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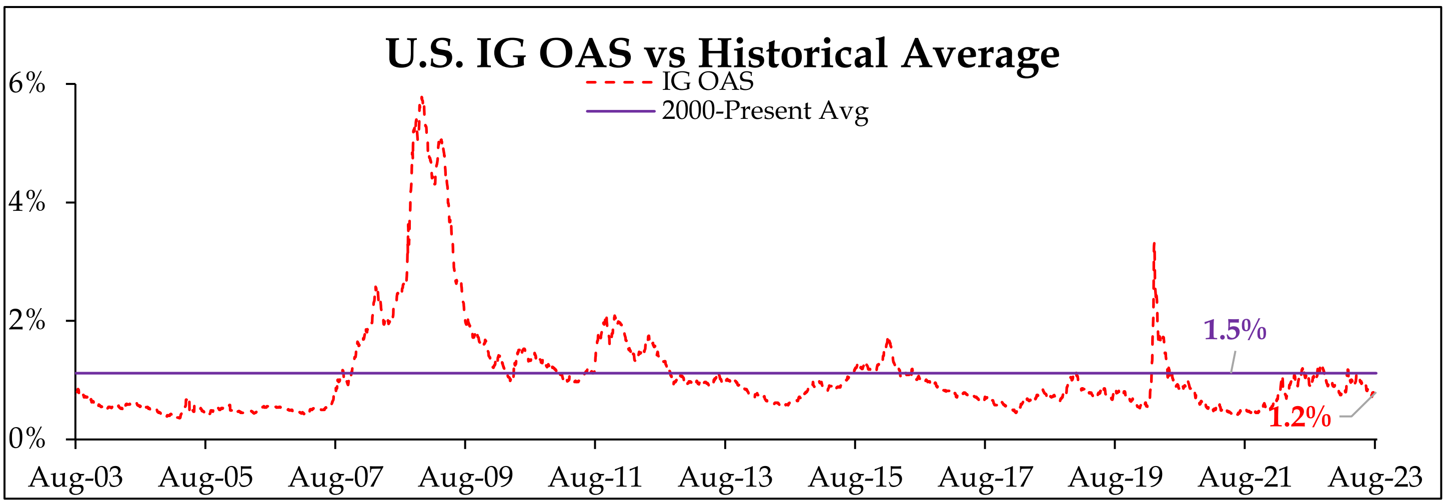
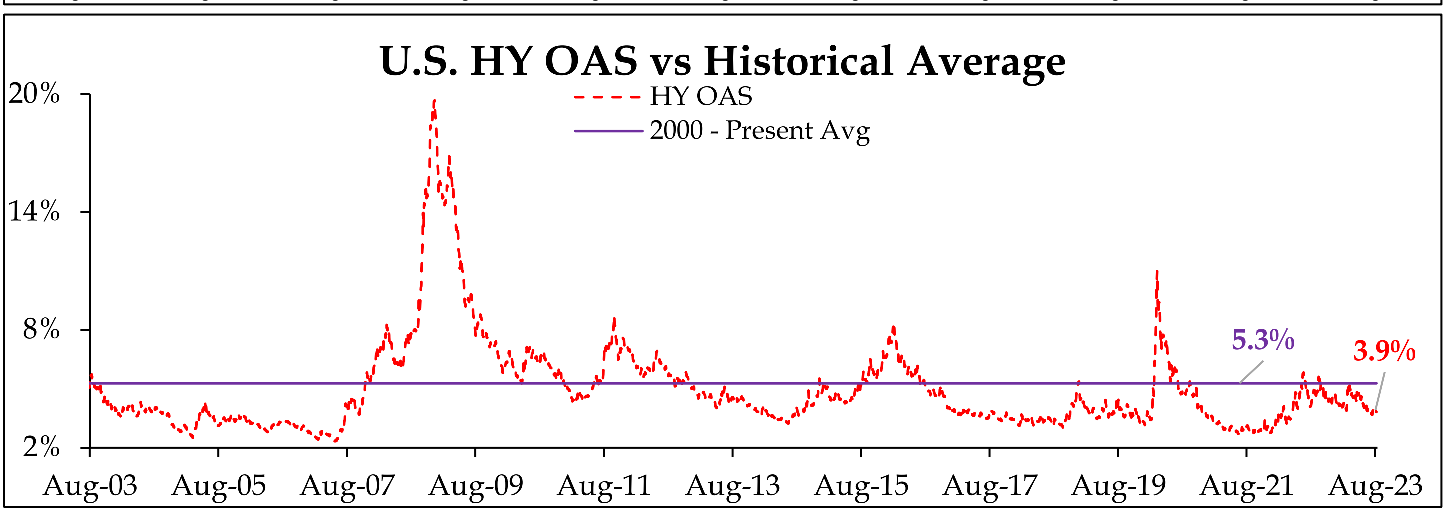
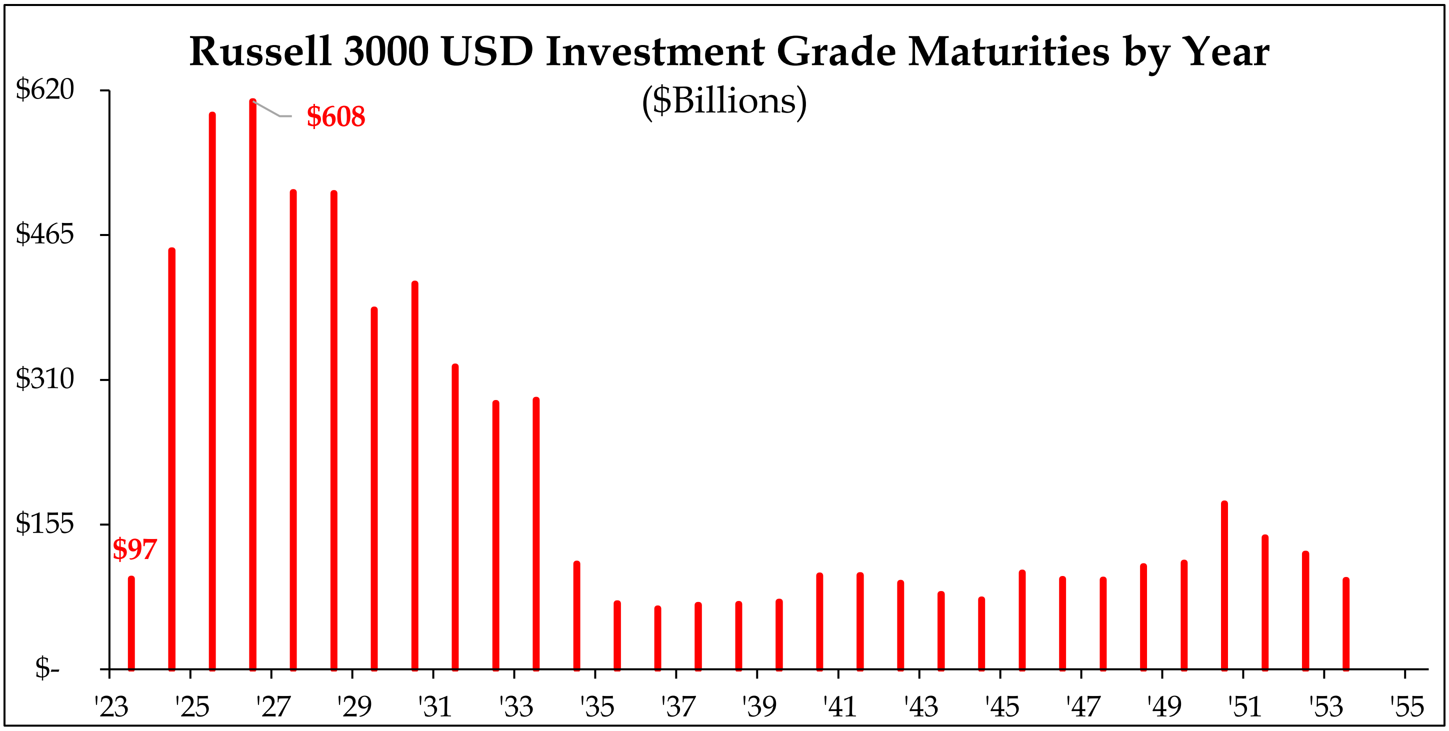
LEVERAGED LOANS, CLO'S, & PRIVATE CREDIT
A CHARTBOOK ON THE U.S. LENDING MARKET

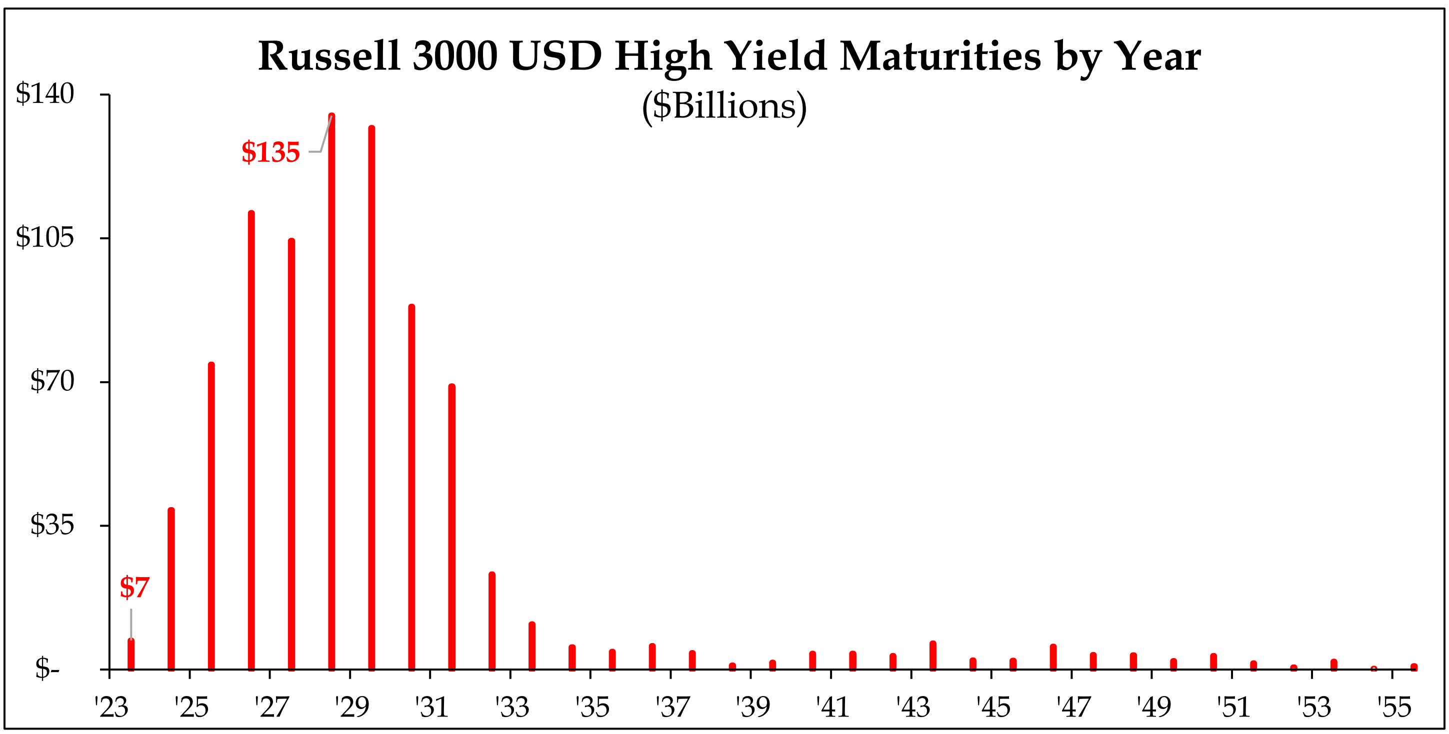
Why haven't IG and HY spreads returned to their 2022 highs? The short answer is that we came within 48 hours of recession in March, but then added enough liquidity to buy the economy another 9 months. **Now that we're seeing liquidity draining again, and we presume that a recession will still hit in the next 6 months, there are 2 more hurdles to higher public credit spreads; low refinancing activity until late 2024 and private credit liquidity infusions.** As the charts on the next few pages illustrate, the growth in private credit has coincided with a stabilization of public credit spreads, and likely explains some portion of the lack of urgency to tap public credit markets for liquidity, thus helping to keep public credit spreads low, and stable. If we assume a recession does hit before the end of Q1 2024, but private credit liquidity continues to fill the liquidity void, then it's possible, perhaps even likely, that spreads will continue to remain well-behaved, even if modestly higher from here. **That's our base case for the next 12 months; shallow recession, modest spread widening, slightly elevated defaults.**



