Blackstone Credit

CREDIT INSIGHTS

June 2021 Market Commentary

Performance Overview

- U.S. and European credit markets continued their positive momentum in June with high yield outperforming loans as rates declined
- U.S. investment-grade bond performance also received an additional boost from a decline in longer-term interest rates
- Default and distressed activity in the global credit markets continues to decline with the most modest first half of a calendar year for defaults and distressed transactions in ten years

Credit returns were positive during June in both the U.S. and Europe, with U.S. high yield and investment grade returns getting an additional boost from the decline in longer-term interest rates. In June, the Federal Reserve's Implied Fed Funds Target Rate projection, or DOT plot, displayed two interest rate increases in 2023, a year earlier than prior guidance. This more hawkish tone flattened the US Treasury Yield curve with 2-Year and 5-Year rates gaining 11bp and 9bp, respectively during the month while long-term rates declined (10-Year and 30-Year rates declined 12bp and 19bp, respectively). Despite an 11% gain in oil prices[1] during June, the market appeared to price in expectations that the recent uptick in inflation will indeed be transitory. Concurrently, U.S high yield bond spreads declined by 28bp in June while U.S. investment grade bond spreads fell 4bp, both setting new post-Global Financial Crisis lows. U.S. loan spreads tightened by just 1bp in June.

In Europe, credit performance continued to strengthen in June, while spreads touched multi-year tights as assurances of a stable European monetary policy provided additional certainty to markets amid the spread of the Delta variant.

Credit fundamentals continue to improve for both loan and high yield issuers after a strong 1Q earnings rebound and slowing debt growth. 2Q earnings, while not yet announced, are expected to show further improvement. In our own portfolios, we are seeing a continued decline in watchlist names quarter-over-quarter and a marked improvement in interest coverage levels.

There were two defaults in June impacting $3.2bn in U.S. high yield bonds and loans. While this was a high for the year, it caps the most modest first half of a calendar year for defaults and distressed transactions since 2011. High yield bond and loan default rates both declined in June as several large issuers exited the 12-month rolling period. Specifically, the loan par-weighted default rate ended the month at 1.43%, down 53bp for the month, while the par-weighted US high yield default rate including distressed exchanges ended the month at 1.87%, down 119bp for the month.[1]

There were no new defaults recorded for European loan or high yield issuers in June. As result, the LTM par weighted default rate fell to 0.50% and 1.40% for European loans and high yield bonds, respectively.[2]

Market Stats (as of June 30, 2021)

	June	QTD	YTD
S&P / LSTA U.S. Leveraged Loan Index	0.37%	1.46%	3.28%
Bloomberg Barclays U.S. Corporate Investment Grade Index	1.63%	1.79%	-1.27%
Bloomberg Barclays U.S. High Yield Index	1.34%	2.87%	3.62%
Credit Suisse Western European Leveraged Loan Index	0.31%	1.16%	2.91%
Credit Suisse Western European High Yield Index	0.65%	1.63%	3.26%
S&P 500	2.33%	8.55%	15.24%
Euro Stoxx 50	0.70%	5.25%	16.59%

	Spread			Yield			Price		
	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD
U.S. Loans	401	-1	-42	4.23%	-0.03%	-0.47%	$98.37	$0.30	$2.18
U.S. HY	268	-28	-92	4.60%	-0.18%	-0.36%	$105.35	$0.89	$0.39
EU Loans	409	1	-50	3.76%	0.01%	-0.12%	€ 98.74	$0.02	$1.39
EU HY	368	0	-56	3.61%	-0.17%	-0.64%	€ 100.91	$0.31	$2.33

