DUCENTA SQUARED
ASSET MANAGEMENT

Economic and Sector Summary & Outlook

Fourth Quarter 2021

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US Economy

Summary

Employment, consumer spending and corporate profitability all appear supportive of economic growth in the near term; and analysts currently expect US GDP to expand at a robust 5.3% annualized rate in the fourth quarter of 2021, despite headwinds from rising inflation, accelerating Omicron COVID cases, and continuing supply chain disruptions.

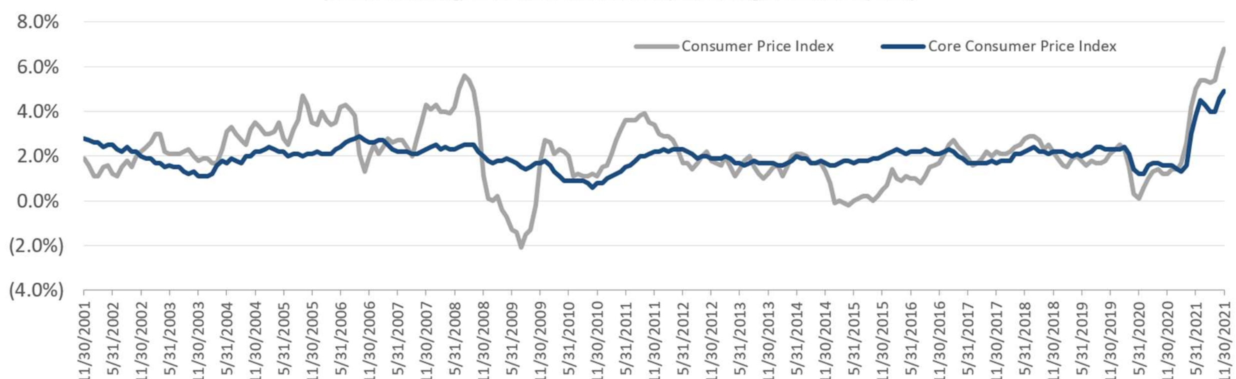
US employment continues to improve despite ongoing labor shortages. The unemployment rate, as indicated by the December monthly jobs report, fell to 3.9%, nearly returning to the pre-pandemic lows. Moreover, average hourly earnings accelerated at a rapid 5.8% pace as companies offered higher compensation to attract and retain employees.

Consumer spending, a major driver of GDP, continues to contribute to economic activity. Although consumption ended the year on a softer note due primarily to rising prices and front-loaded holiday purchases, consumer spending should rebound given the high savings rate, strong household balance sheets, and net worth gains from home price and stock market appreciation.

Major corporations, as represented by the S&P 500, reported third quarter 2021 earnings and forward guidance that beat analyst expectations, especially given investor concerns regarding supply chain shortages and higher input costs. In addition, corporate balance sheets appear relatively healthy and liquidity is plentiful.

Notable developments in the fourth quarter of 2021 included persistent, seemingly non-transitory inflation pressures and a hawkish pivot from the Federal Reserve. Inflation measures surged on a combination of pent-up demand on the COVID reopening, supply chain bottlenecks, and aggressive fiscal and monetary stimulus intended to soften the pandemic's economic effect. The CPI and Core CPI, which excludes the more volatile food and energy prices, hit their highest levels since 1982 as price pressures accelerated.

US Consumer Price Index and Core Consumer Price Index
(Source: Bloomberg, US Bureau of Labor Statistics; data through November 30, 2021)



In recent weeks, the Federal Reserve aggressively pivoted to a more hawkish stance as unemployment trended at near record low levels and inflation increased far above its 2% long-term target. A policy response by the Federal Reserve appears warranted, given its dual mandate to stabilize prices and achieve maximum sustainable employment. Following its December meeting, the Federal Reserve indicated a readiness to act sooner and more forcefully to fight inflation. Currently, analysts expect four hikes to the federal funds target rate in 2022 with the first rate increase occurring as early as March 2022. Along with the expected rate hikes, the Federal Reserve has also recently communicated its intent to accelerate the reduction to its bond purchasing program.