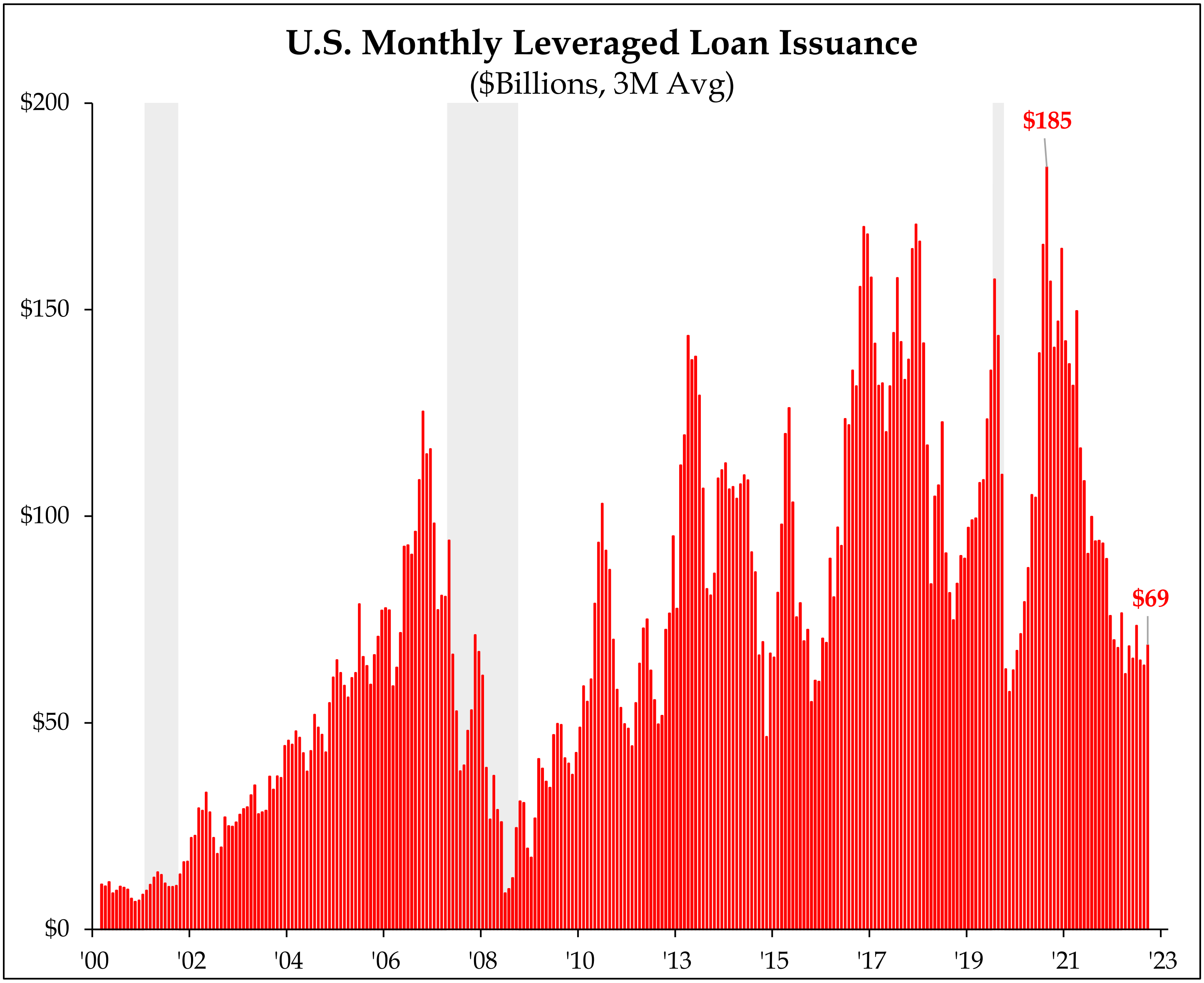


WALL OF MATURITY HITS IN 2025, WITH AVERAGE IG MATURITY OF 10 YEARS, 6 YEARS FOR HY ISSUERS



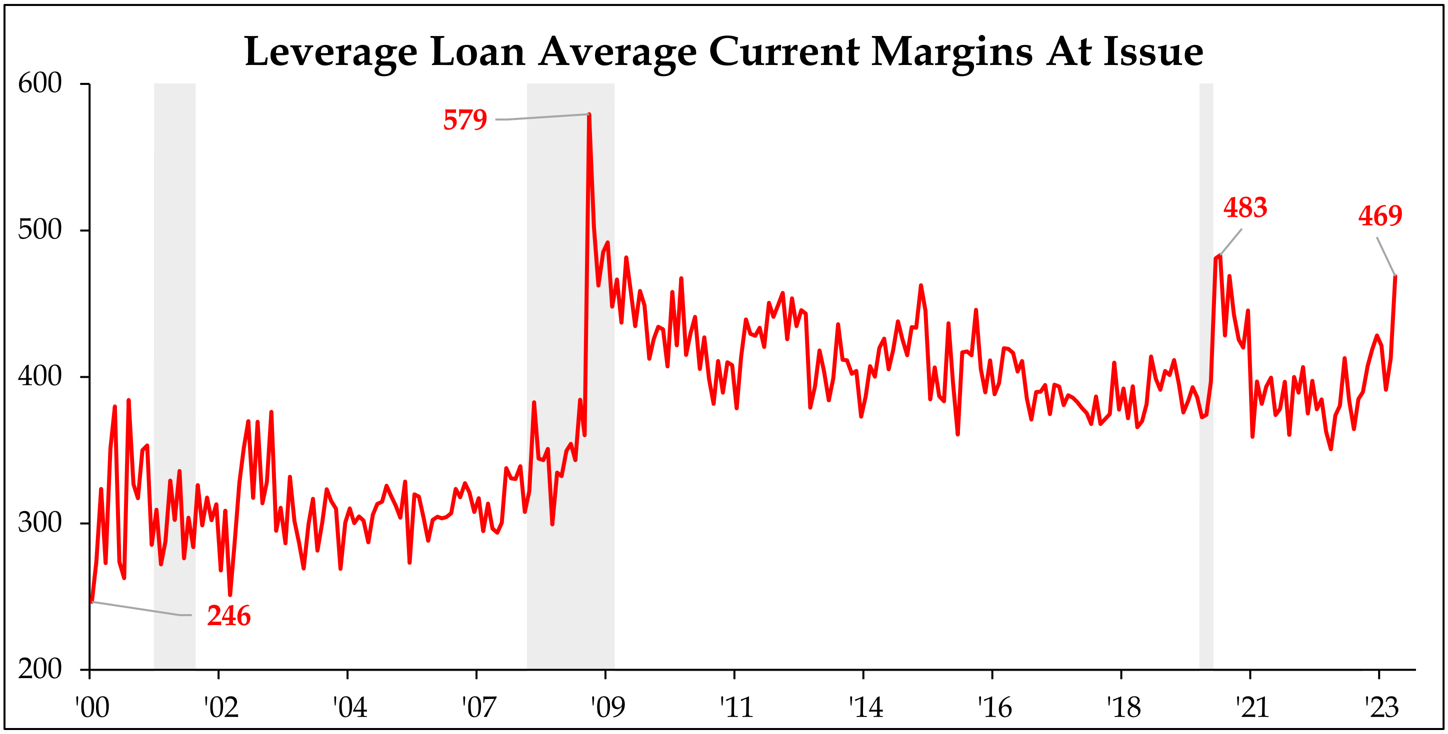


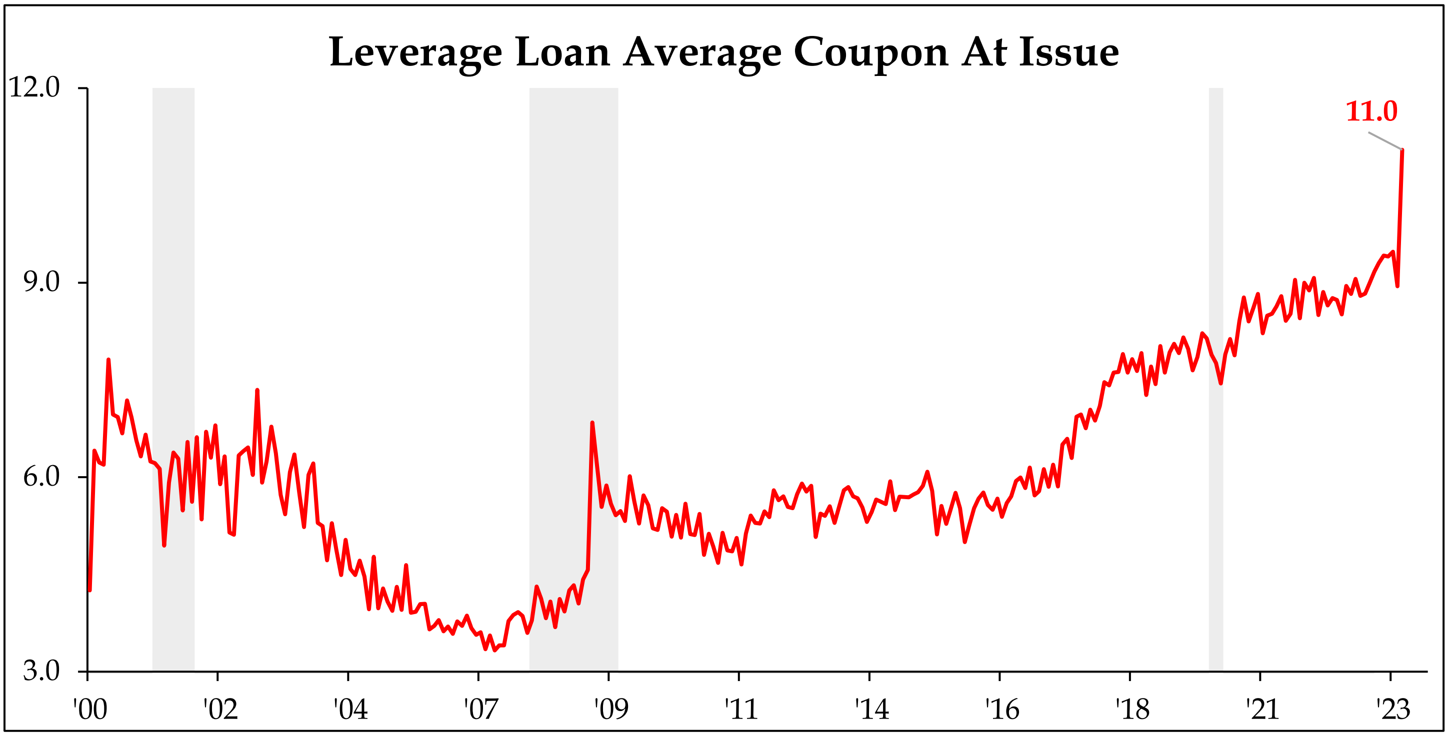
LEVERAGED LOANS:
U.S. LEVERAGED LOAN ISSUANCE IN CYCLICAL DECLINE



This is a Strategas-built composite of Bloomberg loan data. The above chart shows the 3 month average of each month's leveraged loan issuance.