1 J.P. Morgan Default Monitor July 1, 2021
2 Credit Suisse Default Report, July 1, 2021

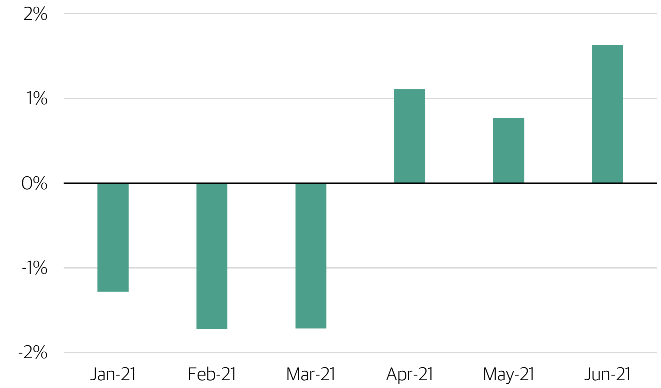
U.S. Investment Grade Market

U.S. investment grade bond returns received an additional boost in June from the decline in longer-term interest rates, posting a +1.6% return and outperforming other fixed income instruments. Investment grade bond funds continued to experience strong inflows totaling $24 billion in June compared to $23 billion the month prior.[3]

New issue supply totaled $111 billion in June, 25% above the prior four-year June average of $88 billion, but lower than May's total issuance. We expect supply to continue to slow in the coming summer months and to remain moderate heading into the fourth quarter.[4]

We continue to see an increase in rising star activity as several large high yield issuers in our portfolios are poised to be upgraded and then expected to be refinanced in the investment grade market.

Historical U.S. Investment Grade Returns[5]



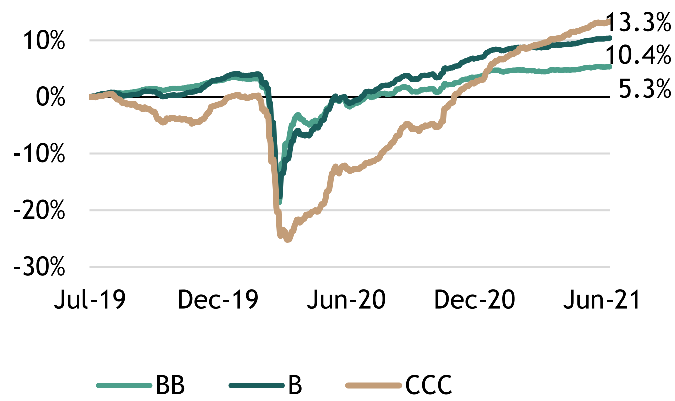
U.S. Loan and High Yield Markets

U.S. loans posted a +0.37% gain in June amid relatively balanced technicals and heavy capital markets activity. CCC-rated loans outperformed higher rated loans for the 11th consecutive month, however, we are seeing signs of retrenchment in the reopening trade with debt of certain movie theaters, airlines and travel companies all trading lower in early July.

Demand for loans remains robust with net CLO issuance totaling $16.8 billion in June and retail loan funds posting inflows of $4.4 billion.[6] While primary market issuance has continued at breakneck pace and the forward calendar remains robust, deals are often oversubscribed by up to six times the initial transaction size.

U.S. high yield bonds caught up to loans on a year-to-date basis, posting a strong +1.4% performance in June as spreads tightened amidst lower default and expectations that several large rising stars are poised to be upgraded to investment grade. New issue supply and demand also remains robust.

U.S. Loan Returns by Quality[7]



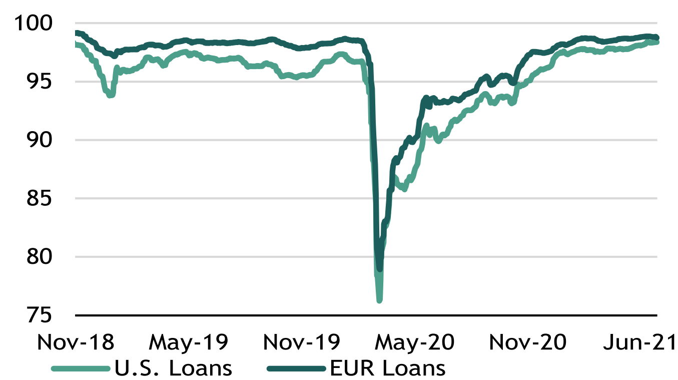
European Loan and High-Yield Markets

European loans returned +0.31% in June as investors digested a heavy month of supply with new issuance totaling €17 billion, the second highest month of 2021. Primary supply is likely to remain elevated through July with €21 billion in the pipeline as of July 5th.[8]

European high yield bonds returned +0.65% in June as spreads touched new year-to-date tights before consolidating on heavy supply and select profit taking.[9]

Heading into July, we witnessed signs of softness as debt of certain movie theaters, airlines and travel companies began trading lower as the Delta variant continues its spread and companies face continued labor shortage and supply chain strains.