Outlook

We expect the economy and financial markets to trend a more volatile course in 2022, especially given the uncertainty regarding the path of inflation, Federal Reserve policy, and the COVID pandemic. While the US economy begins the year with positive momentum, we expect GDP growth to slow from the 5.3% annualized rate expected in the fourth quarter of 2021 to a pace of between 3.0% and 3.5% for the full year 2022. Our view assumes that economic growth will remain strong in the first half and begin to slow in the face of headwinds from waning pent-up consumer demand, the Federal Reserve's shift from easy to tighter monetary policy and less stimulative fiscal policy from the government. Supportive levels of consumer spending and healthy corporate profits continue to represent the primary 2022 GDP growth drivers and any developments regarding those pillars could affect our view.

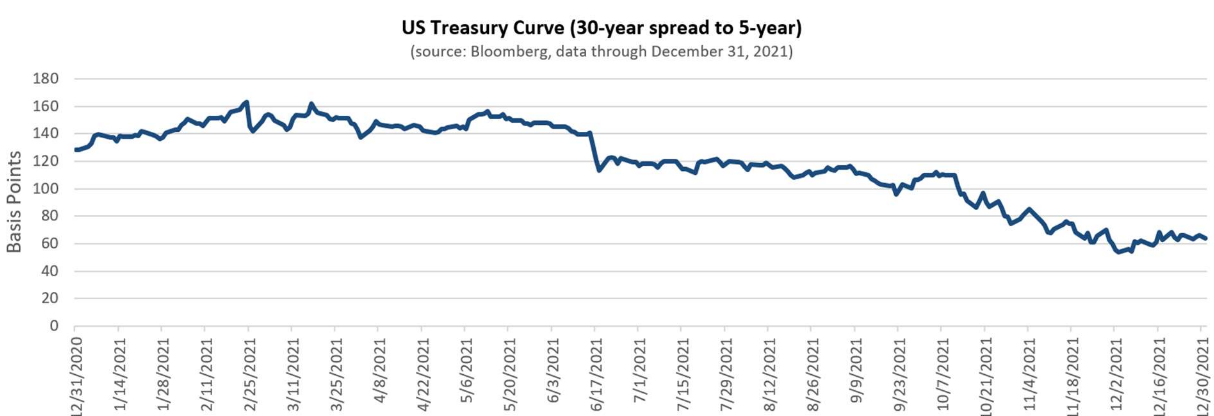
We expect inflation readings to move higher in the short term and then moderate by year-end to a 3.0% annualized rate, driven by slowing demand, especially for goods, and a gradual improvement in supply bottlenecks. The Federal Reserve faces a very difficult task of navigating a soft-landing for the economy as inflation and growth already seem poised to moderate in the second half of 2022. Consequently, Chairman Powell appears challenged to apply just the right amount of policy change — too little could fuel runaway inflation while too much could weaken the economy and risk a potential recession. We currently expect that the Federal Reserve will first raise its target for the federal funds rate in March 2022, and that it will raise rates a total of three times in the year.

Sector Analysis

US Interest Rates

Immediately following the November 2021 Federal Open Market Committee ("FOMC") meeting, the Federal Reserve announced it would begin tapering its bond purchases by $15 billion per month. At that rate, the Federal Reserve would reduce its $120 billion ($80 billion in Treasuries and $40 billion in MBS) in monthly bond purchases to zero over a period of eight months. In the ensuing weeks, data indicated that economic growth was accelerating and inflation continued to increase rapidly. The significance of that data, and comments by some Federal Reserve Governors and Federal Reserve Chairman Powell, began to suggest that interest rate increases could come sooner than investors anticipated. On December 15, 2021, immediately following the FOMC's scheduled two-day meeting, Chairman Powell announced that the Federal Reserve would increase its tapering of bond purchases to $30 billion per month from the original $15 billion target. Additionally, in its Summary of Economic Projections dated December 15, 2021, the Federal Reserve adjusted its "dot plot" to indicate that a series of rate hikes could occur sooner than previously disclosed — that most up-to-date dot plot indicates three rate hikes in 2022 along with three hikes in 2023 and four in 2024.

As investors considered the increasing likelihood and magnitude of Federal Reserve rate hikes , short-term US Treasury Note rates backed up considerably in the fourth quarter of 2021, as the 2-year US Treasury Note yield increased 46 basis points, ending the quarter at 0.73%, and the 5-year US Treasury Note yield increased 29 basis points, ending the quarter at 1.26%. Long-term rates didn't move nearly as much because the market had already priced in the bond purchase taper and expectations that the Federal Reserve would raise rates sometime in mid-2022. Consequently, the 10-year US Treasury Note yield increased 3 basis points, beginning the quarter at 1.48% and ending the period at 1.51%, and the 30-year US Treasury Note yield declined 15 basis points to close the period at 1.90%.



