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Crescent Capital Group Market Commentary Third Quarter 2023

MARKET REVIEW

The third quarter of 2023 was constructive for below investment grade debt supported by a resilient US economy and strong labor market. Carrying the same themes from last quarter, the Fed continued to fight inflation increasing the Fed Funds Rate by 25 basis points in July but left the rates unchanged at the September meeting. This hawkish hold by the Fed led investors to consider a “higher for longer” rate narrative and as such, Treasury yields moved much higher. The 10-year Treasury yield ended at 4.57% (up 73 bps QoQ) and the 5-year Treasury yield ended at 4.61% (up 45 bps QoQ) at the end of September. Yields widened and spreads tightened in high yield bonds, ending Q3 at 8.94% and 416 basis points, respectively. In leveraged loans, yields tightened to 10.30%. WTI oil prices ended Q3 at $90.79/ barrel, up 29% since the end of Q2.

In terms of performance in Q3, while most other fixed income asset classes were down, US high yield bonds returned +0.53% as measured by the ICE BAML US High Yield Index and leveraged loans returned +3.46% as measured by the Morningstar LSTA Leveraged Loan Index. HY bonds and leveraged loans meaningfully outperforming US Investment Grade, TIPs, Emerging Markets, Municipals, Mortgages and Treasuries for the quarter. It is also noteworthy to mention performance dispersion has increased amongst the various fixed income asset classes for the YTD period with loans leading the way up +10.16%, US HY bonds holding up fairly well up +5.67% and Mortgages suffering the worst losses at -2.22%.

Sector performance was mixed in the high yield bond market in Q3; the best performing sectors were Banking, Financial Services and Media and the worst performing sectors were Real Estate, Transportation and Healthcare. Conversely, in leveraged loans, all sectors generated positive returns; the best performing sectors were Real Estate, Health Care Equipment & Services and Software & Services and the worst performing sectors were Technology Hardware & Equipment, Food & Staples Retailing and Food, Beverage & Tobacco. In terms of credit quality, CCCs continue to outperform all other credit tiers in high yield bonds and loans. More specifically, CCC bonds returned +2.62%, outperforming BB and B bonds by 296 and 166 basis points, respectively. In leveraged loans, CCC loans returned +6.05%, outperforming BB and B loans by 383 and 220 basis points, respectively.

Quarterly fund flows were negative in US high yield at $3.9 billion outflows and positive in leveraged loans at $0.9 billion inflows. For the year, both asset classes were negative with US high yield at -$14.5 billion outflows and leveraged loans at -$18 billion outflows. Capital market activity picked up in Q3. High Yield bond issuance totaled $41.1 billion gross for Q3 and $136.6 billion gross YTD ($50.6 billion net), which compares to $90.6 billion gross YTD ($46.5 billion net) over the same time last year. Similarly, loan issuance totaled $122.5 billion gross in Q3 and $257.9 billion gross YTD ($59.2 billion net), which is up 25% from $205 billion gross YTD ($145.1 billion net) over the same time last year. The Moody's global LTM default rate for HY bonds stood at 4.26% and for loans it was 1.27% according to Morningstar LSTA Leveraged Loan.

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MARKET OUTLOOK

Credit fundamentals remain strong, although moderating, and we continue to expect most borrowers to exhibit revenue and cash flow growth in 2023, resulting in stable leverage ratios. However, we believe interest coverage ratios have likely peaked as benchmark rates (and floating coupons) begin to increase from historically low levels. While elevated interest rates may pressure certain borrowers, many have ample liquidity and would benefit from private equity sponsor support, if needed. Credit defaults are likely to trend higher but are expected to remain within their historical averages in 2023.

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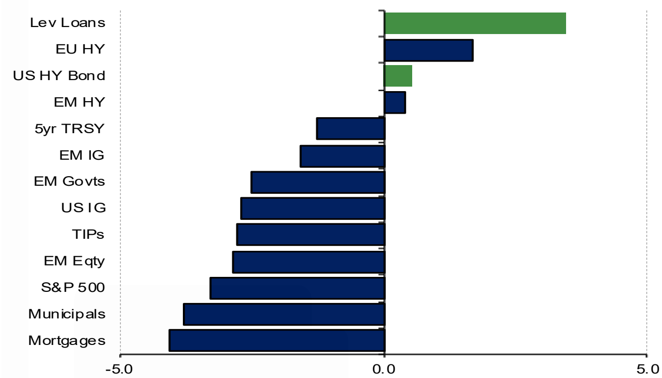
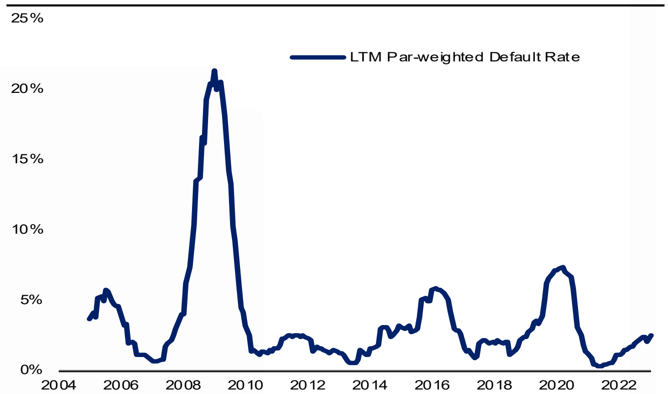
Cross-Asset Total Return Performance Q3



