Blackstone Credit

CREDIT INSIGHTS

July 2021 Market Commentary

Performance Overview

- Signs of retracement appeared in the credit markets in July as CCCs underperformed for the first time this year and credit spreads widened
- The default environment remains benign with no new defaults in the U.S. and only one in Europe
- We expect only a modest, short-term headwind on the travel and leisure sectors due to the Delta variant
- We generally expect fiscal and monetary policy to remain more stimulative than historical norms, leading to higher inflation and interest rates

Concerns of rising COVID-19 cases due to the Delta variant weighed on credit returns in both the U.S. and Europe during July. U.S. and European loans experienced the largest decline in prices, but this was largely offset by interest income, resulting in near-flat returns. High yield and U.S. investment grade bonds fared better due to a strong rally in Treasuries throughout July, although we note that a portion of July's lower yields have retraced higher during August.

Delta concerns caused lower quality, CCC-rated credit to underperform for the first month this year, with credits in virus sensitive sectors like travel and leisure being particularly hard hit. Credit spreads reversed course in July and widened off their post-Global Financial Crisis lows, with investment grade spreads rising 6bp higher on the month and high yield spreads rising 26bp. Falling interest rates helped offset widening credit spreads, as the U.S. Treasury yield curve fell 20-25 bps in a relatively parallel fashion. This all occurred while equity markets reached new all-time highs, as the S&P 500 rose 2.4% and the Nasdaq rose 2.9% in July.[1]

European credit performance was mixed in July, as rallying rates benefited high yield, while loans traded softer due in part to heavy primary issuance. Uncertainty remains in the European credit markets as investors monitor whether recent momentum in macroeconomic data may be slowed by rising COVID-19 cases throughout much of the region.

July was the first month in nearly three years without any defaults or distressed exchanges in the U.S. credit markets. As a result, high yield bond and loan last twelve-month ("LTM") default rates continued their decline, with the loan par-weighted default rate ending the month at 1.11%, down 32bp from the June LTM period. The par-weighted high yield default rate including distressed exchanges ended the month at 1.17%, down 70bp from the month prior.[2]

European loans recorded another month with no new defaults, resulting in an LTM default rate of just 0.7%. There was one new European high yield issuer default in July, resulting in an LTM par weighted default rate of 1.1% which was a decrease month-on-month given two issuers dropped out of the reporting period[3]

Market Stats (as of July 31, 2021)

	July	QTD	YTD
S&P / LSTA U.S. Leveraged Loan Index	-0.01%	-0.01%	3.27%
Bloomberg Barclays U.S. Corporate Investment Grade Index	1.37%	1.37%	0.08%
Bloomberg Barclays U.S. High Yield Index	0.38%	0.38%	4.01%
Credit Suisse Western European Leveraged Loan Index	0.04%	0.04%	2.95%
Credit Suisse Western European High Yield Index	0.33%	0.33%	3.60%
S&P 500	2.38%	2.38%	17.98%
Euro Stoxx 50	0.75%	0.75%	17.47%

	Spread			Yield			Price		
	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD
U.S. Loans	407	6	-36	4.30%	0.07%	-0.41%	$98.04	-$0.34	$1.84
U.S. HY	294	26	-66	4.64%	0.04%	-0.33%	$105.28	-$0.07	$0.32
EU Loans	416	7	-43	3.74%	-0.02%	-0.14%	€ 98.53	(€ 0.21)	€ 1.18
EU HY	360	15	-64	3.64%	0.03%	-0.61%	€ 100.90	(€ 0.02)	€ 2.31

1 Bloomberg
2 J.P. Morgan Default Monitor August 2, 2021
3 Credit Suisse Default Report, August 4, 2021

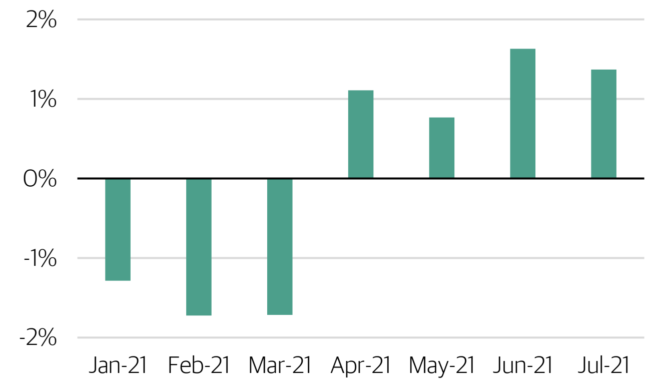
U.S. Investment Grade Market

U.S. investment grade bonds posted strong performance in July, returning +1.37% despite spread widening as rates continued to rally, bringing year-to-date returns into positive territory.[4] Notably, July was the first month in 2021 where U.S. investment grade spread return was negative, although we note that spreads remain near historical tights.