In summary, the yield curve, as measured by the spread between the 5-year and 30-year US Treasury Note yields, flattened to 64 basis points at the end of the fourth quarter of 2021 versus 108 basis points at the beginning of the period. The move was driven by a significant increase on the front end of the yield curve and less movement at the long end, reflecting investor consensus that expected tighter monetary policy will adversely impact long-term economic growth.

We believe that rates will continue to rise as the Federal Reserve removes quantitative easing and enters a policy tightening period. In addition, the yield curve should continue to flatten in the short term as rates on the front end of the curve will likely increase at a faster pace than on the long end.

Securitized Products

Chairman Powell's announcement on December 15, 2021 that the Federal Reserve would double the pace at which it would remove quantitative easing (i.e., double the monthly reduction in its monthly bond purchases) means that the central bank will effectively end its balance sheet expansion by March 2022 instead of June 2022. With regard to the MBS sector, this translates to a $10 billion reduction in net monthly purchases versus $5 billion under the plan originally communicated in November 2021. It's unclear whether the Federal Reserve will invest MBS paydowns into MBS or Treasuries. As noted above, the "dot plot" also signals an earlier than expected and more frequent increase in interest rates. In addition, the MOVE index, a measure of implied volatility in fixed income markets, increased to end the quarter to 71 versus 61 at the beginning of the period. The combination of these factors and the significant flattening of the yield curve created a significant headwind for MBS performance.

In the fourth quarter of 2021, the MBS sector underperformed Treasuries for the second consecutive period for the reasons noted above. The MBS Index option adjusted spread ("OAS") widened from +27 basis points to +31 basis points after having reached a tight spread milestone during the quarter of +21 basis points, and the sector underperformed Treasuries by -26 basis points. For the year, MBS underperformed Treasuries by -68 basis points; it comprised the only major sector to underperform Treasuries for the year.

Rich valuations hindered performance of the ABS Index. In the fourth quarter of 2021, ABS Index total returns trailed Treasuries by -12 basis points on a duration adjusted basis, as the ABS Index OAS widened from +29 basis points to +38 basis points. For the year, the ABS Index generated +31bps of excess return versus Treasuries. ABS supply in 2021 totaled $312.6 billion in aggregate, up 55% versus 2020 and up 26% versus 2019. Notably, the sector comprises only securities backed by automobile and credit card loans. However, while our portfolios generally include securities backed by automobile and credit card loans, we currently focus most of our ABS exposure in more esoteric sectors such as CLOs and securities backed by commercial aircraft and data center properties. Those esoteric sectors, particularly CLOs, outperformed the Bloomberg US Aggregate Index benchmark during the quarter.

CLO market performance in the fourth quarter benefitted from solid underlying loan performance and a reasonable supply and demand balance. This dynamic kept spreads in a tight range during the period, although spreads experienced weakness in the month of December. The AAA-rated segment of the Palmer Square CLO Senior Debt Index closed the year at a discount margin of 108 basis points after having traded as tight as 101 basis points during the quarter; the result represents solid performance as spreads started the year at 116 basis points. The discount margin on the BBB-rated segment of the Palmer Square CLO Debt Index finished the year at 325 basis points while registering a tight spread milestone of 311 basis points during the fourth quarter and a 12-month wide of 355 basis points to start the year. During a period of rising interest rates, CLOs comprised one of the few sectors that provided a positive total return for the year.

The CMBS Index OAS also widened during the fourth quarter to +68 basis points from +61 basis points at the beginning of the period; spreads reached their tightest at +58 basis points. The spread widening resulted in negative excess returns of -17 basis points versus Treasuries. That said, CMBS produced respectable returns for the full year 2021 as the sector's OAS tightened significantly during the first half of the year; the sector's excess return versus Treasuries totaled +105 basis points. For the year, the non-agency CMBS Index returns of +143 basis points outperformed the +57 basis point Agency CMBS Index return. A lack of conduit issuance represented a key characteristic of the CMBS market in 2021, as many loans refinanced into either commercial real estate CLO deals or single-asset single-borrower (SASB) structures. This limited supply in conduit deals and created a strong technical positive for the sector.

