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Corporate Credit Quarterly Insights

May 2024

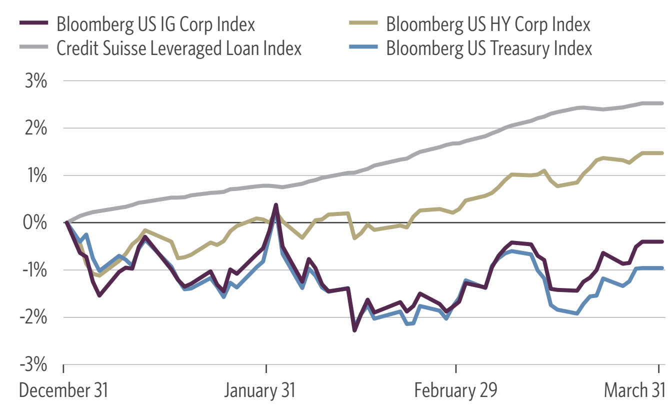
Portfolio Insights

- **Leveraged credit started off 2024 where it left off** last year, in positive territory. The story for the quarter continued to be rates—bank loans continue to benefit from the strong carry trade with continued high base rates, whereas high yield exhibited more volatility during the quarter following Treasurys. Both markets saw some spread tightening with the overall view that the Federal Reserve (Fed) will successfully manufacture a soft landing, which should keep defaults in check.

- **High yield continues to trade more with rates than on credit**, with market spreads hovering around 300 basis points. Historical comparisons for high yield spreads remain difficult given the improved quality of the market—while 300 basis points is implying a fairly low default rate, we think a combination of the quality as well as the coupon suggests there is still relative value available in the market. Credit selection remains important at these tight spread levels, but if investors pick the right credits, they can lock in coupon at a point in the cycle when duration is more likely to be a benefit rather than a detractor to future performance.

- **The bank loan market continues to benefit from historically high coupon**, with returns above 2 percent for the 6th consecutive quarter. While market spreads tightened somewhat, the story continues to be the coupon, which generated over 90 percent of the return for the quarter. We continue to have concerns around the tail risk in the market due to higher interest burdens combined with lower recoveries upon default, but we are positively revising our outlook somewhat for loans more broadly. With inflation proving to be stickier than the market expected and rates expected to stay higher for longer, the strong carry trade will likely benefit investors well into next year. At the same time, we expect overall market losses from defaults and lower recoveries will be manageable. The key for investors will be avoiding their fair share of the credit losses in the market.

Returns by Asset Class



Index	3Q23	4Q23	1Q24
Credit Suisse Leveraged Loan Index	3.37%	2.85%	2.52%
Bloomberg US HY Corporate Index	0.46%	7.16%	1.47%
Bloomberg US IG Corporate Index	-3.09%	8.50%	-0.40%
Bloomberg US Treasury Index	-3.06%	5.66%	-0.96%

Source: Guggenheim Investments, Credit Suisse, Bloomberg. Data as of 3.31.2024. Past performance does not guarantee future results.

High Yield Corporate Bond Investment Themes

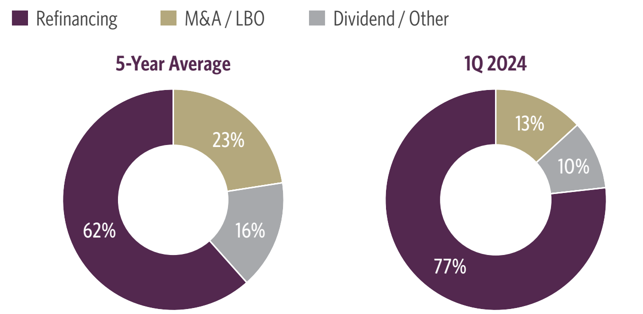
High yield corporate bonds generated positive performance across most sectors in the first quarter. Two of the largest sectors, consumer cyclicals and energy, were among the top performers. Communications had negative returns driven by competition, high capital expenditures, and weakness in the largest capital structures. Current yield to worst across sectors is in a narrow band between 6–8 percent except for communications, given industry trends. Lower quality bonds outperformed during the quarter and were less impacted by the rise in interest rates. CCCs returned 2.14 percent, followed by Bs at 1.36 percent, and BBs at 1.13 percent. Bloomberg U.S. High Yield Bond Index spreads ended March at 299 basis points, moving 24 basis points lower during the quarter. Higher quality spreads are tight compared to their historical averages, while yields range in the 40th percentile. High yield bond yields rose 7 basis points in the index to 7.66 percent at the end of March amid tighter credit spreads and higher Treasury yields.