Investment grade bond funds continued to experience strong inflows totaling $31 billion in July, down slightly from $35 billion the month prior.[5] Asian buying slowed from prior month levels but remained positive.

As expected, the pace of new issue supply slowed in July, totaling $86 billion compared to $111 billion in June. We expect supply to continue to be moderate, although low yields are providing an attractive refinancing environment and issuance is on pace to top $1 trillion for the year this summer.[6]

Historical U.S. Investment Grade Returns[7]



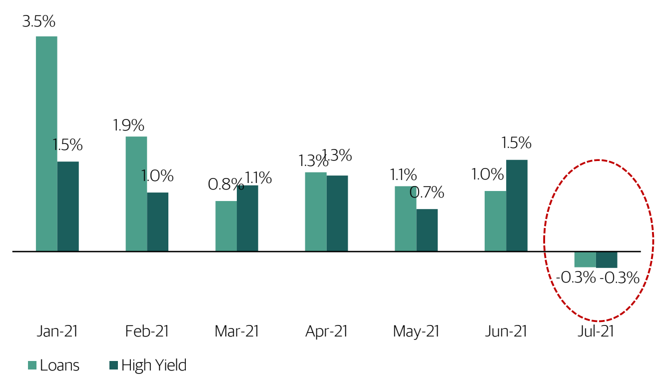
U.S. Loan and High Yield Markets

U.S. loans lost -0.01% in July as companies rated CCC underperformed their higher rated counterparts for the first time in 15 months, dragged down largely by companies in the leisure sector along with others directly impacted by COVID-19.8 A heavy supply of M&A-related issuances also contributed to the softness.

Demand for loans remains robust with net CLO issuance totaling $9.6 billion in July and retail loan funds posting inflows of $1.25 billion, although the pace of both has slowed compared to prior months. Year to date, inflows for loan funds now total $29.0 billion, a complete reversal of the $23.7 billion of outflows over the same period in 2020.[9]

U.S. high yield bonds returned +0.38% in July due to a rally in Treasuries despite spread widening. As with loans, companies rated CCC outperformed those rated BB for the first time in 12 months. July was also the busiest month for new issuance on record with $27 billion of new high yield bonds issued during the month.[10]

U.S. Loan and High Yield CCC Returns[11]



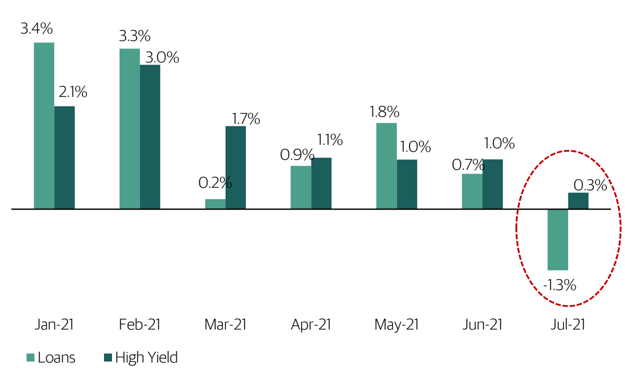
European Loan and High-Yield Markets

European loans returned +0.04% in July, as higher primary loan spreads and heavy supply weighed on secondary loan prices. Higher quality loans outperformed lower quality loans, as a combination of increased concern around the Delta variant coupled with defensive portfolio positioning across the market going into year-end resulted in increased demand for BB credits.

