

Crescent Capital Group Market Commentary Second Quarter 2023

MARKET REVIEW

The second quarter of 2023 was constructive for below investment grade debt supported by a resilient economy and strong labor market. In Q2 2023, US high yield bonds generated +1.63% as measured by the ICE BAML US High Yield Index and leveraged loans returned +3.15% as measured by the Morningstar LSTA Leveraged Loan Index, both outperforming most other fixed income asset classes including U.S. Investment Grade, TIPs, Emerging Market High Yield and Investment Grade, Municipals, Mortgages and Treasuries.

The Fed continued to hike rates, increasing the Fed Funds Rate by 25 basis points in May. Treasury yields moved higher; the 10-year Treasury yield ended at 3.83% (up 37 bps QoQ) and the 5-year Treasury yield ended at 4.16% (up 59 bps QoQ) at the end of June. Yields widened and spreads tightened in high yield bonds, ending Q2 at 8.56% and 425 basis points, respectively. In leveraged loans, yields widened to 10.41%. WTI oil prices ended Q2 at \$70.64/ barrel, down 6.6% since the end of Q1.

All sectors participated in the rally in Q2 for the high yield market except Banking, the only sector down for the quarter; the best performing sectors were Retail, Leisure, and Real Estate and the worst performing sectors were Banking, Consumer Goods and Utility. For leveraged loans, sector performance was mixed; the best performing sectors were Transportation, Automobiles & Components, Consumer Durables & Apparel and the worst performing sectors were Telecommunication Services, Real Estate and Utilities. In terms of credit quality, CCCs continue to benefit from the risk-on rally in both high yield bonds and leveraged loans. More specifically, CCC bonds returned +4.17%, outperforming BB and B bonds by 339 and 232 basis points, respectively. In leveraged loans, CCC loans returned +4.39%, outperforming BB and B loans by 157 and 113 basis points, respectively.

Quarterly fund flows were positive in US high yield at \$4.2 billion inflows and negative in leveraged loans at \$7.9 billion outflows. For the year, both asset classes are negative with US high yield at -\$10.6 billion outflows and leveraged loans at -\$18.9 billion outflows. Capital market activity continued to be light in Q2. High Yield bond issuance totaled \$55.1 billion gross for Q2 and \$95.6 billion gross YTD (\$36.7 billion net), which compares to \$71 billion gross YTD (\$37.2 billion net) over the same period a year ago. Similarly, loan issuance totaled \$66.5 billion gross in Q2 and \$136.8 billion gross YTD (\$30.5 billion net), which is down from \$179.7 billion gross YTD (\$123.8 billion net) over the same period a year ago. The Moody's global LTM default rate for High Yield bonds stood at 3.83% and for loans, it was 1.71% according to Morningstar LSTA Leveraged Loan, both up from last quarter.

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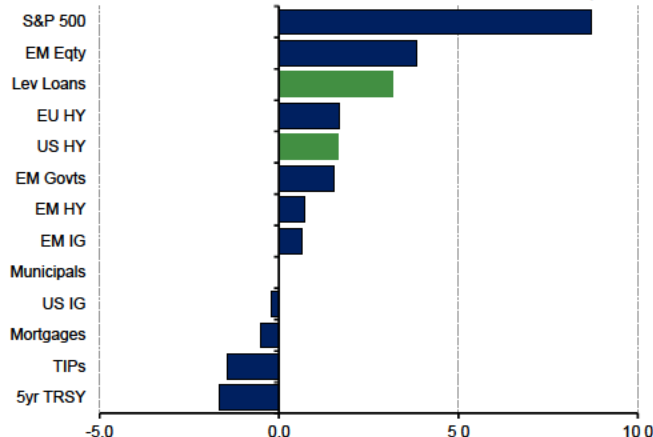
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MARKET OUTLOOK

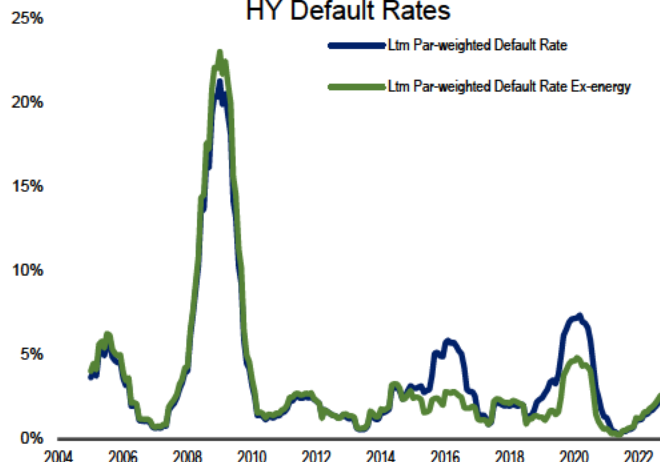
In the first half of 2023, the US high yield and leveraged loan markets produced strong returns, retracing some of the outsized losses in 2022. Credit fundamentals remain strong, although moderating, and we continue to expect most borrowers to exhibit revenue and cash flow growth in 2023, resulting in declining leverage ratios. However, at the same time, 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 below their historical averages in 2023.