LEV. LOAN CURRENT MARGINS AT ISSUE JUMPING, COUPONS AT ISSUE AT MULTI-DECADE HIGH

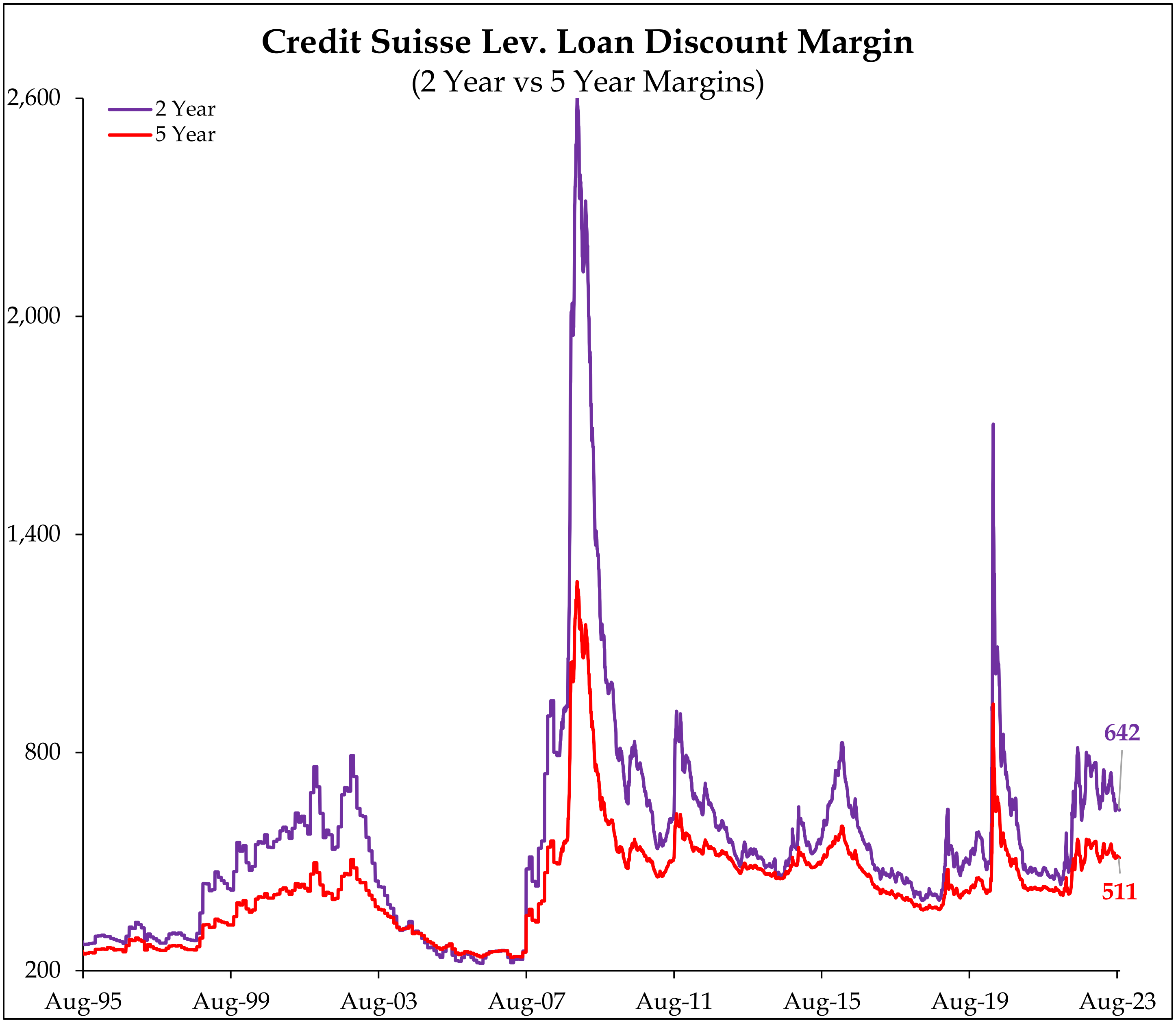




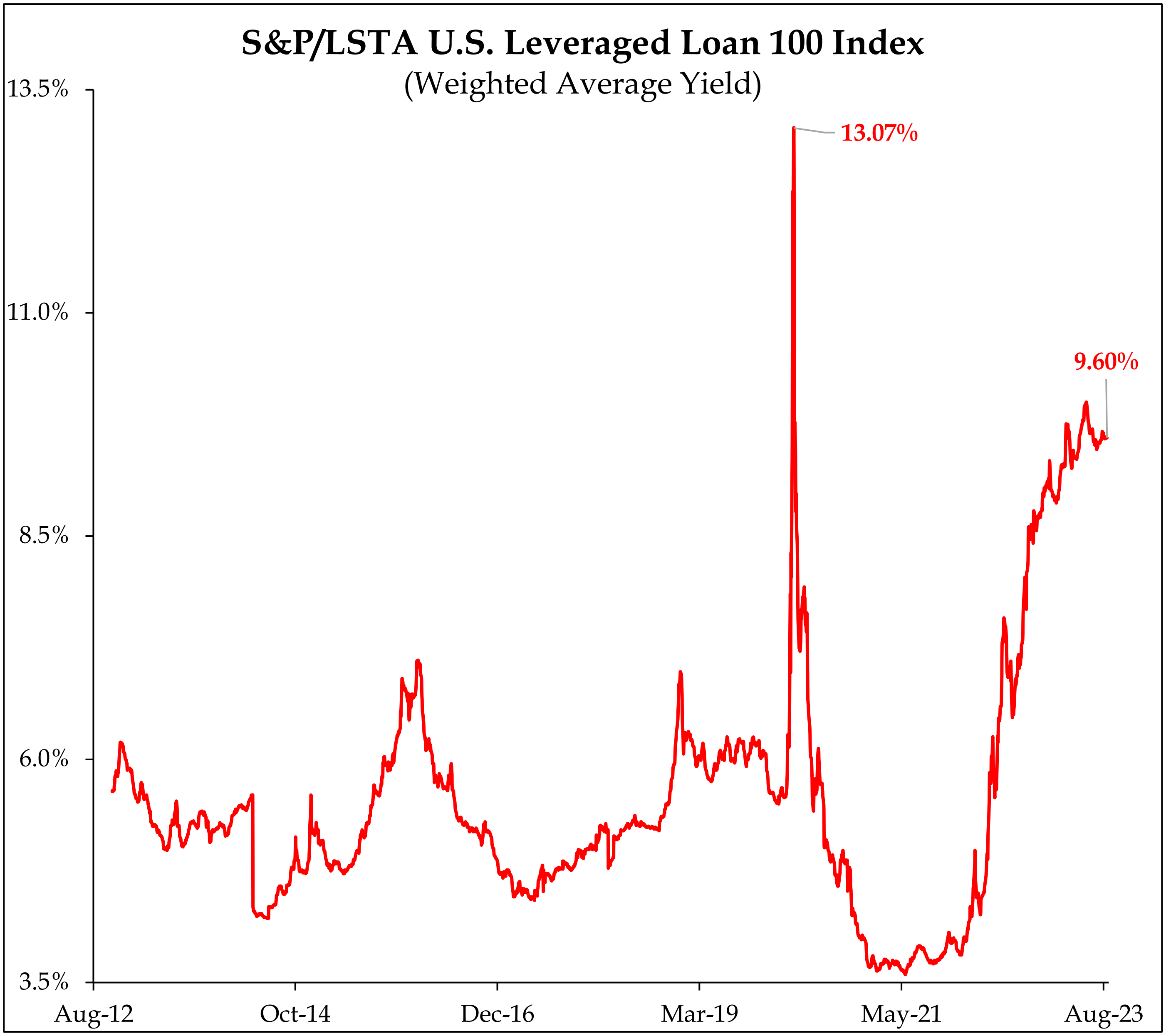
This is a Strategas-built composite of Bloomberg loan data. The above chart shows each months average current margin and coupon at issue.

SHORT-TERM LEV. LOANS PRICED FOR MORE RISK THAN LONGER TERM LOANS

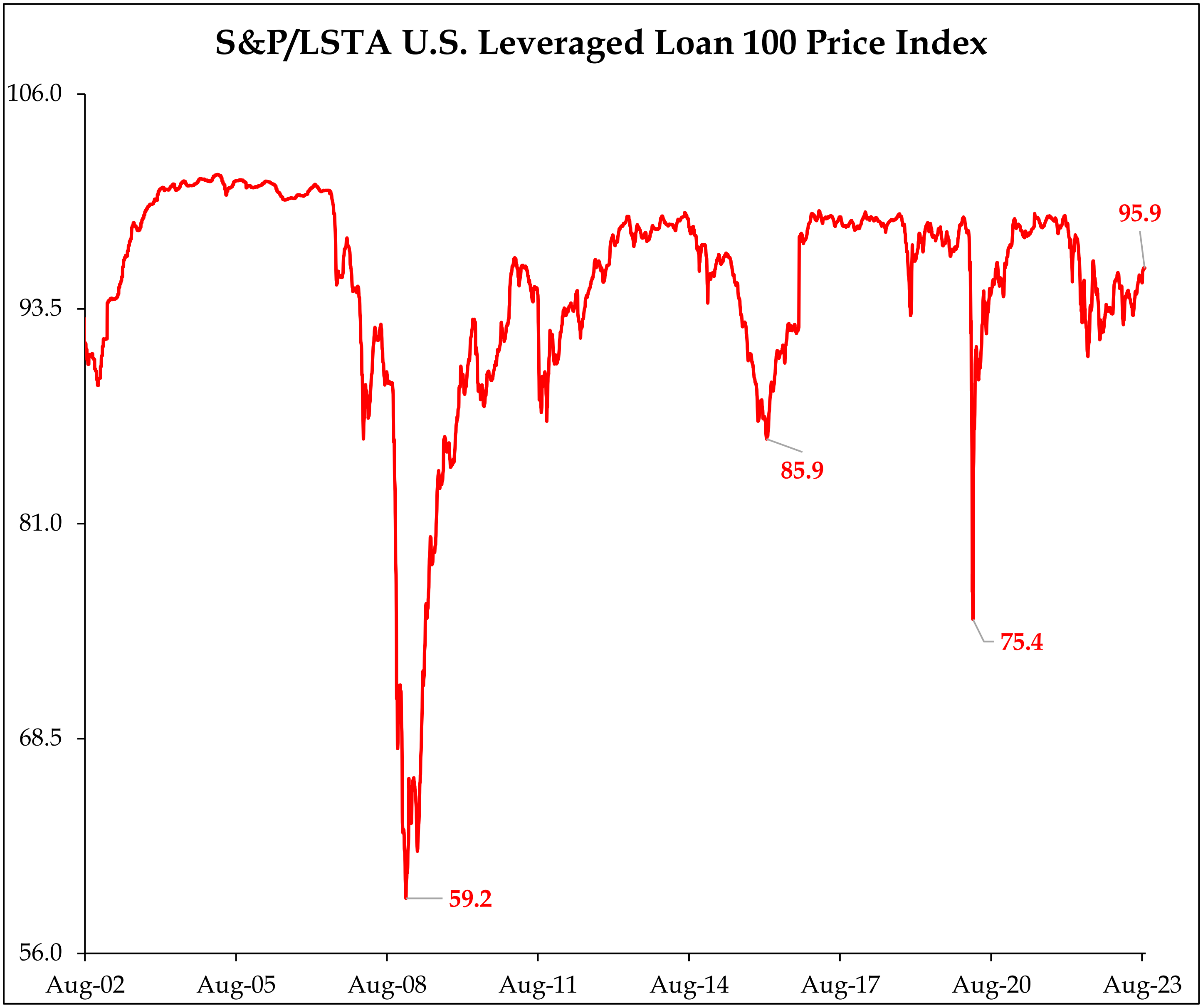
The average spread between 2 year and 5 year discount margin from 1992 - present was 123 bps, just below the current spread of 131.