Average **U.S. and EUR Loan Prices ($/€)**[10]



---

3 Bank of America, June 30, 2021
4 J.P. Morgan US High Grade Corporate Bond Issuance Review July 2, 2021
5 Bloomberg Barclays Corporate Index, June 30, 2021
6 J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor July 1, 2021
7 LCD, as of June 30, 2021
8 LCD Forward Calendar July 5, 2021
9 Credit Suisse July 6, 2021
10 LCD, as of June 30, 2021

U.S. and European CLO Markets

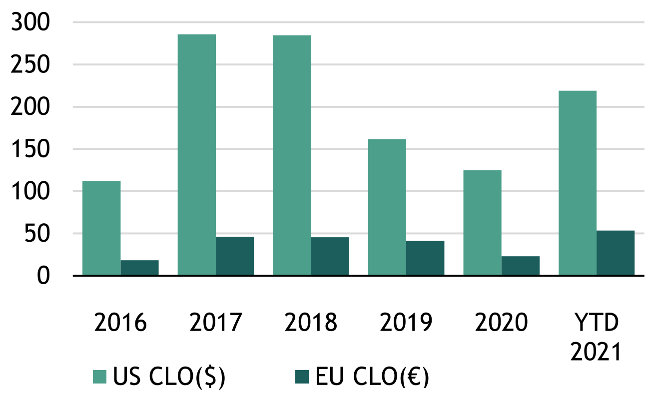
Global CLO supply continued on a path to record annual volume in June with issuance up 127% year over year and the global CLO market now topping $1 trillion in size[11]. Gross U.S. CLO issuance rose to $42 billion in June, up from $29 billion in May. Similarly, European CLO issuance also increased to €9.3 billion in June, up from €6.9 billion in May. With over 200 CLO warehouses currently outstanding globally, further growth is ahead.[12]

Refi/reset activity continues to be elevated as CLO AAA tranche prices above par have provided a tailwind for this activity. In June, U.S. and European refi/reset activities increased to $26.3 billion and €6.7 billion, respectively, up from $15.9 billion and €5.3 billion in May.

CLO liability spreads are trending wider due to the continued refi/reset wave, but new issue activity is expected to slow in July. This may be a welcome reprieve for rating agencies and banks struggling to keep up with high volumes amid personnel turnover which has caused transactions to move slower through the market.

In the secondary market, spreads widened across nearly all tranches in June, reversing some of this year's tightening particularly in the mezzanine tranches. Spreads on U.S. CLO tranches rated BBB and BB widened by 20-25bp while spreads on European CLO tranches rated BB widened by 10bp.[13]

U.S. and EUR CLO Historical issuance ($/€ in bn) [14]



Market Outlook

As noted in our prior commentaries, we are closely monitoring the COVID-19 Delta variant and its potential impact on economies globally. The Delta variant has spread aggressively but given the availability and effectiveness of the vaccines and the public enthusiasm for reopening, we do not expect widescale shutdowns and thus expect minimal impact on U.S. and European economies. We do, however, anticipate that the current labor shortage may be exacerbated indirectly by the Delta variant should companies begin to mandate vaccinations for employees and thereby deter certain job seekers from applying or rejoining the workforce.