U.S. high yield new issuance volume totaled $85 billion in the first quarter, more than double the first quarter 2023. Issuance is nearly halfway towards full year 2023 levels. Half of the issuance for the quarter came in the form of secured bonds, compared to an average of 34 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 funding source. Refinancing volume continues to drive the primary market, comprising 77 percent of total issuance in the first quarter, versus 62 percent on average over the last five years.

High yield funds experienced inflows in January followed by flat flows in February and slight outflows in March. Overall, the quarter experienced inflows of $2.5 billion, driven entirely by mutual funds and offset by minor outflows from exchange-traded funds (ETFs).

High yield fundamentals, as measured by net leverage and interest coverage, were flat and continue to be healthier than historical levels. Rating agency downgrades remained muted,

Use of Proceeds



Source: Guggenheim Investments, S&P LCD, Lipper, Bloomberg. Data as of 3.31.2024.

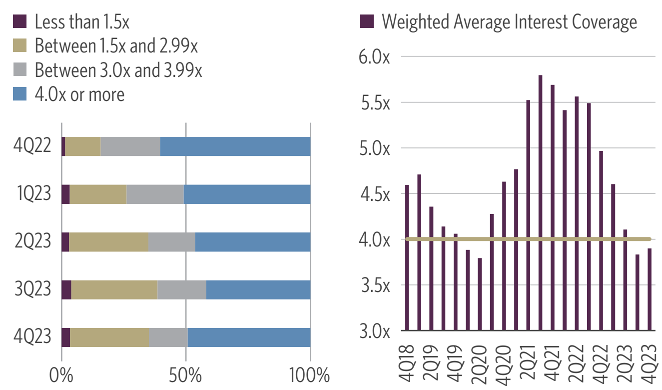
with quarterly downgrades to upgrades ending the quarter with a ratio of 1.3:1. At 2.2 percent, the high yield last 12 month default rate declined slightly relative to last quarter and remains below its long-term average of 4 percent. The distress rate ticked lower to 5.9 percent from 6.3 percent in December. Issuers face limited near-term financing needs given manageable maturities through 2025. The index par outstanding ended March at $1.36 trillion, up $26 billion, driven predominantly by new issue volumes.

Leveraged Loan Investment Themes

Leveraged loan returns, driven by high all-in coupon, were positive across all sectors in the first quarter, but dispersion increased versus 2023. The top two performing industries for the period were retail at 3.51 percent and chemicals at 3.43 percent. The worst relative performer, in line with high yield, continues to be the media/telecom sector at 1.57 percent. Lower ratings categories continue to outperform given their higher coupons and lower prices leaving more room for price appreciation. CCCs returned 6.14 percent in the first quarter, Bs returned 2.48 percent, and BBs returned 1.92 percent. As of quarter end, approximately 45 percent of BBs and 40 percent of Bs were trading over par. Leveraged loan spread percentiles tightened over the period, with BBs and single Bs finishing slightly inside their 50th percentile. Yield percentiles remain attractive near their 85–90th percentiles across rating categories.

Leveraged loan issuance picked up in the first quarter to $142 billion, the highest quarterly tally since the third quarter of 2021 and up 170 percent year over year. Volume continues to be driven by refinancing, with refi-related volume through the first quarter setting the fastest pace in 11 years. M&A volume, the main driver of net new loan issuance, picked up slightly but off a low base. During the quarter, borrowers also repriced $151 billion of loans, saving an average of 54 basis points via these amendments. On the demand historical levels. Rating agency downgrades remained muted, with

Interest Coverage Ratios



Source: Guggenheim Investments, S&P LCD, Bloomberg, Credit Suisse. Default ratios are for the Credit Suisse Leveraged Loan Index as-of 3.31.2024. The Distress ratio is for the LCD leveraged loan index as-of 3.31.2024. Other fundamental credit stats based on public filing index constituents as of 12.31.2023. Fundamental Snapshot long-term historical averages both as of 4Q01.

side, CLO issuance totaled $49 billion in the first quarter, the highest first-quarter volume on record and up 45 percent year over year. Retail fund flows stood at $2.6 billion, the highest level since the first quarter of 2022, although still primarily ETF-driven. Overall, the technical backdrop continues to support loan secondary prices.