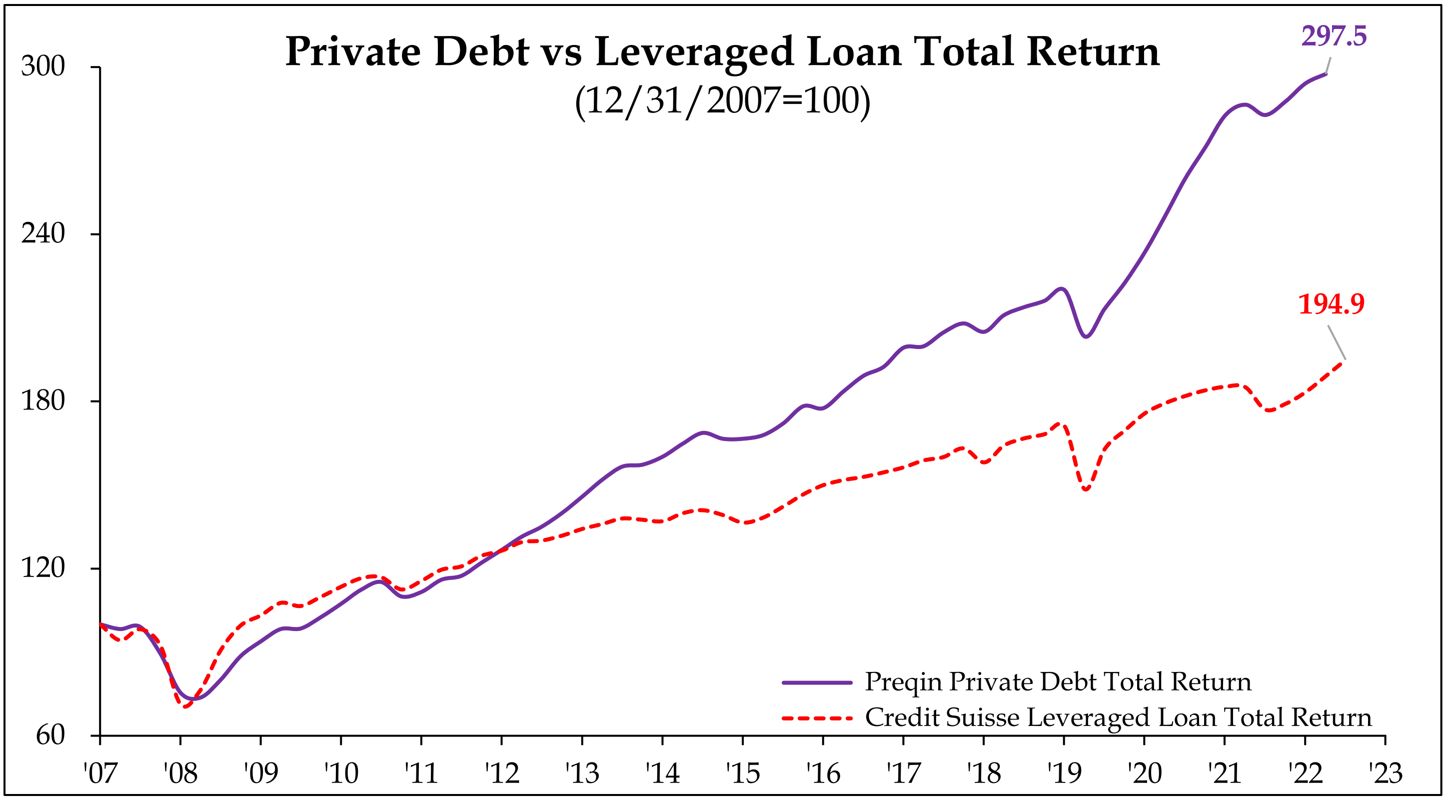
LEVERAGED LOAN YIELDS MOVING HIGHER AGAIN

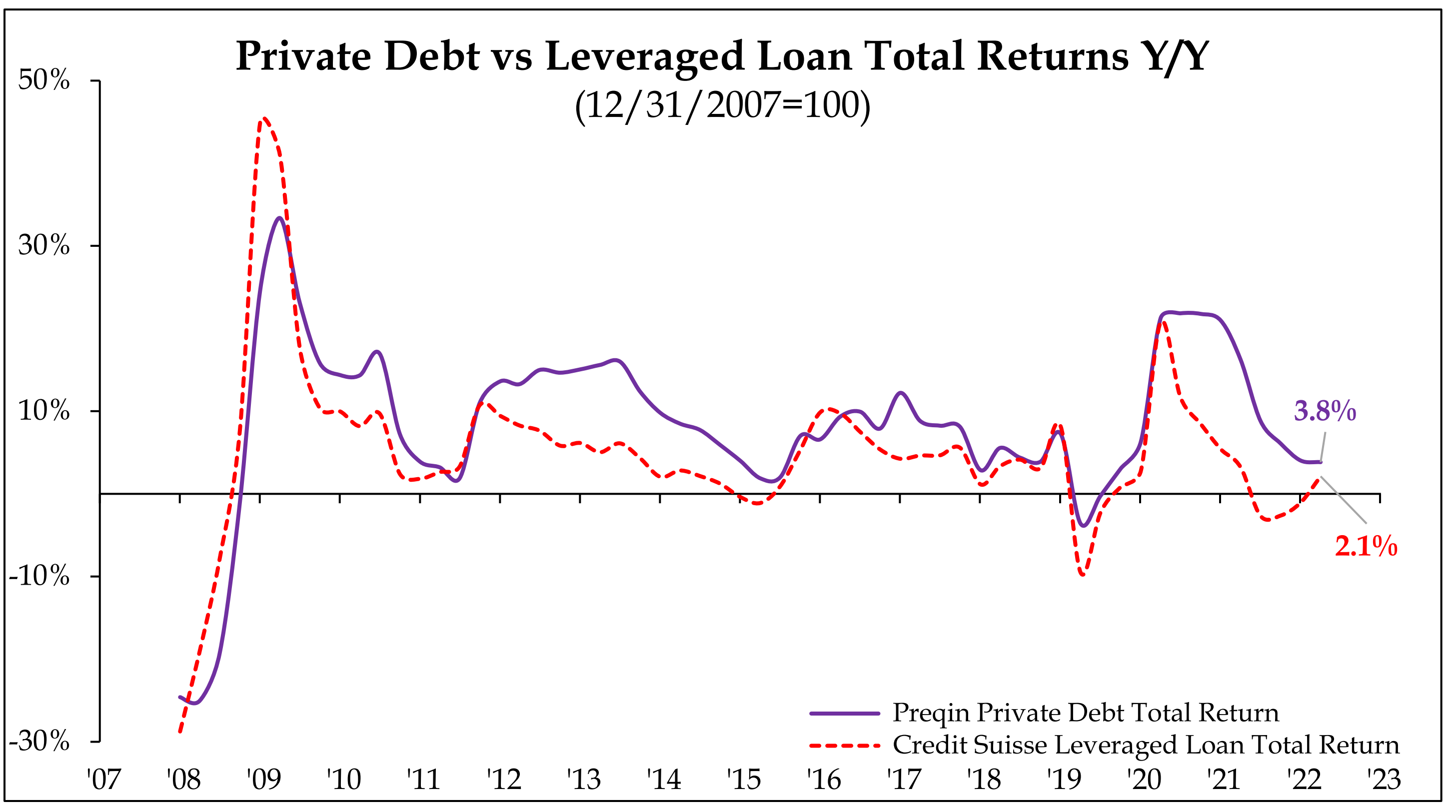


LEVERAGED LOAN PRICES HAVE TAKEN A HIT, BUT STILL REMAIN WELL ABOVE PRIOR CRISIS LEVELS

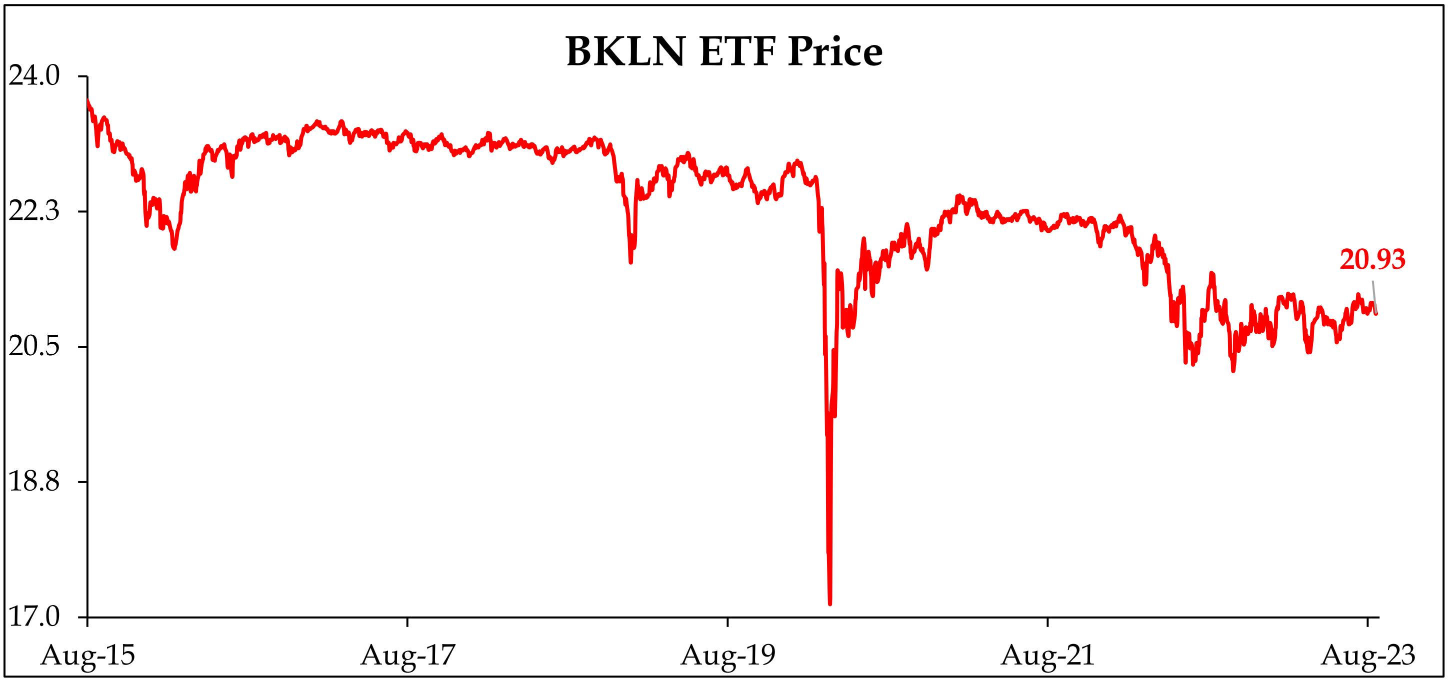


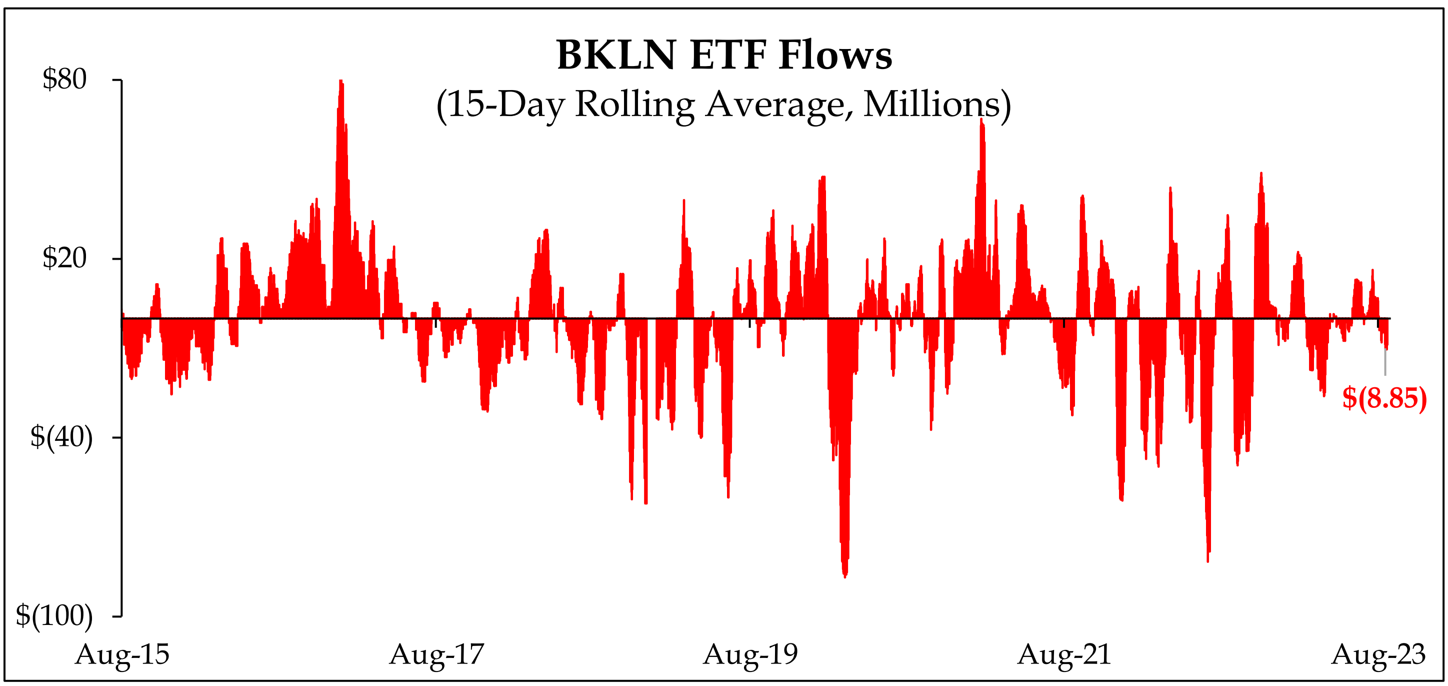
PRIVATE DEBT RETURNS OUTPACING LEV. LOAN RETURNS



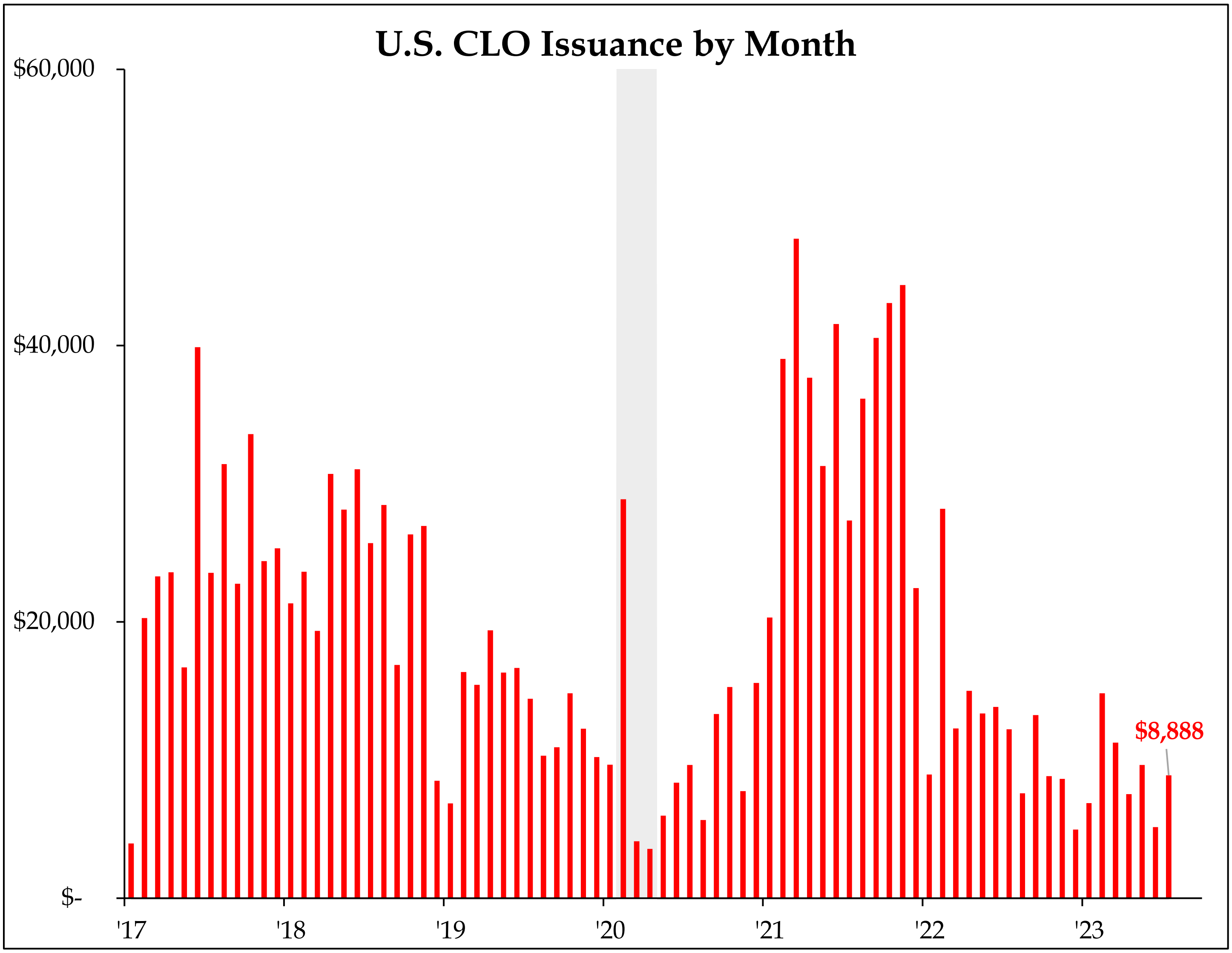