We believe continued reflation in wages and prices remains likely due to the combination of fewer available workers and elevated levels of pent-up demand. Although the Federal Reserve's more hawkish guidance signaled by moving rate hikes forward into 2023 certainly mitigates the risk of runaway inflation, we continue to see a scenario in which current inflation trends prove to be less transitory than the Fed expects. In Europe, the current Eurozone inflation rate of 1.3% remains below the 2% inflation mandate level set by the European Central Bank, allowing additional flexibility on policy. That being said, the risk of contagion as a result of U.S. inflation is still present, particularly if incremental fiscal stimulus were to materialize. As such, we believe investors should consider favoring credit risk over duration risk, particularly in light of the historically low default environment that we expect to continue.

On the political front, we believe there is a high probability Congress approves nearly $600 billion in new federal infrastructure spending. The broad policy initiative has strong backing from the Administration and a bipartisan bloc of lawmakers. However, the size and scope of any legislation remains very much in flux as negotiations continue. It also remains to be seen whether a bipartisan bill can succeed or whether Democrats will need to pursue this spending as part of a broader partisan legislative package. In tandem with these efforts but on an entirely separate track, Democrats are pushing for legislation with as much as $3.5 trillion in spending on a wide variety of policy priorities. It would also likely include significant tax increases on the corporate and personal sides. Procedurally this bill would only require a simple majority to pass and, in turn, would likely garner no Republican support.

Above all, the timing on both of these bills remains a major unknown – with Democrats pushing to move as quickly as possible, and the Congressional calendar quickly running out of time.

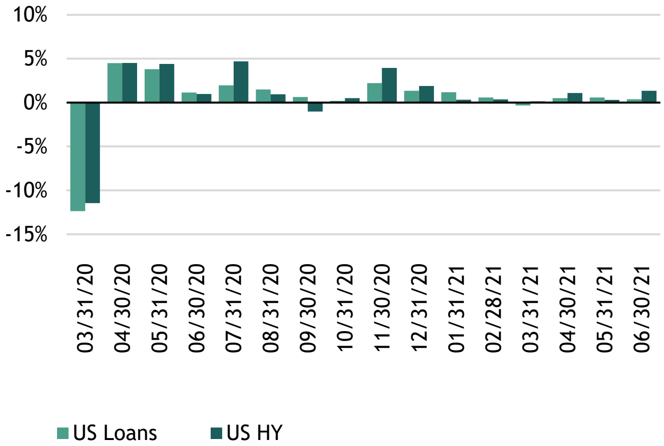
We believe defaults in our U.S. markets will remain low regardless of the fate of an infrastructure bill given that building products companies are already being propelled by the strong housing market, leading the potential impact of an infrastructure package to be more indirect via incremental inflation pressures.

At the year's mid-point, below investment grade credit is on its way to a full year of stable returns with 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.

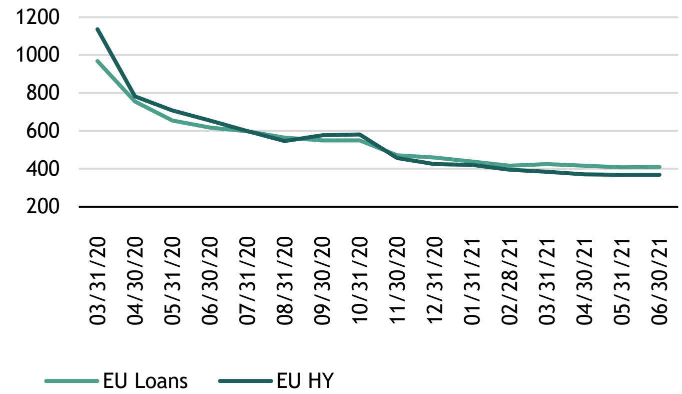
11 J.P. Morgan Global Credit Research July 8, 2021
12 Credit Suisse Strategy Daily, June 23, 2021
13 Bank of America Global Research, Citibank, June 30, 2021
14 LCD, June 30, 2021

Market Snapshot (as of June 30, 2021)[15]