Primary loan supply of €12.5 billion in July brought year-to-date activity to €94.6 billion, eclipsing 2019 and 2020 full year issuance totals.[12]

European high yield bonds returned +0.33% in July as rates rallied and spreads widened. With secondary prices flat for the month, carry drove performance.[13]

European Loan and High Yield CCC Returns[14]



4 Bloomberg Barclays Corporate Investment Grade Index, July 31, 2021
5 J.P. Morgan, July 31, 2021
6 Credit Suisse, August 3, 2021
7 Bloomberg Barclays Corporate Index, July 31, 2021
8 LCD, August 2, 2021
9 J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor August 2, 2021
10 Bloomberg Barclays, Credit Suisse August 2, 2021
11 S&P Leveraged Loan Index and Bloomberg Barclays High Yield Index, as of July 31, 2021
12 Bloomberg Leveraged Finance Chart Book, LCD, July 2021
13 Credit Suisse European High Yield Review July 2021
14 Credit Suisse Western European Leveraged Loan Index, Credit Suisse Western European High Yield Index, as of July 31, 2021

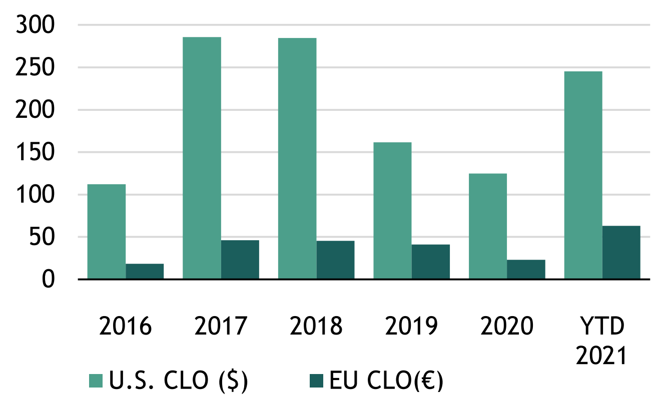
U.S. and European CLO Markets

The pace of CLO issuance slowed globally in July, but year to date remains more than triple that of last year. Gross U.S. CLO issuance totaled $24.5 billion in July, down from $42 billion in June and bringing the year-to-date total to $237.1 billion compared to $69.1 billion for the same period last year. In contrast, European CLO issuance increased to €9.5 billion in July, up from €9.3 billion in June bringing the year-to-date total to €63 billion compared to €13.6 billion for the same period last year.[15]

CLO spreads for new issue reflected this change in new issue supply trend for each region with U.S. spreads slightly tighter across the debt tranches month-over-month and slightly wider in Europe.

Global CLO fundamentals were mixed month-over-month, as WARF improved in both U.S. and European CLOs, however this positive metric was offset by a deterioration in Junior Overcollateralization Cushions and Equity NAV. Promisingly, the percentage of assets in CLOs trading at lower prices continues to decline as less than 3% of assets trade below 90 in both regions.[16]

U.S. and EUR CLO Historical issuance ($/€ in bn) [17]



Market Outlook

Despite the demonstrated effectiveness of COVID-19 vaccines, case counts continue to surge due to the highly contagious Delta variant, coupled with stagnating vaccine rates and dramatically lower mask use. Although infection curves are inherently challenging to predict, our current expectation is that reported new cases may peak this fall, and that many of the recently enacted social distancing and mask rules implemented to mitigate the recent surge will revert to pre-Delta rules soon thereafter. We also expect a modest uptick in vaccination rates, driven by the full approval by the Food & Drug Administration of the Pfizer vaccine and the implementation of vaccine mandates by some employers to return to work. Notably, the latter may exacerbate labor shortages by keeping some of the vaccine-hesitant out of the workforce.

Although the extent of the economic impact from the Delta variant on the second half of 2021 will remain somewhat unclear until cases peak and back-to-school begins, we currently expect only a modest, short-term headwind on the travel and leisure sectors. We continue to see strong pent-up demand for out-of-home experiences and believe that consumers broadly are well positioned to increase spending as soon as they can do so safely.

We continue to expect continued reflation in wages and prices due to the combination of fewer available workers, elevated levels of pent-up demand, low inventories, and supply chain issues. We also expect housing to remain strong, driven by steady demand (particularly from millennials), continued supply constraints and low mortgage rates. Although we expect the Federal Reserve to be hawkish enough to avoid a runaway inflation scenario, increases in "stickier" metrics, such as rent and wages, suggest that inflation may not be solely transitory. As such, we expect interest rate duration is more likely to be a headwind than a tailwind for the remainder of 2021.

The near-term outlook for the European economy looks brighter than expected in spring. The contraction of GDP in the first quarter of the year turned out to be marginal and second quarter growth of 2% was ahead of consensus. EU Member States continue to reopen their economies, and mobility of people is increasing to the benefit of the service & travel sectors. With inflation forecast to average 2.2% this year, any further supply constraints may result in increased pricing pressure and impact consumer spending. We continue to favor credit risk over duration risk given the current environment.