PRICE PERFORMANCE OF BANK LOAN ETF (BKLN) WEAK, FUND NOW SEEING NET OUTFLOWS

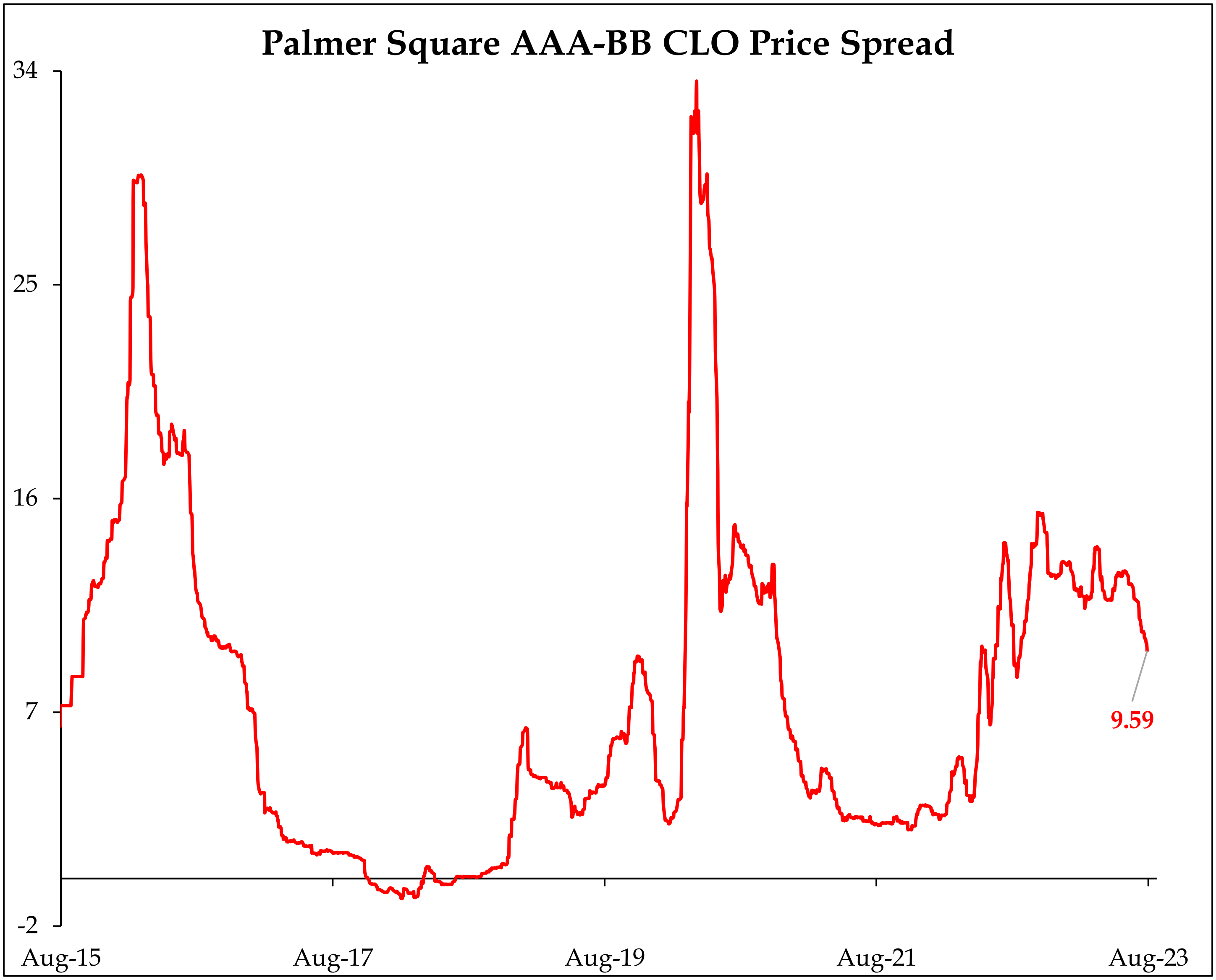




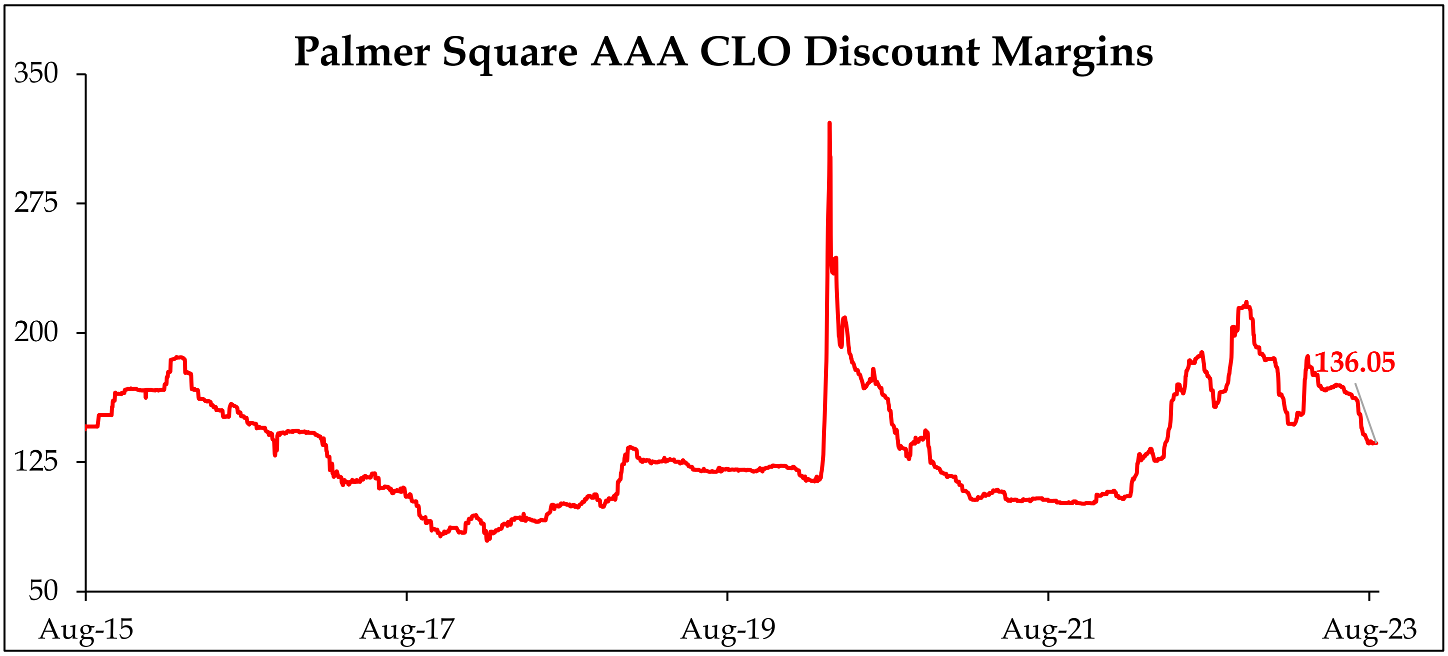
CLOs:
CLO ISSUANCE HAS PLUNGED BELOW PRE-COVID LEVELS

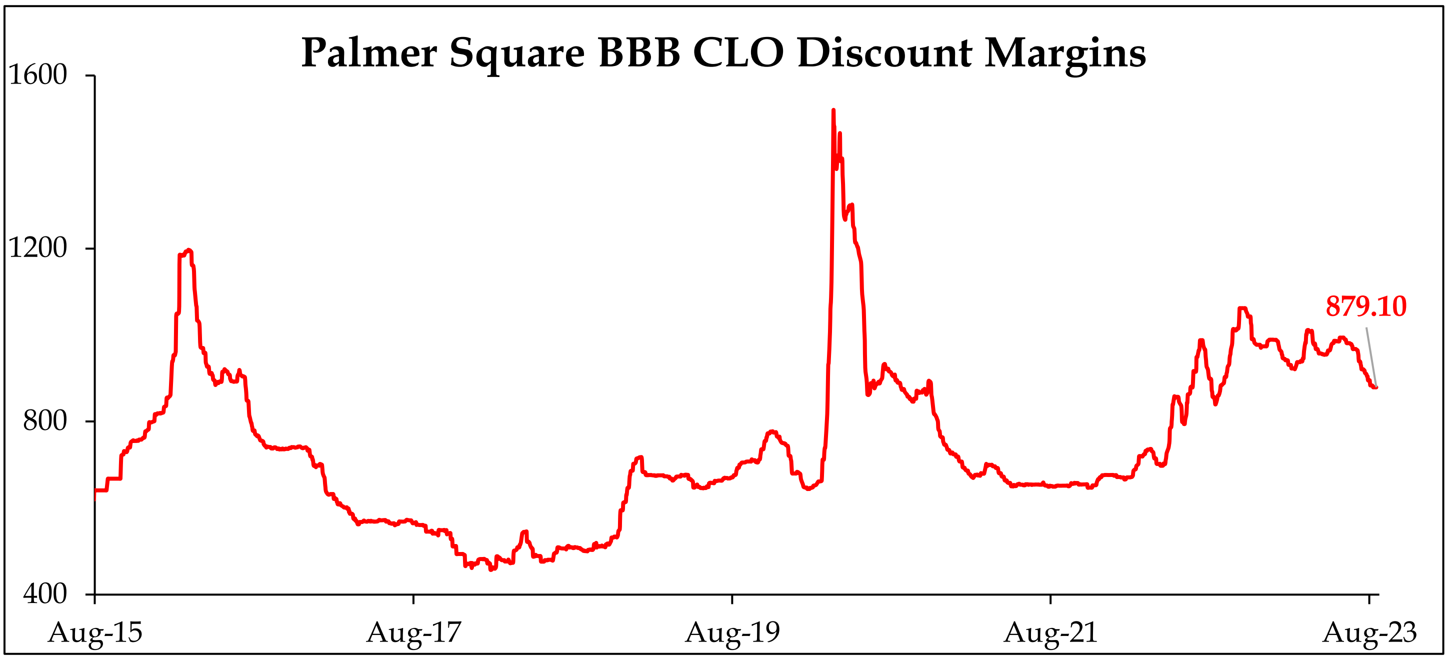


SPREAD BETWEEN AAA & BB CLO TRANCHES NARROWING, SUGGESTS CLO MARKET WORRYING LESS ABOUT STRESS

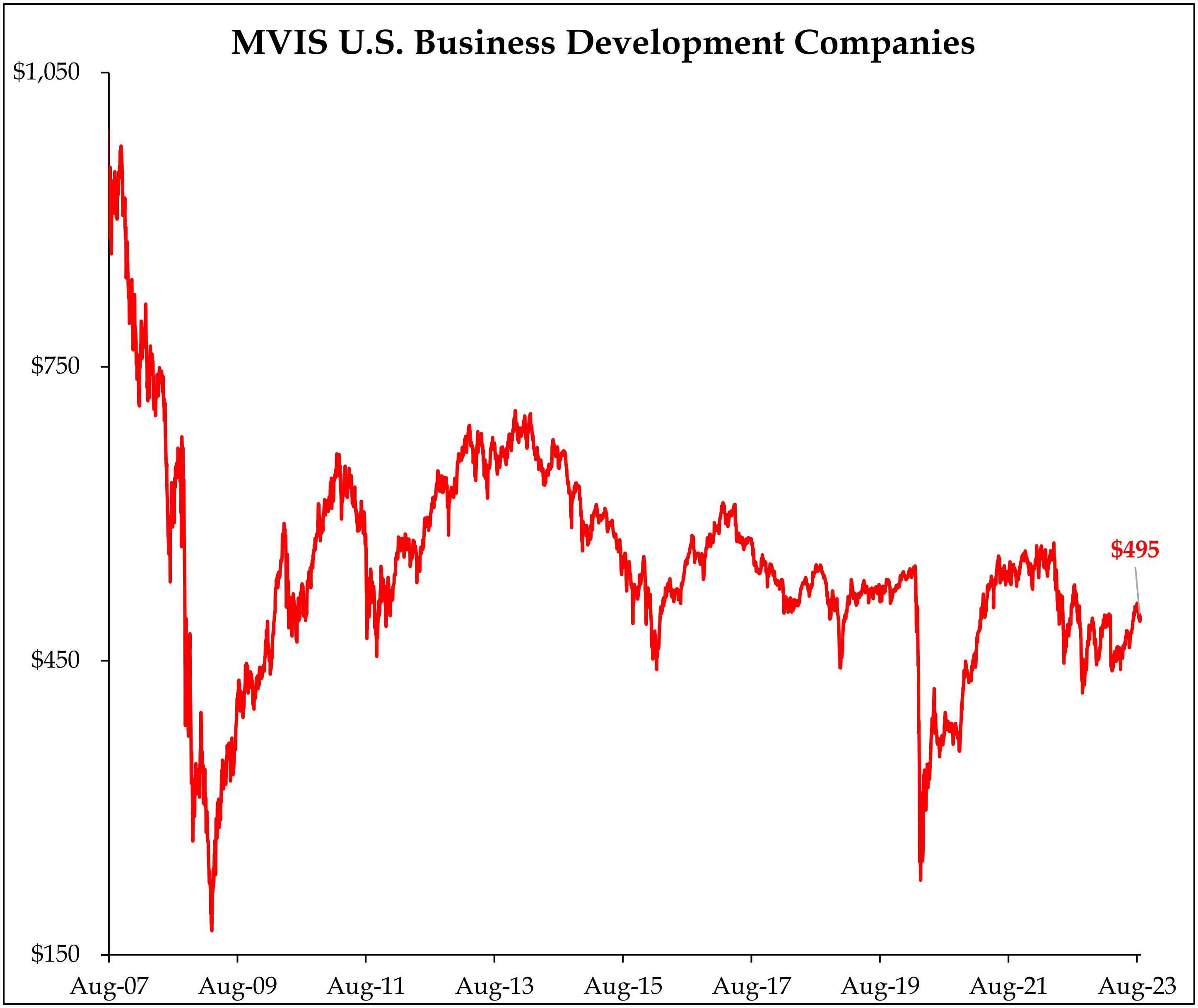


CLO DISCOUNT MARGINS BELOW PEAK & IN DOWNTREND.