Looking forward to 2022, we anticipate a changing and potentially volatile landscape as the Federal Reserve sheds its very accommodative policies and pivots toward a tighter monetary policy. Although underlying economic fundamentals should support risk spreads in the securitized markets, a possible Federal Reserve policy misstep adds a modicum of uncertainty to the situation.

We continue to underweight MBS versus the benchmark Bloomberg US Aggregate Bond Index. Despite experiencing widening spreads for much of the year, we believe that further widening could occur as the Federal Reserve reduces its monthly MBS purchases. Other MBS investors will have to make up the for the demand slack as the Federal Reserve reduces purchases and they will likely require more spread to view MBS as attractive versus other fixed-income sectors.

ABS will likely benefit as a flight-to-quality sector if markets experience elevated volatility due to Federal Reserve policy changes. Moreover, ABS fundamentals appear very strong as the credit quality of most all underlying assets remains highly supportive. While ABS valuations seem full, we will continue to look to the sector for opportunities to add attractive short average life spread exposure as it becomes available.

We view the CMBS sector similar to ABS and expect to add exposure opportunistically. Supply and demand technicals appear very positive and fundamentals are slowly improving, especially for lodging and retail loans. The situation surrounding commercial office buildings remains uncertain, and fundamentals could weaken as loans refinance and leases expire and potentially reprice at lower rates. Consequently, we plan to monitor commercial office building fundamentals closely throughout the year. Finally, we believe the CLO sector remains attractive and given strong underlying performance we may seek to add lower-rated securities to capture additional yield.

Credit Spotlight

How to Position Fixed Income Portfolios During a Rising Rate Environment

With increased certainty that the Federal Reserve has entered a policy tightening cycle, we consider ways to manage a fixed income portfolio to mitigate the risk of higher interest rates and inflation while simultaneously seeking to enhance overall returns.

It's important to note that when the Federal Reserve raises the upper and lower bounds of its targeted federal funds rate, overnight rates do not necessarily increase along the entire yield curve. Raising the federal funds target rate can materially impact the short end of the yield curve, but the effect diminishes at longer maturities across the curve. In practice, the long end of the yield curve reacts more to the strength of the global macroeconomic environment. However, by communicating a view economic activity was expanding at a robust pace and that aggregate demand remains strong, the Federal Reserve also influenced longer rates to increase.

By their nature, fixed income investments will be impacted by higher rates, but certain strategies can mitigate the risk of higher interest rates and inflation while seeking to enhance overall returns.

- <u>Shorten duration</u>: Shortening overall portfolio duration reduces portfolio exposure to interest rate volatility. As interest rates rise, the negative impact on performance will be less for a shorter duration portfolio.
- <u>Invest in Treasury Inflation Protected Securities ("TIPS")</u>: TIPS can represent an effective hedge against inflation, as the principal amount of the security is indexed to inflation, as measured by the Consumer Price Index. In an inflationary environment, the investor benefits by 1) earning higher interest payments as the fixed coupon rate is applied to an increasing (i.e., inflation indexed) principal amount and 2) receiving a larger (i.e., inflation indexed) principal amount at maturity.
- <u>Invest in floating rate bonds</u>: Floating rate bonds feature interest rates stated as a fixed amount, plus a short-term variable benchmark yield such as LIBOR or its replacement, the new secured overnight funding rate ("SOFR"). As the short-term variable benchmark rate increases (or decreases), a floating rate bond coupon payment moves accordingly, effectively eliminating interest rate volatility.

Credit Spotlight (continued)

- Identify sectors within the fixed income market that perform well in rising rate environments: Understanding historical asset class performance in periods of rising interest rates can help reveal strategies appropriate for managing fixed income portfolios during a Federal Reserve tightening cycle. For example, the table below shows six periods since 1998 where the yield on the 10-year US Treasury Note increased more than 1.0% and the same period returns for various fixed income indices. Historically, these sectors performed respectably during periods of rising interest rates. In addition, if an improving growth outlook is part of what's driving rates higher, it should also support corporate profits and lower default rates, and thereby lead to outperformance in corporate credit.