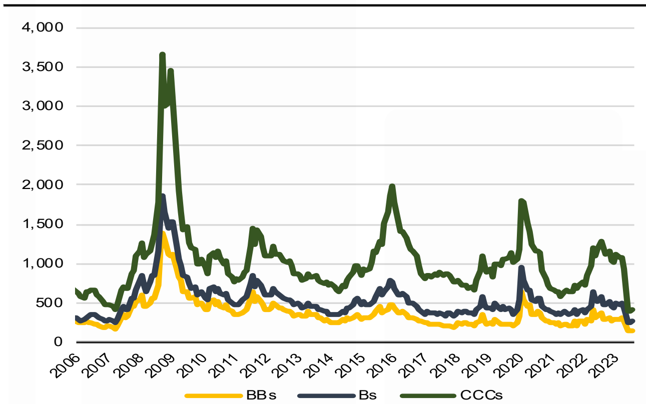
Source: BofA Merrill Lynch Global Research, ICE Data Indices LLC, S&P LCD

HY Bond Default Rates



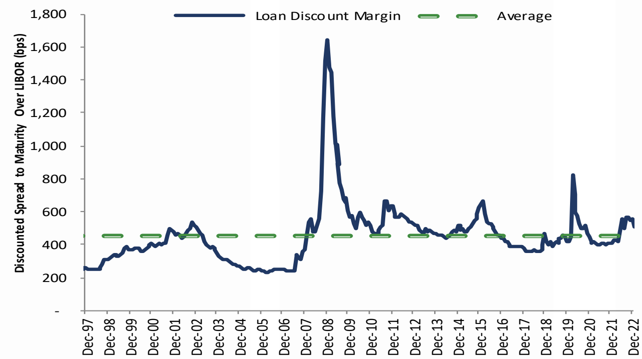
Source: BofA Merrill Lynch Global Research, ICE Data Indices LLC, S&P LCD

HY Bond Spreads by Credit Quality



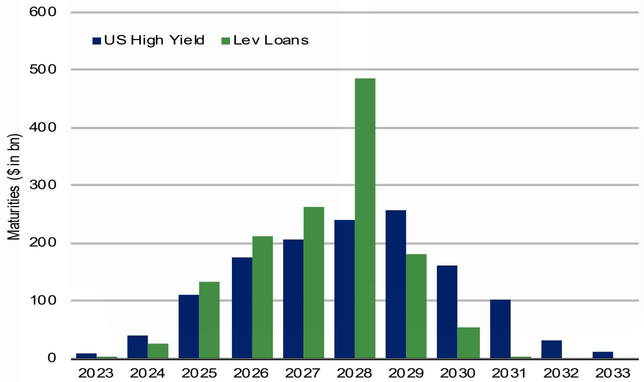
Source: BofA Merrill Lynch Global Research

Bank Loan Spreads over Libor



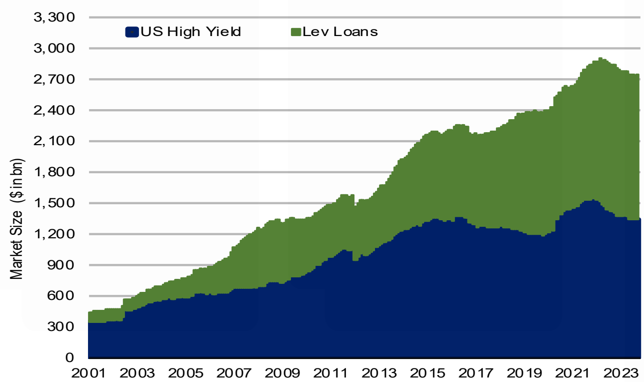
Source: LCD – S&P LSTA Lev Loan Index

HY and Leveraged Loan Maturity Profile



Source: BofA Merrill Lynch Global Research

Growth of HY and Leveraged Loan Markets



Source: BofA Merrill Lynch Global Research, S&P LCD

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About Crescent Capital Group

Crescent Capital Group is headquartered in Los Angeles with offices in Boston, Chicago, London, and New York. With more than 100 investment professionals and over 210 employees, the firm invests at all levels of the capital structure, with a significant focus on below investment grade credit through strategies that invest in senior bank loans, unitranche loans, high yield debt, mezzanine debt, and other private debt securities. As of September 30, 2023, Crescent Capital Group managed over $40+ billion of privately-originated debt investments as well as marketable securities. For more information about Crescent Capital Group, please visit www.crescentcap.com.

Legal Information and Disclosures

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