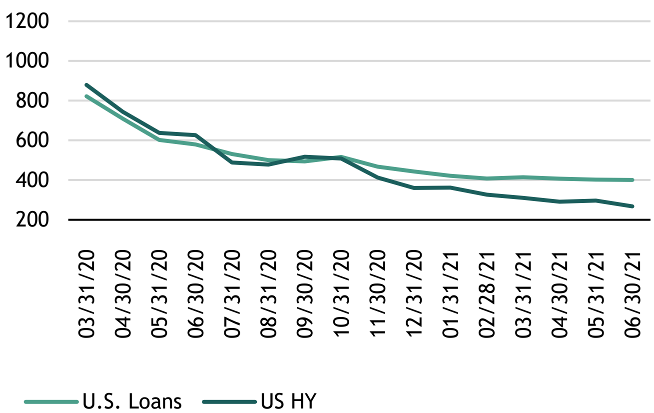
U.S. Credit Monthly Returns



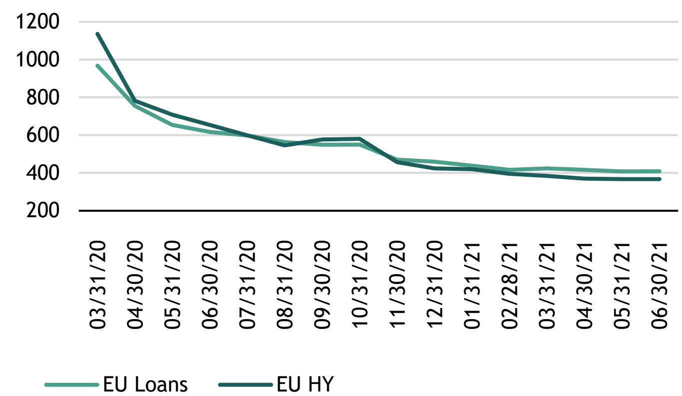
EU Credit Monthly Returns



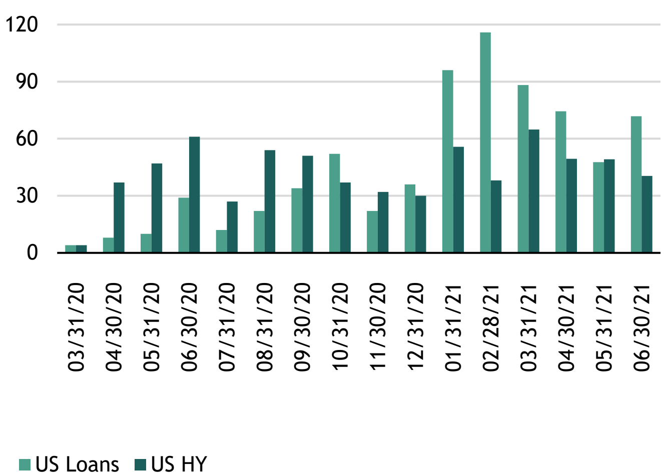
U.S. Credit Spreads (in bp)



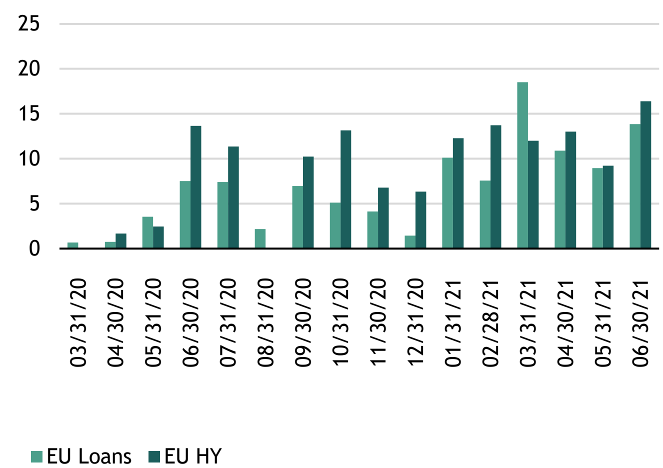
EU Credit Spreads (in bp)



U.S. Credit Issuance ($ in billions)



EU Credit Issuance (€ in billions)



[15] 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 June 30, 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.