Asset Class Performance During Periods of Rising Interest Rates
(source: Bloomberg)

Period				Total Return				
Beginning	Ended		Change in 10-Year Treasury Yield	Barclays Agreggate (a)	High Yield (b)	Investment Grade Credit (c)	Emerging Markets (d)	Multiverse Universe (e)
10/5/1998	1/12/2000		2.60%	(2.40%)	3.76%	(4.01%)	36.02%	
6/13/2003	6/28/2006		2.10%	4.35%	27.69%	3.15%	29.29%	9.07%
12/30/2008	4/5/2010	(f)	1.90%	6.79%	67.34%	17.34%	41.01%	6.82%
7/24/2012	12/31/2013		1.60%	(1.71%)	14.71%	(0.12%)	3.06%	0.05%
7/8/2016	10/5/2018		1.90%	(2.42%)	16.30%	(0.40%)	4.01%	(2.55%)
3/9/2020	2/25/2021	(f)	1.00%	(1.64%)	13.54%	0.90%	4.07%	60.01%

(a) The Bloomberg US Aggregate Bond Index
(b) The Bloomberg US Corporate High Yield Bond Index
(c) The Bloomberg US Credit Index
(d) The Bloomberg Emerging Markets USD Aggregate Bond Index
(e) The Bloomberg Multiverse Index
(f) Total returns for the representative indices in these periods were highly influenced by significant economic recoveries which followed unusual economic events and a corresponding sell-off in risk assets

- Invest in sectors that demonstrate little or no correlation to the 10-year Treasury yield: Investing in sectors that demonstrate little or no correlation to 10-year US Treasury yields can reduce volatility and enhance returns in a rising rate environment. The table below illustrates how returns on different sectors historically correlate to one another. For example, historical returns on the bond market in general, as represented by the Bloomberg Aggregate US Bond Index, correlate highly (+0.85) with returns on the 10-year US Treasury Note, implying that the overall bond market could perform in line with 10-year US Treasury Notes. On the other hand, sectors such as High Yield (-0.24) and USD Emerging Markets (+0.14) appear less correlated to 10-year Treasury Note returns and could outperform as interest rates increase. While high yield bonds and emerging market debt exhibit less sensitivity to interest rate risk, issuer fundamentals in these sectors currently also benefit from improving credit fundamentals and low rates of default.

Asset Class Performance - Correlation to 10-year US Treasury Note Returns
(source: Bloomberg)

	10-Year Treasury	Barclays Aggregate (a)	High Yield (b)	USD Emerging Markets (c)	Multiverse Universe (d)	TIPS (e)	Investment Grade Credit (f)
10-year Treasury	1.00						
Barclays Aggregate	0.85	1.00					
High Yield	(0.24)	0.25	1.00				
USD Emerging Markets	0.14	0.55	0.82	1.00			
Multiverse Universe	0.46	0.72	0.47	0.69	1.00		
TIPS	0.55	0.75	0.47	0.67	0.69	1.00	
Investment Grade Credit	0.47	0.84	0.63	0.79	0.75	0.72	1.00

Note: correlations computed over the period beginning April 30, 2008 and ending September 30, 2021
(a) The Bloomberg US Aggregate Bond Index
(b) The Bloomberg US Corporate High Yield Bond Index
(c) The Bloomberg Emerging Markets USD Aggregate Bond Index
(d) The Bloomberg Multiverse Index
(e) The Bloomberg US Treasury Inflation Notes 1-10Y TR Index
(f) The Bloomberg US Credit Index

Investment Grade Credit

In the fourth quarter of 2021, the Bloomberg US Corporate Bond Index generated -29 basis points of excess returns over similar duration Treasuries, as spreads widened 8 basis points during the period. Corporate spreads traded within a narrow range of 10 basis points throughout the quarter until the Thanksgiving holiday break. Market volatility rapidly picked up amidst renewed COVID-19 fears towards the end of November. In addition, liquidity challenges during the holiday season exacerbated the broad market sell off and flight to quality.