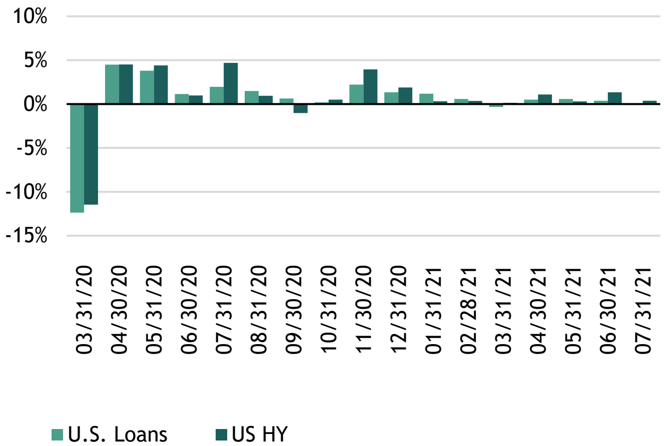
On the political front, we continue to believe that there is a high probability Congress passes the bipartisan infrastructure bill, which was approved in the Senate on August 10. However, the fate of the proposed $3.5 trillion spending package (and potentially higher taxes) remains less clear, particularly as the Biden administration's credibility has been impacted by reaction to the military withdrawal from Afghanistan. That said, we generally expect fiscal and monetary policy to remain more stimulative than historical norms, which also underpins our views for higher inflation and interest rates but low defaults.

As we enter the final third of 2021, we expect below investment grade credit to remain on path for a full year total return of 5-6% with interest rates now well below March's high and possibly poised to rise again. We believe both loans and high yield bonds will continue to outperform other fixed income in the months ahead but favor floating rate loans given our current view on relative value and the trajectory of interest rates.

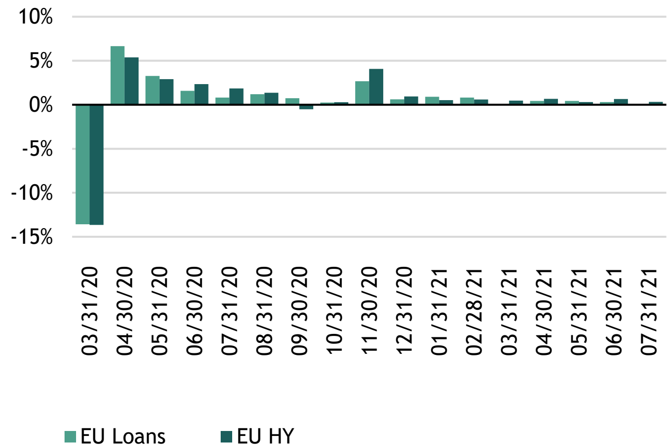
[15] J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor August 2, 2021; LCD, July 2021
[16] Barclays CLO & Leveraged Loan Monthly Update July 2021, August 3, 2021
[17] LCD, July 31, 2021

Market Snapshot (as of July 31, 2021)[18]