March posted the largest demand surplus on record, bringing the quarterly demand surplus to around $61 billion.

Public loan issuer fundamentals improved quarter over quarter, but tail risk remains in the higher-for-longer rate environment. Revenue and earnings before interest, taxes, depreciation, and amortization both grew 3 percent in the fourth quarter of 2023 (as a reminder, the fundamentals data comes through at a one-quarter lag), up slightly versus the prior quarter. Interest coverage increased by 0.1x quarter over quarter to 3.9x, the first sequential improvement since the second quarter of 2022, and leverage declined 0.2x to 5.5x.

Loan default rates ended the quarter at 2.4 percent, up from 1.9 percent at year end but still below the long-term historical default rate of 2.8 percent.

The distress ratio (loans priced <80) was down by 100 basis points from year end, finishing the quarter at 3.5 percent. The upgrade/downgrade ratio was slightly better on both a rolling three-month and one-year basis, finishing the quarter at 0.61x and 0.50x, respectively.

Macro Review

While job growth remains robust, recent labor data brought increased confidence in a labor market in better balance, allowing for inflation to soften further. Labor force growth remains strong, aided by high immigration flows, helping bring labor supply match gradually cooling demand. The Small Business Survey indicates that plans to increase compensation have returned to pre-COVID levels. Additionally, Bureau of Labor Statistics data reveals a continued decline in the "quits rate," reducing the pressure on businesses to raise wages to attract or retain employees. These developments suggest wage pressures may ease further by year end. And despite some speculation against any Fed rate cuts materializing in 2024, we continue to anticipate cuts later this year.

Following the stronger-than-expected March Consumer Price Index, there is a high probability that the easing cycle will start in the second half of the year since the Fed will likely need more time to gather confirming data. In the latest Summary of Economic Projections, the Federal Open Market Committee (FOMC) significantly increased the median forecast for 2024 U.S. gross domestic product (GDP), slightly increased it for core personal consumption expenditures (PCE) year over year, and continues to expect no material increase in the unemployment rate. These adjustments left the median view for three rate cuts for 2024, which suggests the bar is very high for the Fed to keep rates where they are all year, and even higher for more rate hikes to materialize.

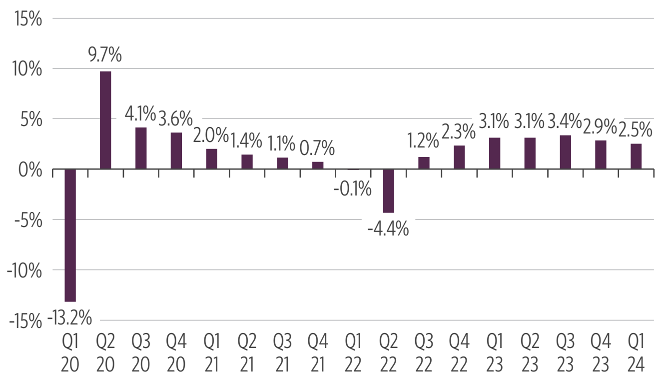
Looking forward, Fed officials continue to advocate for a patient approach. A conventional easing cycle is therefore far from guaranteed. Market expectations have already adjusted significantly from market-implied expectations of six rate cuts in 2024 just two months ago to only three as of the end of the first quarter, aligning more closely with the FOMC's views. So far, the market has taken this delay in stride, but its patience and assessment of credit risk could be tested.

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.