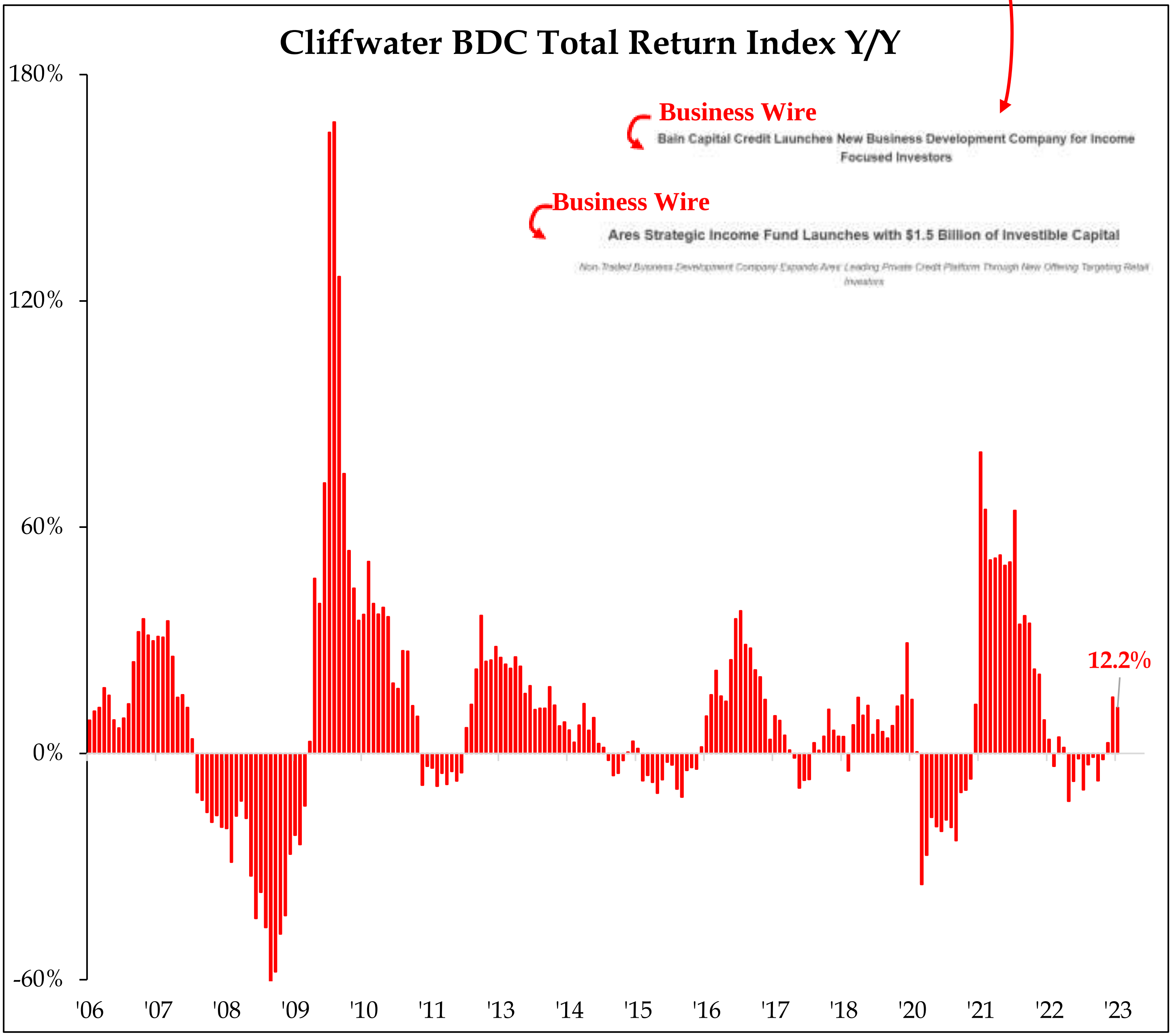




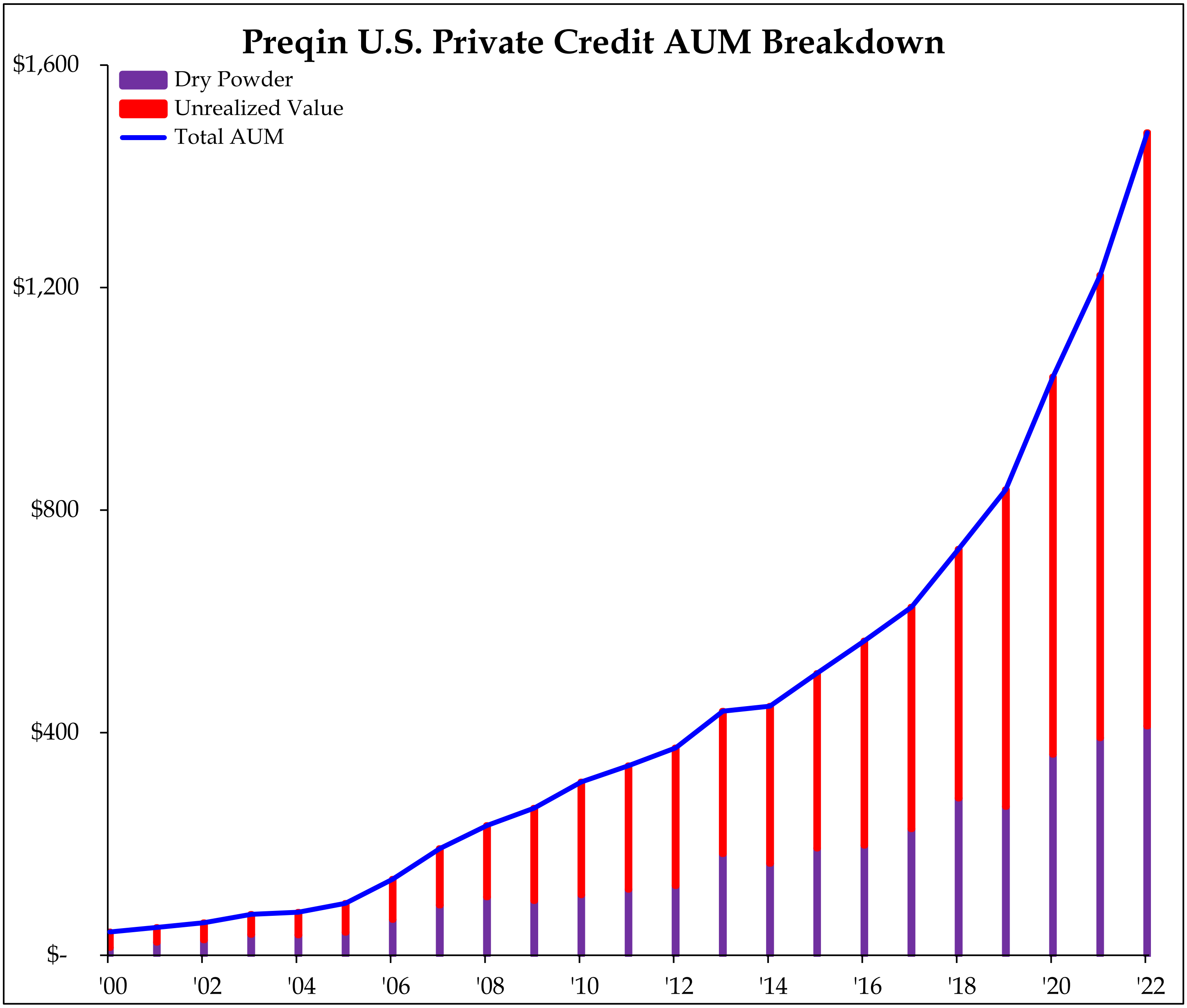
BDC INDEX REBOUNDING



BDC TOTAL RETURNS HAVE BEEN POSITIVE RECENTLY, WATCHING AS MORE FIRMS PLAY THE SPACE

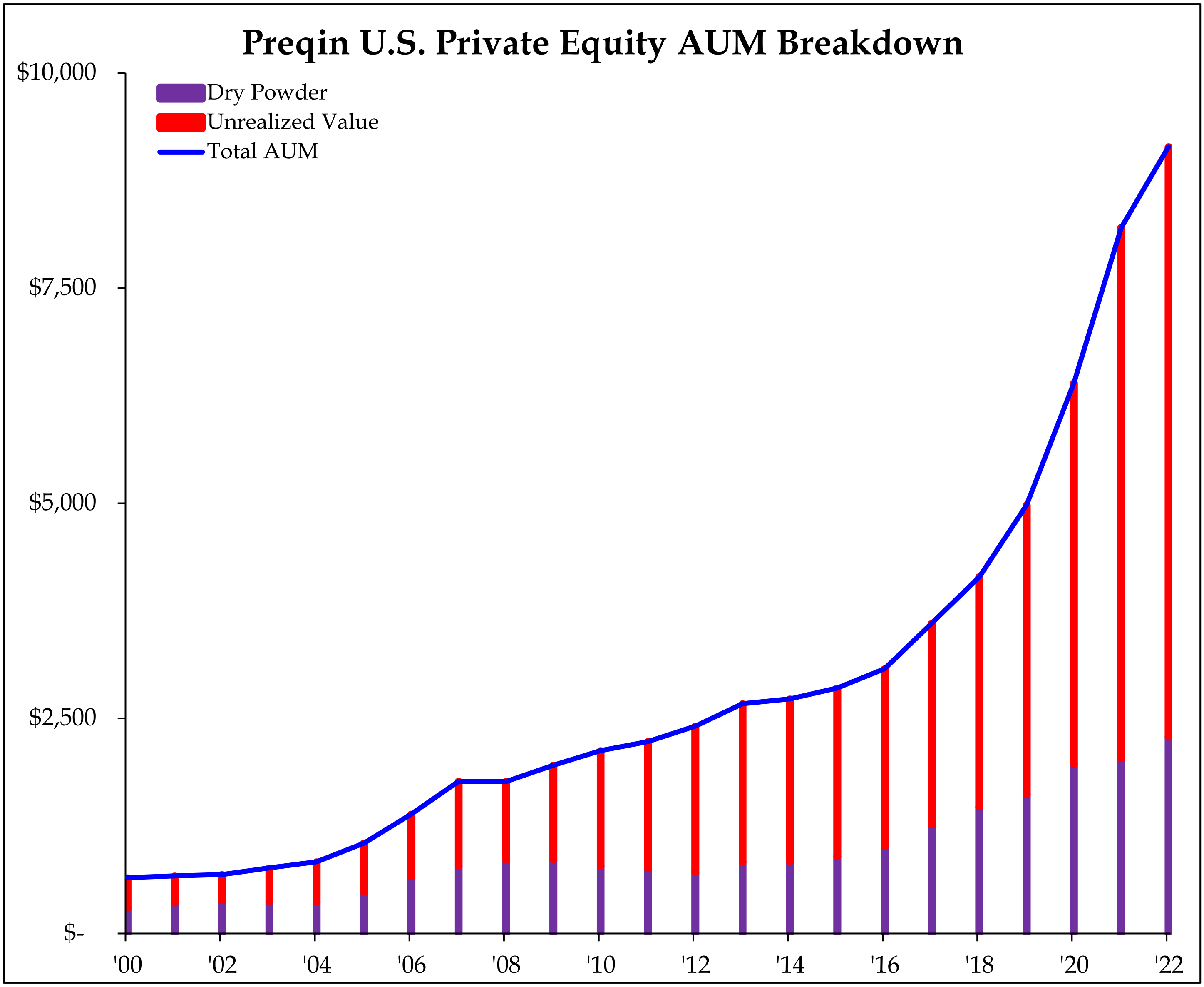


PRIVATE CREDIT:
$1.1T IN UNREALIZED VALUE, $400B IN DRY POWDER

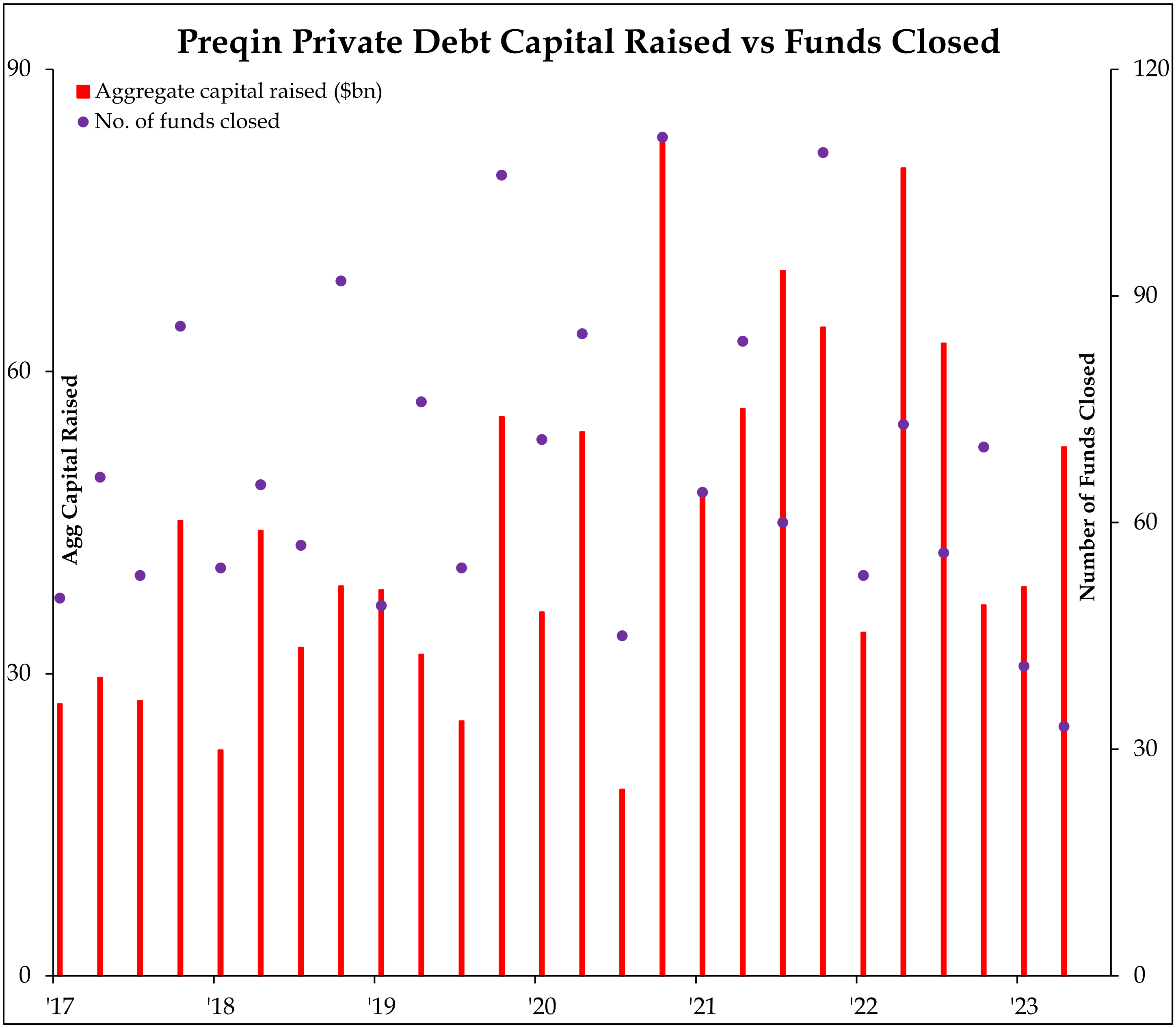


PRIVATE CREDIT MAY BE LARGE, BUT PRIVATE EQUITY HAS MORE DRY POWDER THAN PRIVATE CREDIT HAS AUM

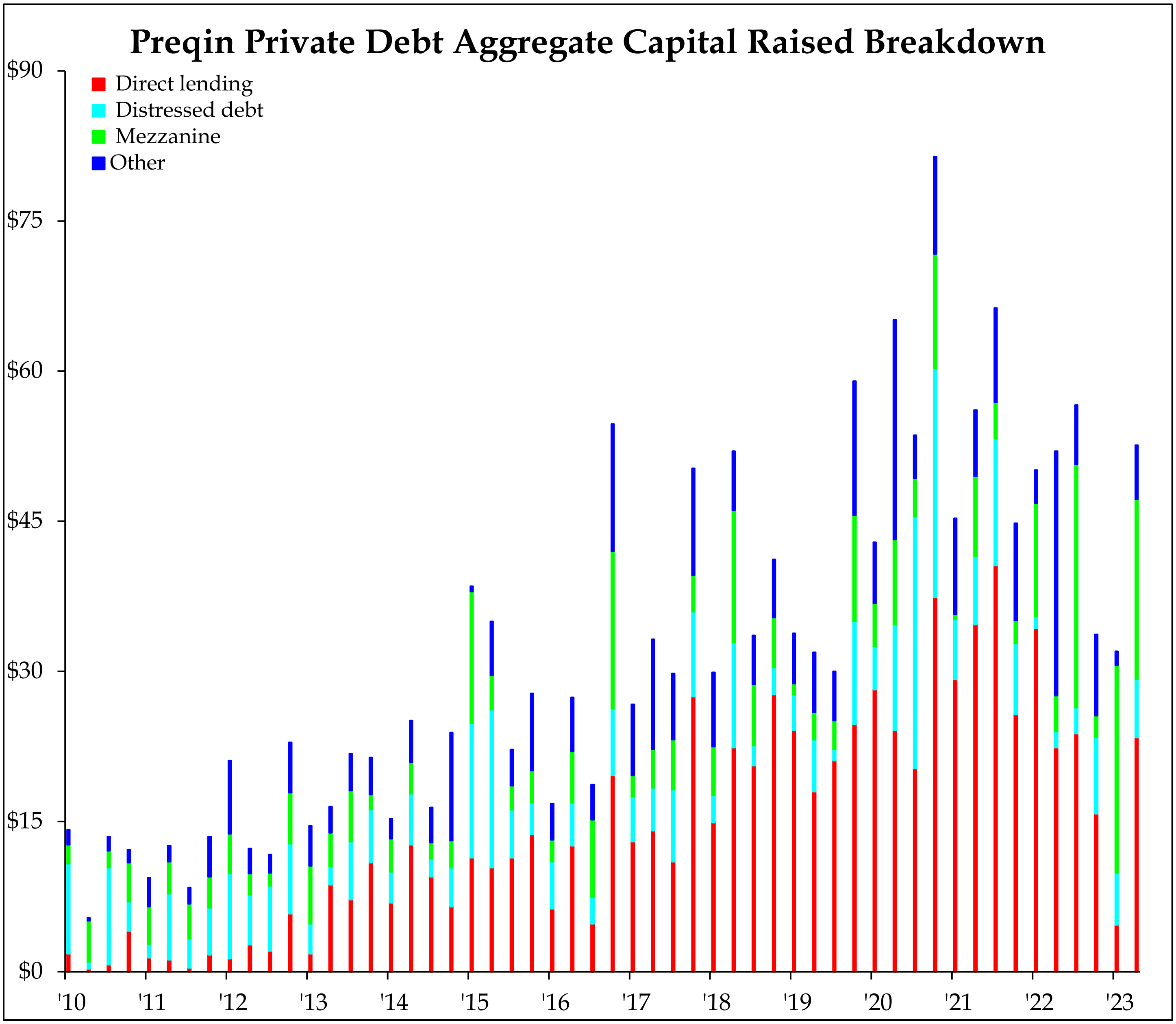
$400 billion of dry powder suggests that private credit has the liquidity to ease, but not prevent a runnup in public market