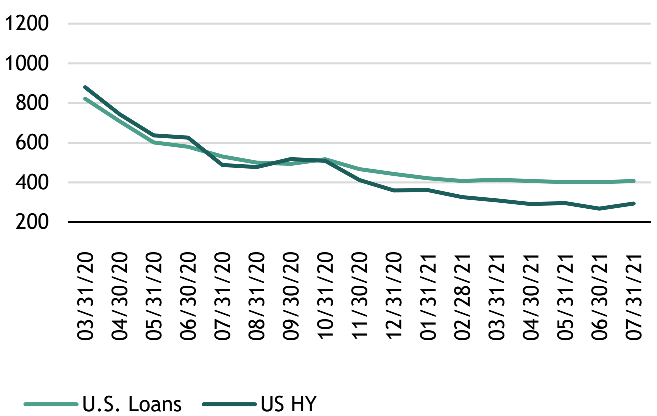
U.S. Credit Monthly Returns



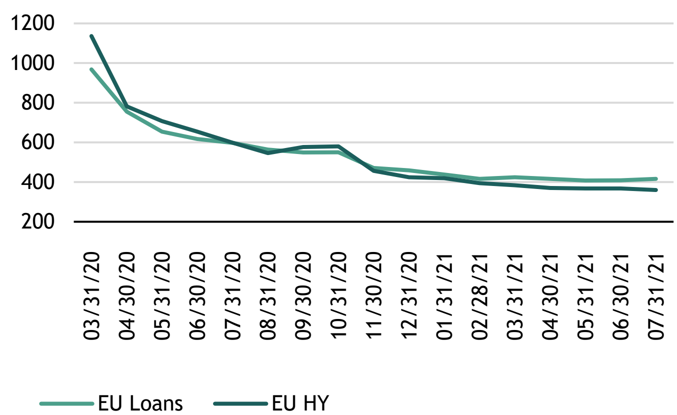
EU Credit Monthly Returns



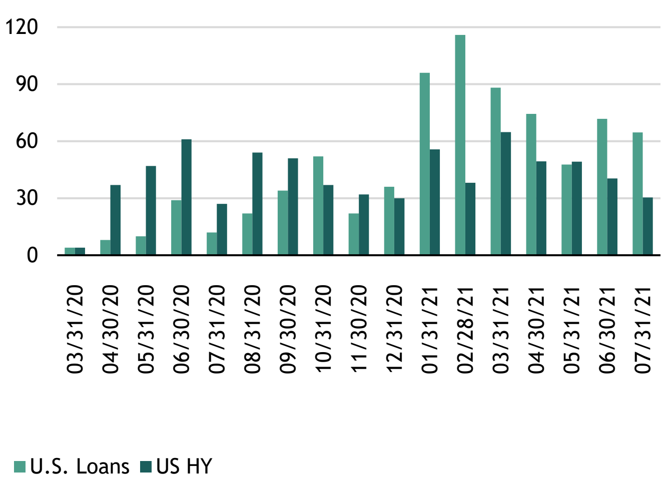
U.S. Credit Spreads (in bp)



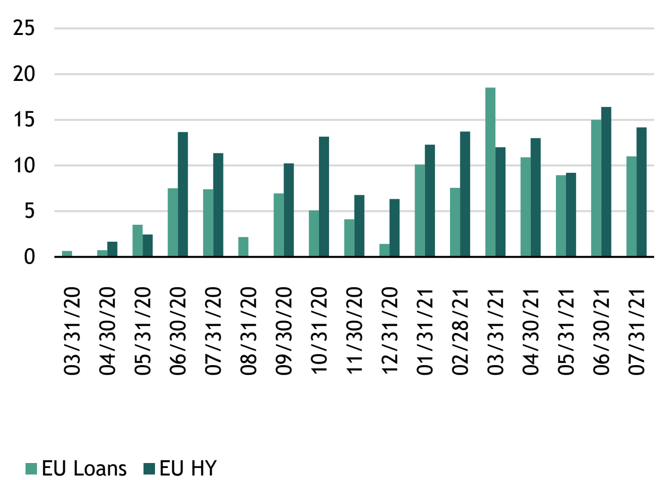
EU Credit Spreads (in bp)



U.S. Credit Issuance ($ in billions)



EU Credit Issuance (€ in billions)



18 S&P/LSTA Leveraged Loan Index (represented by spread to maturity and yield to maturity), Bloomberg Barclays U.S. High Yield Index (represented by OAS and yield to maturity), Credit Suisse Western European Leveraged Loan Index (represented by 3-year discount margin and current yield), and Credit Suisse Western European High Yield Index (represented by spread to worst and yield to worst), as of July 31, 2021.

Important Disclosure Information

This document has been prepared for informational purposes only about Blackstone's credit focused business group (together with its affiliates, "Blackstone Credit") and it does not constitute an offer to sell, or a solicitation of an offer to buy, any investment in, or to participate in any trading strategy with Blackstone Credit or any fund or account managed, advised or sponsored by Blackstone Credit (each, a "Fund"). Any offering would only be made to qualifying investors through a separate investment management agreement for a Fund as it may be amended or supplemented from time to time and the governing and operating documents for a Fund (together, the "Operative Documents"). The Operative Documents contain material information (including a discussion of potential conflicts of interest) not contained in this document and supersedes and qualifies in its entirety the information set forth herein. Any decision to invest in, or withdraw from, a Fund should be made after reviewing the appropriate Operative Documents, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of the investment. Risks associated with investment in a Fund include, without limitation, illiquidity of an investment, risk of default of the underlying debt instrument and risk of loss of principal.