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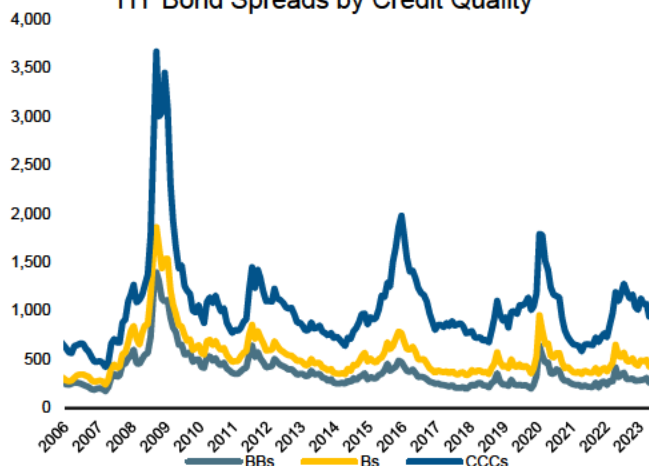
Cross-Asset Total Return Performance Q2



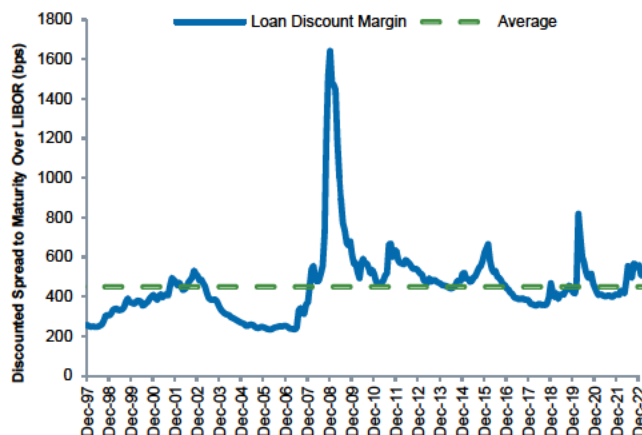
HY Default Rates



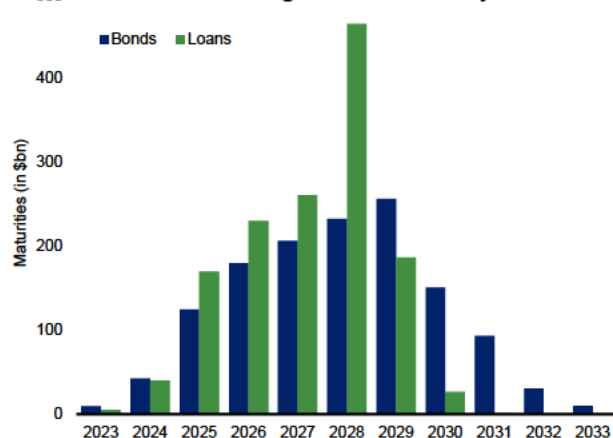
HY Bond Spreads by Credit Quality



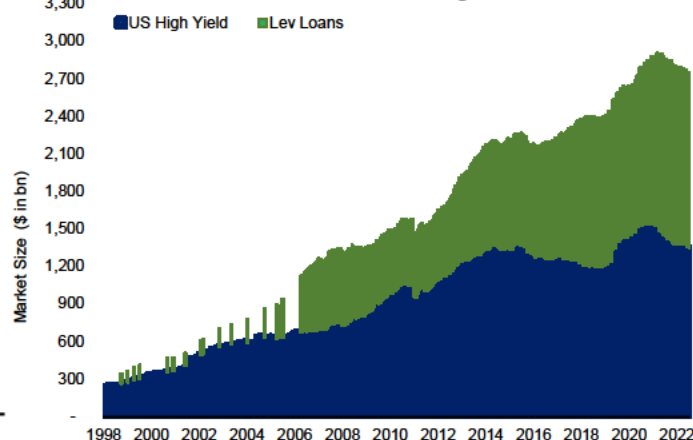
Bank Loan Spreads over Libor



HY and Leveraged Loan Maturity Profile



Growth of US HY and Leveraged Loan Markets



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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 June 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.

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