-month basis. The upgrade/downgrade ratio declined quarter over quarter from 0.58x to 0.41x, while the 12-month ratio remained flat at 0.45x.

Loan default rates ended the year at 1.9 percent, including distressed exchanges, or 1.5 percent excluding distressed exchanges. Both measures remain below long-term averages. The distress ratio (loans priced <80) ended the year at 4.5 percent, down from 7.4 percent to start the year.

Macro Review

The U.S. economy has proved resilient so far to tight monetary policy by the Federal Reserve (Fed), helped by falling inflation boosting real incomes and consumer sentiment, a big expansion in the fiscal deficit over the past year, and a supply-side boost as labor force participation improves. These tailwinds are likely to fade going forward which will pressure growth. Consumer spending also faces headwinds from dwindling excess savings buffers.

The Fed-induced easing of financial conditions, with interest rates falling and stock prices rising, takes pressure off the economy and helps bring down recession risk. While recession risk has come down, we believe it is still materially higher than very optimistic market expectations. The 2024 election could add to volatility and uncertainty this year. We expect Treasury yields to decline more than the market currently anticipates this year, though they are unlikely to return to the lows of the last cycle.

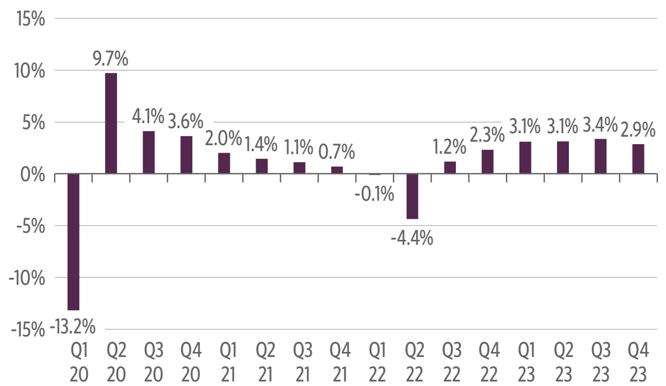
We expect default rates to stay elevated as U.S. companies cope with rising borrowing costs and limited credit availability, but the stress will become increasingly bifurcated between large and small companies.

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.

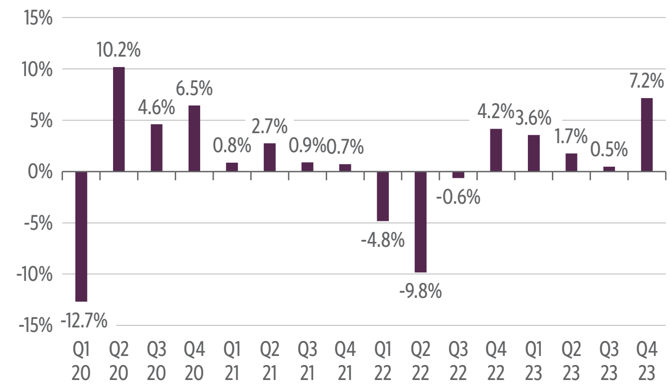
Corporate Credit Snapshot

Leveraged Loan Returns



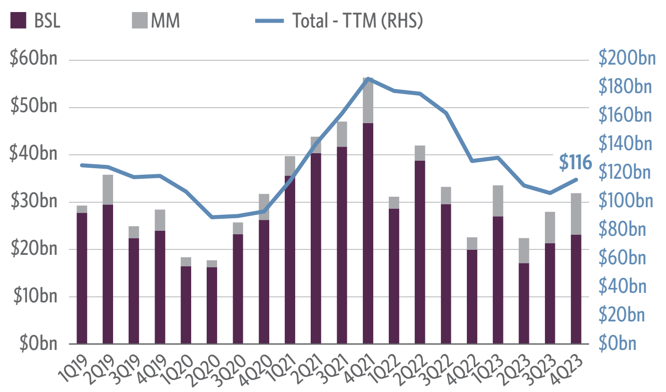
Source: Guggenheim Investments, Credit Suisse Leveraged Loan Index. Data as of 12.31.2023. Past performance does not guarantee future results.

High-Yield Returns



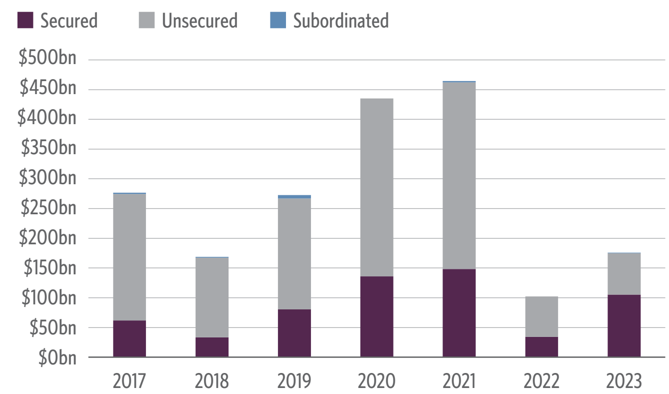
Source: Guggenheim Investments, Bloomberg U.S. High-Yield Index. Data as of 12.31.2023. Past performance does not guarantee future results.

U.S. CLO Issuance



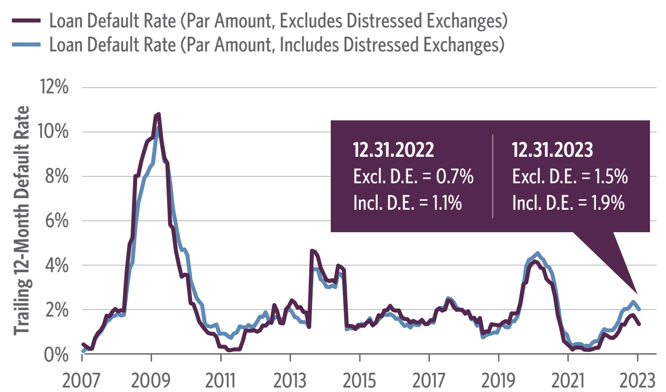
Source: Guggenheim Investments, S&P LCD. Data as of 12.31.2023.

U.S. High-Yield New Issuance Volume



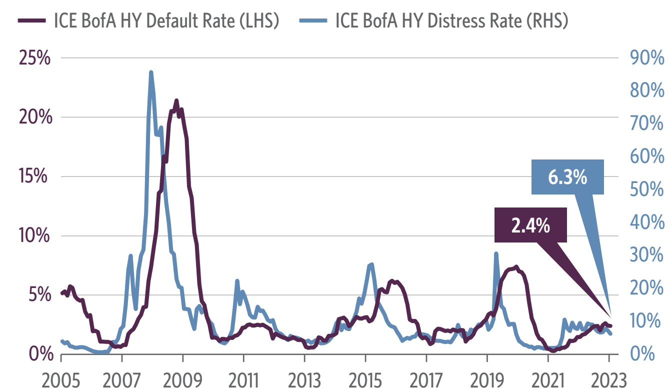
Source: Guggenheim Investments, S&P LCD. Data as of 12.31.2023.

Training 12-Month Default Rate



Source: Guggenheim Investments, S&P LCD. Default rate of full LCD Index as of 12.31.2023.

LTM Default and Distress Rate



Source: Guggenheim Investments, ICE BofA. Data as of 12.31.2023. 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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