This document is based on information, which is otherwise publicly available and, whilst Blackstone Credit uses reasonable efforts to ensure the information is accurate and up to date, no representations or warranties are given as to the reliability, accuracy or completeness of the information. While such information is believed to be reliable for the purpose used herein, Blackstone Credit does not accept any liability for any loss or damage which may arise directly or indirectly from any use of or reliance on such information. The information presented herein is as of the date of preparation unless otherwise indicated and Blackstone Credit is under no obligation to, and shall not, provide updates to the information contained herein.

Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "intend," "continue" or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results described herein may differ materially from those reflected or contemplated in such forward-looking statements.

This document is for informational purposes only and does not constitute a financial promotion, investment advice or an inducement or incitement to participate in any product, offering or investment. It does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase any investment nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by Blackstone Credit, Blackstone, any Fund, or any of their respective directors, officers, managers, shareholders, partners, members or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. Tax considerations, margin requirements, commissions and other transaction costs may significantly affect the economic consequences of any transaction concepts referenced in this commentary and should be reviewed carefully with one's investment and tax advisors. Blackstone and others associated with it may have positions in and effect transactions in securities of companies mentioned or indirectly referenced in this commentary and may also perform or seek to perform services for those companies. Investment concepts mentioned in this commentary may be unsuitable for investors depending on their specific investment objectives and financial position.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY SOLELY ON THEIR OWN EXAMINATION OF THE RELEVANT FUND AND THE TERMS OF THE APPLICABLE OPERATIVE DOCUMENTS, INCLUDING THE MERITS AND RISKS INVOLVED, AND NOT ON ANY INFORMATION OR REPRESENTATION MADE OR ALLEGED TO HAVE BEEN MADE HEREIN OR OTHERWISE.

To the extent that this document contains third-party data or information (including, without limitation S&P Credit Ratings) (collectively "Content"), neither Blackstone nor the applicable third-party content provider(s) ("Blackstone Parties") guarantee the accuracy, completeness, timeliness or availability of any Content, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the access or use of such Content. In no event shall the Blackstone Parties be liable for any damages, costs, expenses, legal fees or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. Please read the complete disclaimer with respect to S&P Credit Ratings: http://www.standardandpoors.com/en_U.S./web/guest/regulatory/legal-disclaimers.

The views expressed herein are the personal views of the authors, and do not necessarily reflect the views of Blackstone (as herein defined) or Blackstone Credit (as herein defined). The views expressed reflect the current views of the authors as of the date hereof and the authors Blackstone, and Blackstone Credit each undertake no responsibility to advise you of any changes in the views expressed herein.

ERISA Fiduciary Disclosure. The foregoing information has not been provided in a fiduciary capacity under ERISA, and it is not intended to be, and should not be considered as, impartial investment advice.

For more information about how Blackstone collects, uses, stores and processes your personal information, please see our Privacy Policy here: http://go.pardot.com/e/213192/privacy/68f9x/182811975?h=L3PDlTnbE2h0R6yw-jpiXWquHwiOdKAOzy99H3DK9f8.

Certain countries have been susceptible to epidemics, most recently COVID-19, which may be designated as pandemics by world health authorities. The outbreak of such epidemics, together with any resulting restrictions on travel or quarantines imposed, has had and will continue to have a negative impact on the economy and business activity globally (including in the countries in which the Funds invest), and thereby is expected to adversely affect the performance of the Funds' Investments. Furthermore, the rapid development of epidemics could preclude prediction as to their ultimate adverse impact on economic and market conditions, and, as a result, presents material uncertainty and risk with respect to the Funds and the performance of their Investments.

Blackstone Securities Partners L.P. ("BSP") is a broker-dealer whose purpose is to distribute Blackstone managed or affiliated products. BSP provides services to its Blackstone affiliates, not to investors in its funds, strategies or other products. BSP does not make any recommendation regarding, and will not monitor, any investment. As such, when BSP presents an investment strategy or product to an investor, BSP does not collect the information necessary to determine—and BSP does not engage in a determination regarding—whether an investment in the strategy or product is in the best interests of, or is suitable for, the investor. You should exercise your own judgment and/or consult with a professional advisor to determine whether it is advisable for you to invest in any Blackstone strategy or product. Please note that BSP may not provide the kinds of financial services that you might expect from another financial intermediary, such as overseeing any brokerage or similar account. For financial advice relating to an investment in any Blackstone strategy or product, contact your own professional advisor.