Inflationary concerns, rate volatility, heavier than expected corporate issuance, ongoing supply chain disruptions, elevated dealer balance sheets, and the emergence of the Omnicron COVID-19 variant provided the perfect storm for spreads to post their worst month of performance since the onset of the pandemic in March 2020. Despite a rocky start to December, spreads eventually found their footing and settled down from the wides to the middle of the range by the end of the month. With the removal of the Federal Reserve’s secondary market corporate credit facility (SMCCF) and its hawkish stance towards monetary policy, credit markets began to reprice risk assets assuming a rising interest rate environment and a less accommodative central bank. Additional headwinds facing investment grade corporate credit include increased taxes, regulation, tight spread valuations, geopolitical tensions and a potential economic slowdown in the second half of 2022.

The best-performing industries and sub-segments of the Bloomberg US Credit Index on an excess return basis comprised automotive, chemicals, finance companies, healthcare REITs and sovereigns. Cable and satellite, life insurance, property and casualty insurance, tobacco and utilities ranked among the worst-performing industries and sub-segments during the quarter.

Corporate fundamentals continue to strengthen, leading to a positive ratings migration and a return of rising stars into the investment grade universe. The OAS on the Bloomberg US Corporate Bond Index ended the fourth quarter at 92 basis points, 281 basis points tighter from the pandemic period peak and 4 basis points tighter than the beginning of 2021. Investment grade credit spreads continue to hover near the low end of the range despite the increased rate volatility and a backup in valuations. As such, we remain market weight with an intent focus on industry allocation and security selection.

High Yield

The US High Yield market shook off three consecutive months of negative returns (September through November) to finish the year with a rousing +1.87% total return in December 2021. The final month of the year salvaged fourth quarter performance, pushing the Bloomberg US Corporate High Yield Bond Index (the “High Yield Index”) return to +0.71% in the fourth quarter and +5.28% for full-year 2021. During the fourth quarter, single-Bs outperformed other ratings buckets (+0.83% versus +0.75% for double-Bs and +0.54% for CCCs). At the sector level, returns were tightly dispersed around the High Yield Index, as financials outperformed (+3.3%) and cable & satellite underperformed (-0.3%).

High Yield Index spreads remained range bound in the fourth quarter, trading as wide as +341 basis points at the end of November and as tight as +271 basis points (nine basis points wide of year-to-date tights) just after Christmas. Ultimately, however, spreads ended virtually unchanged for the quarter at +283 basis points. As Treasury rates continued to trend upward, the yield-to-worst on the High Yield Index climbed 17 basis points during the quarter to 4.21% at the end of the period, nearly 70 basis point higher than the record low of 3.53% set in early July but almost identical to where the market ended 2020 (i.e., 4.18%).

High yield credit fundamentals continue to quickly recover, as another strong earnings season in the third quarter put credit metrics on par with pre-pandemic levels. In the third quarter of 2021, high yield issuer revenues increased 24% year-over-year, and EBITDA increased +36% following an 80% year-over-year gain in the second quarter. Leverage continued to decline, dropping to 4.8x at the end of the third quarter of 2021 from 5.1x in the second quarter and 6.1x in the fourth quarter of 2020 (the highest level recorded since at least the financial crisis). Due to the strong earnings recovery, default activity is nearly nonexistent, and the high yield default rate finished 2021 at just 0.27%, down from 0.92% at the end of the second quarter and 6.17% at the end of 2020. Rising stars jumped to $28.6 billion in the fourth quarter, pushing the 2021 total to $55.6 billion, outpacing $18.5 billion of fallen angels. While we do not anticipate material weakening in credit fundamentals in 2022, we continue to monitor the risk to margins of rising input and labor costs and supply chain disruptions. We also expect management teams to reveal how they might deploy cash reserves built during the pandemic, with share repurchases and / or dividends representing potential negatives for bondholders.

High yield new issue volumes slowed considerably during the fourth quarter, as $73.3 billion priced, down from a quarterly average of nearly $137 billion in the first three quarters of 2021. The supply slowdown, in combination with a $3.8 billion retail inflow in December, contributed to strong technicals at the end of the year. For the quarter, high yield retail fund flows were slightly negative (-$1.1 billion), reversing the third quarter's +$1.4 billion inflow (the first quarterly inflow since the fourth quarter of 2020). We anticipate the volume of new issues to slow in 2022 and include more M&A and LBO financing transactions and fewer of the refinancings that dominated issuance in 2021.