credit spreads in the event of a recession. **This is one reason why we see a shallow recession in the next 12 months, as we see credit risks contained and sidelined liquidity ample to minimize the stress. So what does that mean? It still likely means IG spreads nearing 200 bps in the next 12 months, with HY spreads pushing over 600 bps.**



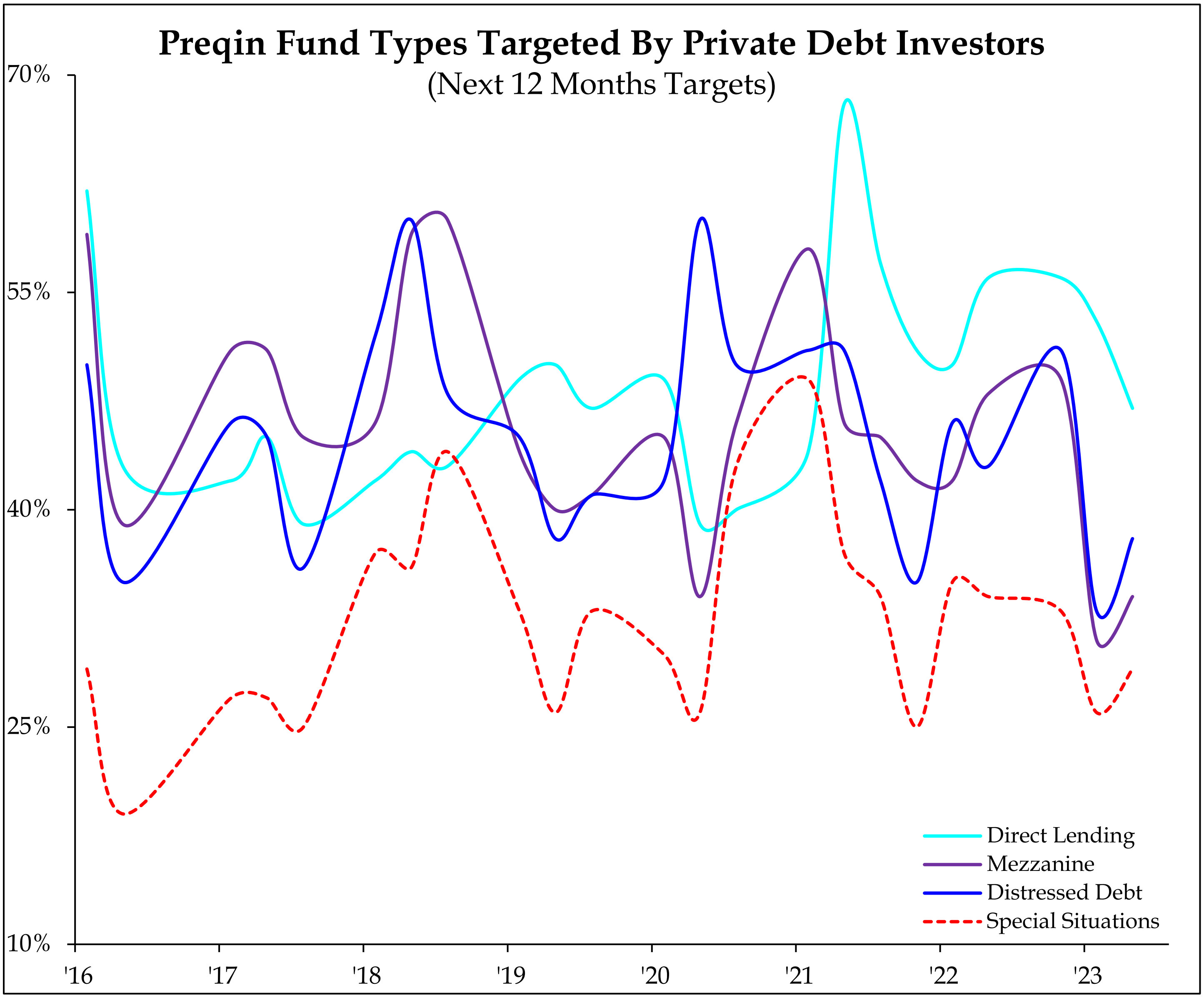
MORE LIQUIDITY IN THE PIPELINE: PRIVATE DEBT STILL RAISING CAPITAL, AS BANKS TIGHTEN STANDARDS



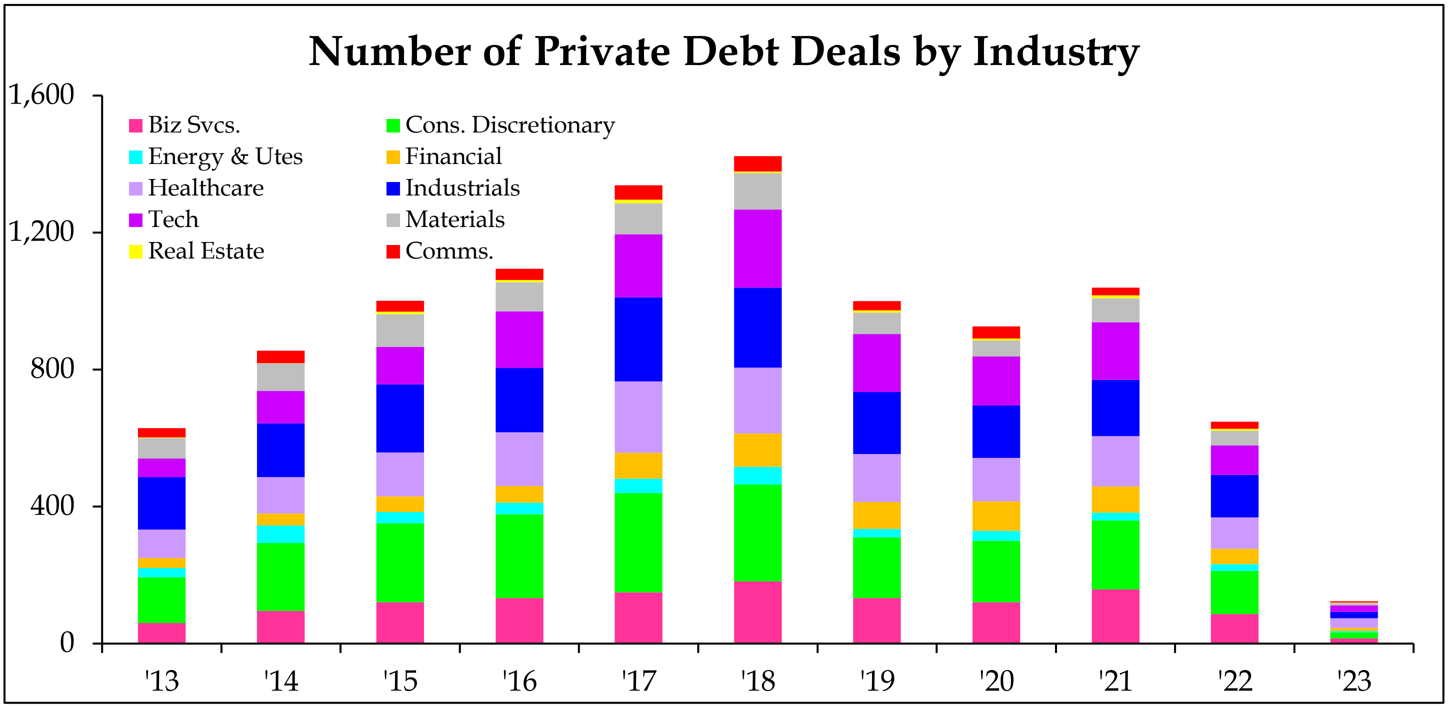
WITH BANKS PULLING BACK, NEW CAPITAL RAISED CONCENTRATED IN MEZZANINE & DIRECT LENDING

