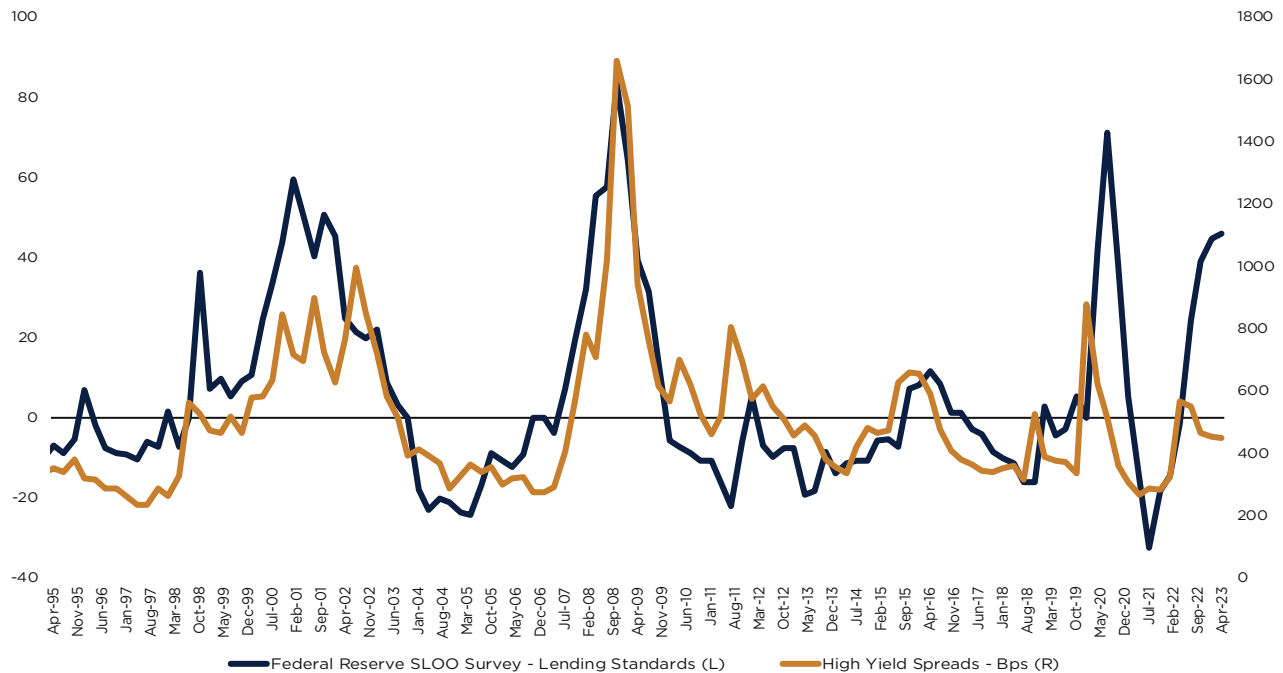


FINANCIAL CONDITIONS SUGGEST CAUTION ON CREDIT

Landon Peterson | Portfolio Manager Assistant

Fed Senior Loan Officer Opinion Survey & High Yield Credit Spreads



Source: Bloomberg, Data as of 04/30/2023

In the midst of this aggressive Federal Reserve rate hike cycle, questions around the effects of tighter financial conditions loom large over the economy. These effects are not only felt by businesses and consumers through increased borrowing costs and higher interest rates; they also take the form of reduced credit availability as lenders raise their standards for making loans. Tighter financial conditions and a more difficult funding environment often place stress on company financials. The chart above highlights the Fed’s Senior Loan Officer Opinion Survey (“SLOOS”), which measures the pulse on bank lending standards. Even before the recent bank turmoil, lending standards have tightened significantly. In addition, we observe the strong correlation between high yield corporate bond spreads and lending standards. Historically, when bank lending standards tighten, bond market standards contract as well, resulting in higher spreads. More recently, this relationship has decoupled, leading us to believe that credit markets may not fully appreciate the effects of increasingly tighter credit conditions. This observation supports our cautious view on the credit environment and our preference for high-quality corporates within fixed income allocations. Spreads, particularly for low-quality companies, do not appear commensurate with the risks associated with slowing economic fundamentals and an increasingly difficult funding environment for companies.

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