Against a backdrop of more hawkish Federal Reserve policy, less fiscal stimulus, and decelerating economic growth, we expect the High Yield Index to trade in a wider spread range during 2022 than the 100 basis point trading range it maintained in 2021. With spreads currently at the tight end of the recent range and inside of 300 basis points, we maintain a cautious near-term view on the market. However, supportive credit fundamentals and technicals will likely limit the potential downside to the high yield market, and we believe that attractive entry points will appear as the year progresses. Overall, however, we expect 2022 to be another "carry" or "coupon-clipping" return environment for high yield bonds.

Leveraged Loans

Despite a backdrop of accelerating Federal Reserve tapering and a pull-forward of rate-hike expectations, the leverage loan market lost momentum in the fourth quarter of 2021, posting a modest +0.71% gain (equal to the US High Yield market), as measured by the Credit Suisse Leveraged Loan Index (the "CSLLI"). The fourth quarter return, the weakest of the year, put the total return on the CSLLI to +5.40% in 2021, slightly outpacing the high yield market's +5.28% gain (as measured by the Bloomberg US Corporate High Yield Bond Index). With the exception of CCCs (which returned -0.21% in the quarter), the down-in-quality trade continued to work in the loan market, with single-Bs, double-Bs and split-BBBs returning +0.85%, +0.64%, +0.56%, respectively. Similarly, the commodity industry sectors continued to outperform as well, led by metals (+1.8% total return) and energy (+1.3%), while broadcasting comprised the only sector to produce a negative total return (-1.4%). Average loan prices remained flat in the quarter but increased 2.65 points for the year; and spreads remained relatively stable also, closing out the year at +439 basis points (as measured by the 3-year discount margin). Whereas high yield spreads reside near the 14-year tights recorded in July 2021, loan spreads remain approximately 60 basis points wide of post-crisis tights reached back in the spring of 2018. With the Federal Reserve poised to tighten rates, 3-month LIBOR finally started to tick up, rising 8 basis points in the quarter to end the year at 0.21%. The LIBOR increase contributed to the 47-basis point quarterly increase in the average loan yield to 5.26% (assuming a 3-year life).

Representing another period of double-digit EBITDA growth, third quarter 2021 earnings pushed loan market credit fundamentals toward pre-pandemic levels. In the third quarter, loan issuer revenue and EBITDA increased 21% and 42% year-over-year, respectively. As a result, average leverage declined to 6.7x, down from 7.4x in the second quarter of 2021 and 8.9x at the end of 2020. Strong earnings also brought default activity to a near standstill, with just three defaults occurring in the fourth quarter and seven in all of 2021, resulting in a default rate of only 0.48% at year-end 2021, versus 3.95% at the end of 2020. Reflecting improving fundamentals, loan rating upgrades outweighed downgrades 2:1 in 2021 after a record low 1:3 in 2020. Although the upgrade trend may slow in 2022, we expect default rates will remain near record-low levels.

Loan market technicals remained firm at the end of the year. Retail fund inflows totaled nearly $10 billion in the fourth quarter, up from $8 billion in the third quarter, bringing the year-to-date total to over $45 billion (versus a $27 billion outflow in 2020). Additionally, CLO issuance accelerated to over $55 billion in the fourth quarter (from just under $48 billion in the third quarter), driving 2021 issuance to a record $183.7 billion (easily topping 2018's $130.6 billion). Although loan issuance typically slows down in the fourth quarter, loan primary market issuance reached nearly $180 billion, up from $160 billion the immediately preceding period. The 2021 total issuance of approximately $835 billion ($631 billion net of refinancings) represents the largest since $974 billion of issuance in

2017 ($534 billion net of refinancings). With the Federal Reserve on track to begin raising rates in coming quarters, we anticipate that loan market technicals will remain firm as investors gravitate to floating rate instruments.

Federal Reserve policy and potentially rising interest rates comprise the predominant fixed income market themes at the beginning of 2022. We therefore maintain a constructive stance on the loan market and continue to overweight the asset class relative to high yield bonds. As was the case in 2021, we expect that "carry" or "coupon return", will drive fixed income returns in early 2022, creating an environment that benefits loans.

Disclaimers

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Past performance is no guarantee of future results.

The MOVE Index is a measure of US interest rate volatility that tracks the movement in US Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1 / BB+ / BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg's EM country definition, are excluded.

The Credit Suisse Leveraged Loan Index tracks the investable market of the US dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's / S&P ratings of Baa1 / BB+ or Ba1 / BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.