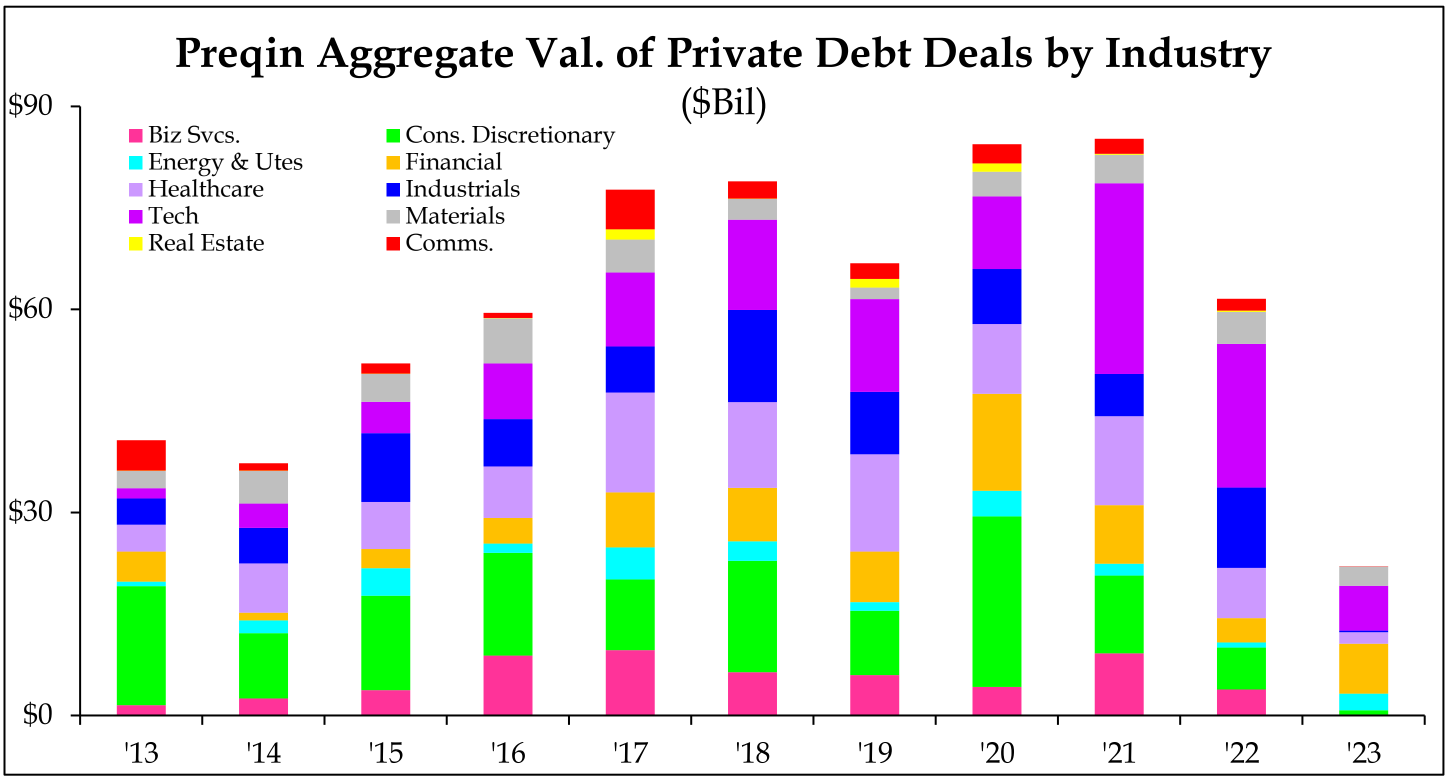


DIRECT LENDING EXPECTED TO BE THE MOST UTILIZED STRATEGY OVER THE NEXT 12 MONTHS

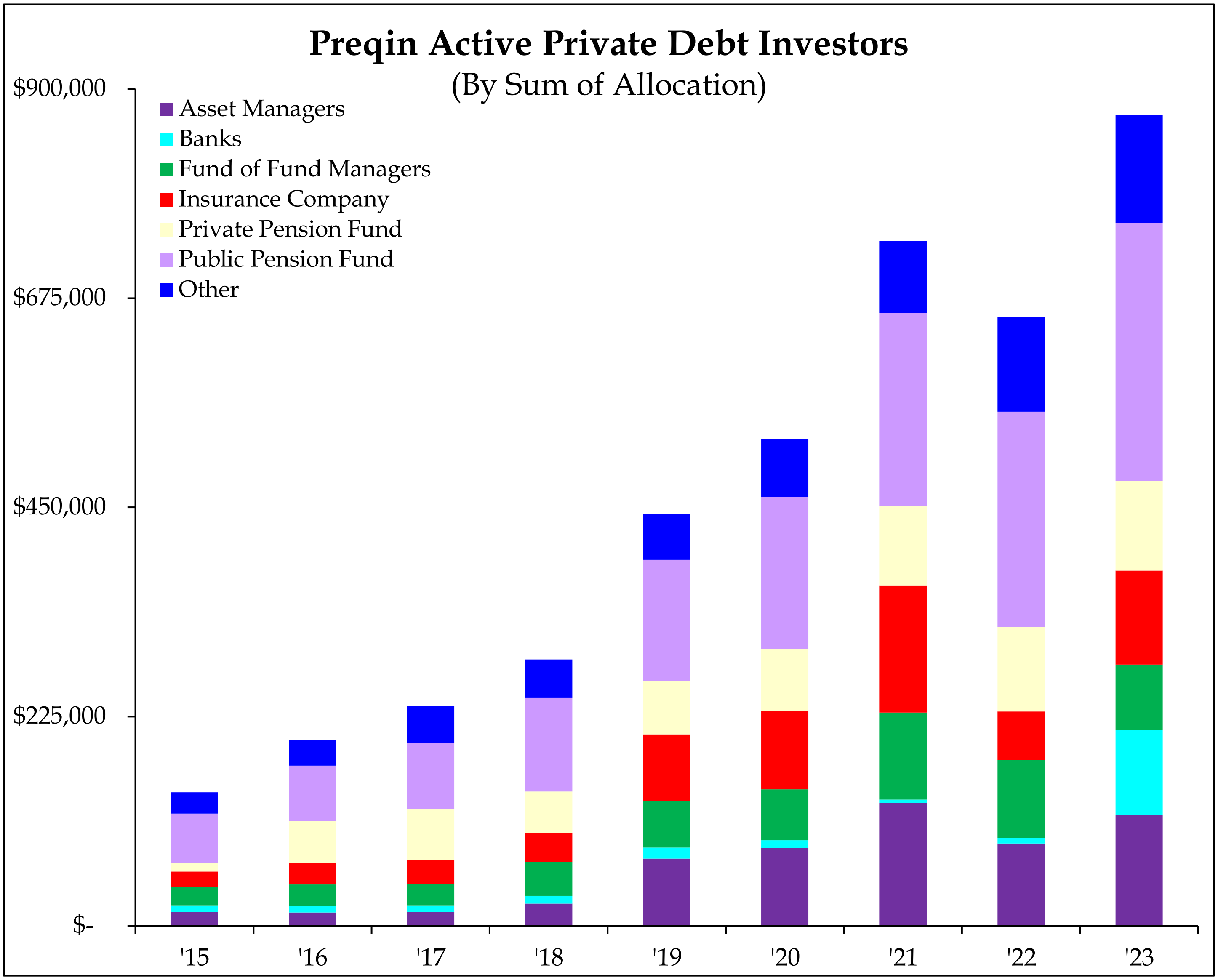


PRIVATE DEBT DEALS CONCENTRATED IN CONSUMER DISCRETIONARY, INDUSTRIAL, & TECH

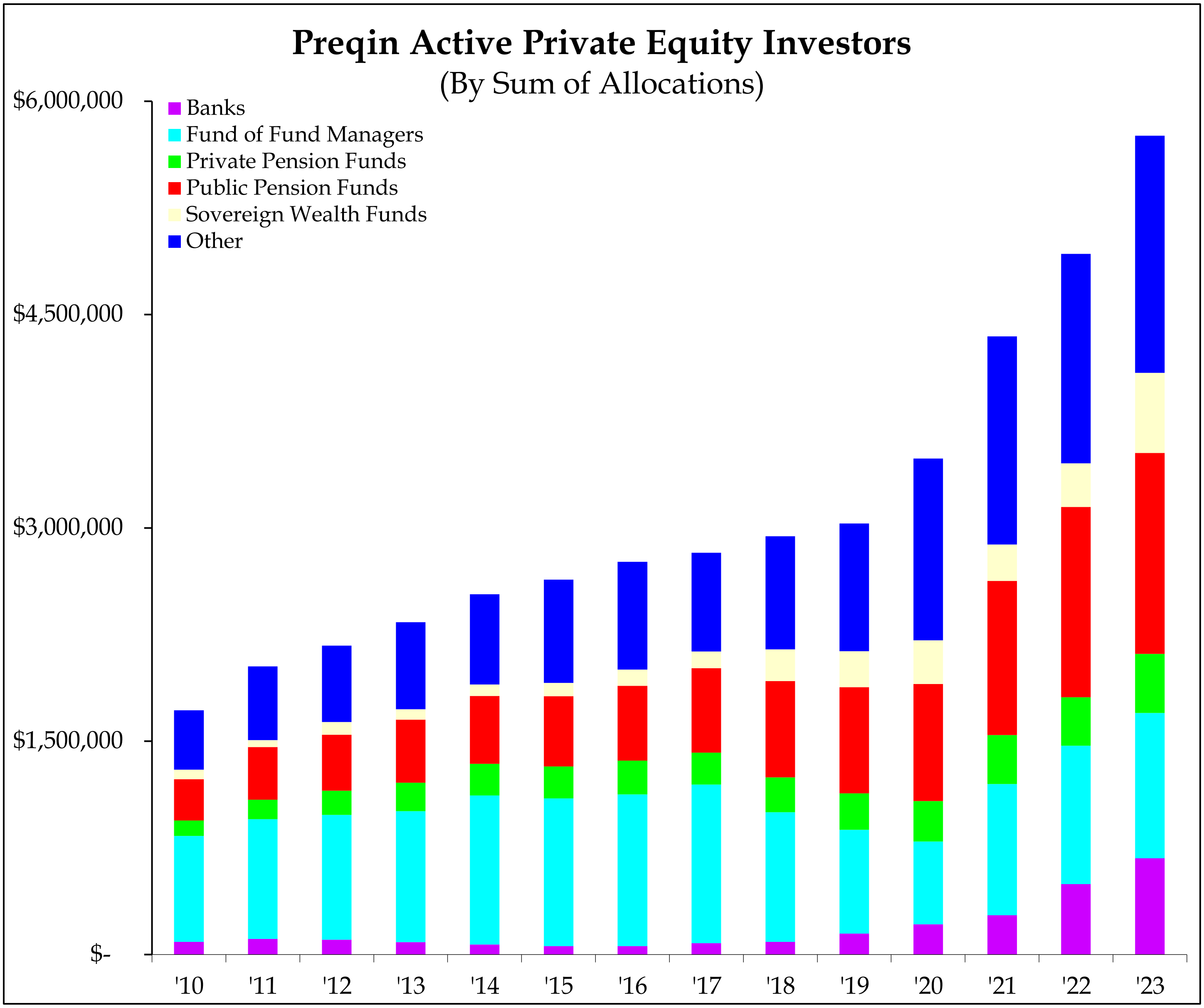




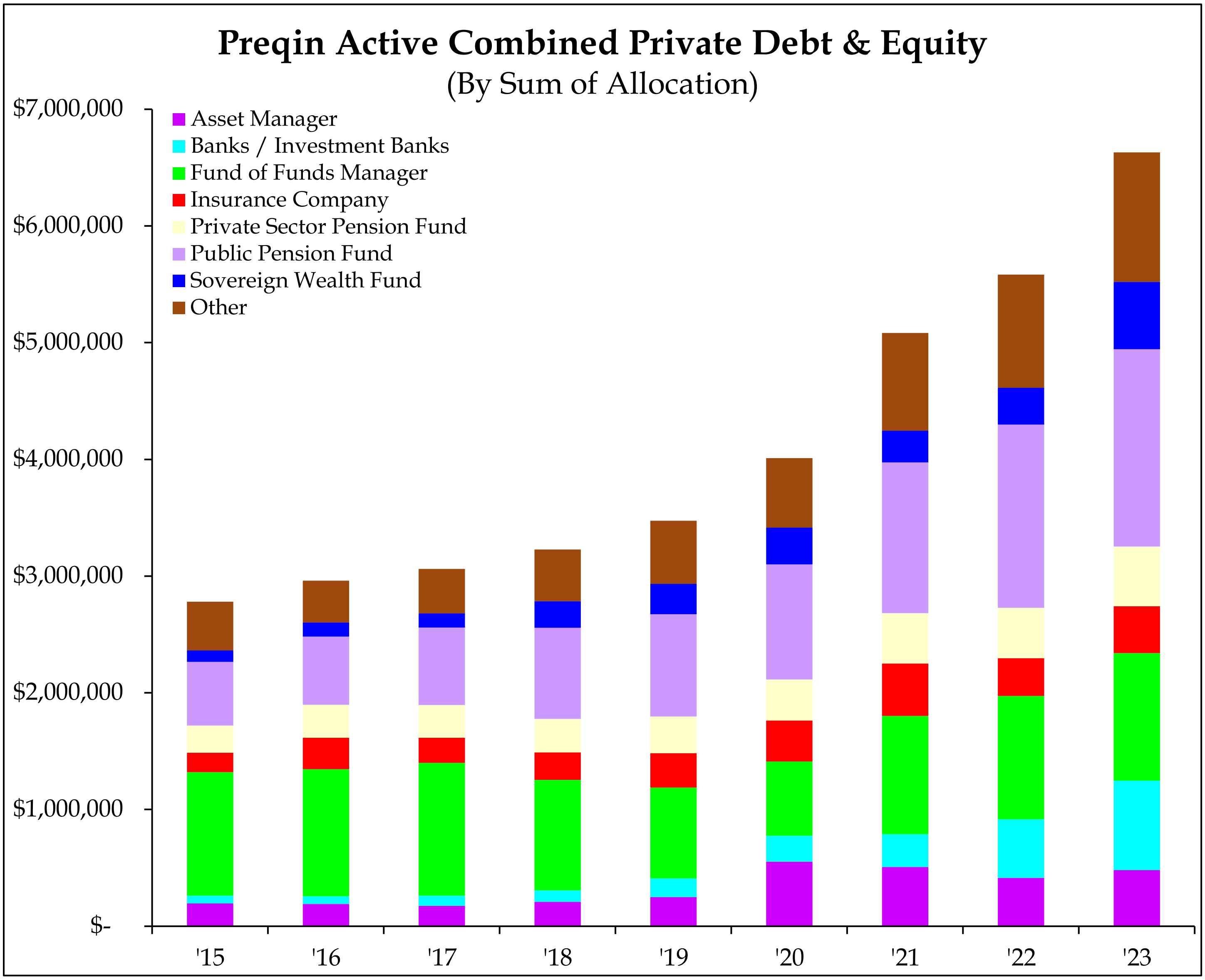
PENSION FUNDS LARGEST PLAYERS IN PRIVATE DEBT SPACE, BANKS INCREASINGLY PLAYERS



PENSIONS ALSO LARGEST PLAYERS IN PRIVATE EQUITY, AS ALLOCATIONS TO SPACE CONTINUE TO GROW



PENSIONS LARGEST PLAYERS IN PRIVATE MARKETS



NON-BANK LENDERS INDEX HAS WEAKENED, BUT NOT SHOWING ANY NOTABLE SIGNS OF STRESS

Strategas non-bank lenders index built from the bonds and loans outstanding from non-bank lenders.

APPENDIX – IMPORTANT DISCLOSURES

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