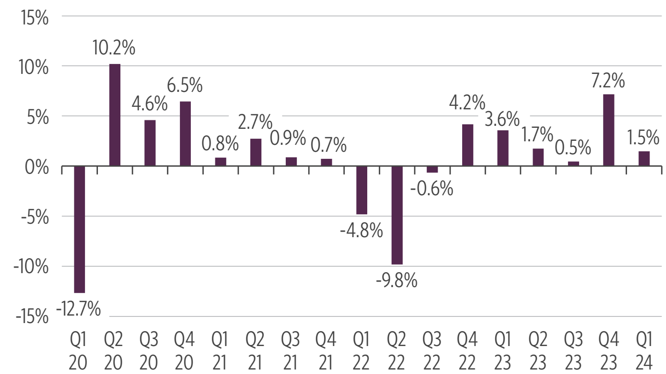
Corporate Credit Snapshot

Leveraged Loan Returns



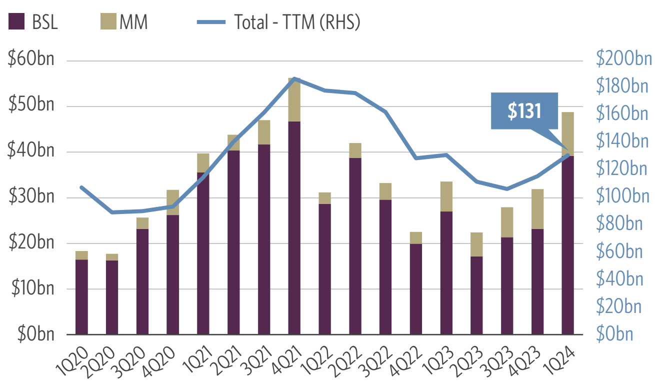
Source: Guggenheim Investments, Credit Suisse Leveraged Loan Index. Data as of 3.31.2024. Past performance does not guarantee future results.

High Yield Returns



Source: Guggenheim Investments, Bloomberg U.S. High Yield Index. Data as of 3.31.2024. Past performance does not guarantee future results.

U.S. CLO Issuance

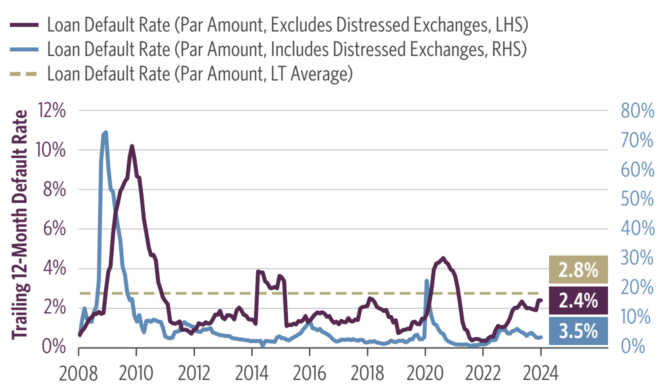


Source: Guggenheim Investments, S&P LCD. Data as of 3.31.2024.

U.S. High Yield New Issuance Volume

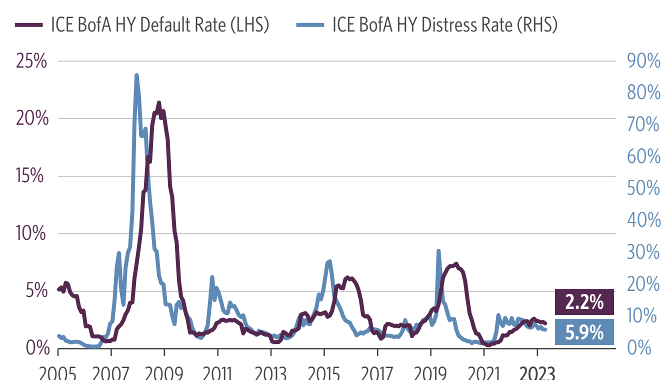
Source: Guggenheim Investments, S&P LCD. Data as of 3.31.2024.

Trailing 12-Month Default Rate



Source: Guggenheim Investments, S&P LCD. Default rate of full LCD Index as of 3.31.2024.

Trailing 12-Month Default and Distress Rate



Source: Guggenheim Investments, ICE BofA. Data as of 3.31.2024. Distress rate includes bonds trading at option-adjusted spread greater than 1,000 basis points.

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IMPORTANT NOTICES AND DISCLOSURES

S&P bond ratings are measured on a scale that ranges from **AAA** (highest) to **D** (lowest). Bonds that are rated **BBB-** and above are considered investment grade, while bonds rated **BB+** and below are considered speculative grade.

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. **Carry:** The difference between the cost of financing an asset and the interest received on that asset. **M&A:** Mergers and acquisitions. **EBITDA:** Earnings before interest, taxes, depreciation, and amortization.