

Executive Summary

Both high yield (HY) bonds and leveraged loans continued to rally in August as better than expected earnings, improving economic indicators, and further vaccine progress all boosted sentiment. Year-to-date (YTD) HY bond returns of -0.56% best those of leveraged loans which have returned -1.19% so far.

High Yield Bond Summary & Performance

Source: JP Morgan

The HY bond asset class returned +1.39% in August as yields and spreads decreased 25 bp and 28 bp, respectively, to end the month at 5.99% and 573 bp. Further vaccine progress, continued improvement in economic indicators, and better than expected 2Q earnings all helped drive the continued recovery. New issuance activity totaled \$54b in August, well above July volumes and significantly higher than the ~\$20b in volume the month has averaged in the recent past. Refinancing deals were once again the main driver of monthly issuance, with ~\$45b (82% of gross volume) directed to refinancing activities in August. YTD, refinancings remain the main driver of issuance as well by representing 63% of total volume. Including distressed exchanges, the US HY bond default rate decreased 35 bp month-over-month to 6.37%. While down from July levels, defaults are still elevated vs. historical averages due to significant Energy sector weakness.

Best Performing Industries MTD:

- Transportation (+4.31%)
- Gaming & Leisure (+2.62%)
- Energy (+2.32%)

Best Performing Industries YTD:

- Technology (+5.89%)
- Paper & Packaging (+5.24%)
- Housing (+4.90%)

Worst Performing Industries MTD:

- Utility (+0.04%)
- Metals & Mining (+0.18%)
- Consumer Products (+0.33%)

Worst Performing Industries YTD:

- Energy (-17.13%)
- Transportation (-15.51%)
- Broadcasting (-5.15%)

Performance by Ratings MTD:

- CCC-rated bonds (+2.44%)
- B-rated bonds (+1.33%)
- BB-rated bonds (+0.72%)

Performance by Ratings YTD:

- BB-rated bonds (+2.08%)
- B-rated bonds (-0.43%)
- CCC-rated bonds (-1.37%)

Floating Rate Loan Summary & Performance

Source: JP Morgan

Leveraged loans returned +1.50% in August on better than expected earnings, vaccine progress, and encouraging economic reports. Issuance trends continue to favor the HY market, but August's \$23b of new volume marked a significant increase from July's anemic issuance levels. While up month-over-month issuance is still below the ~\$32b in volume August has averaged in the recent past. Refinancing activity was the main driver of issuance for the month and therefore refinancing and repricing deals remain the main driver of loan volumes YTD representing 65% of total issuance. Gross US CLO (collateralized loan obligation) volume of ~\$5b in August represents a step back from July levels as the market for CLO issuance remains challenging. Net new issue activity at 65% of total issuance YTD remains the largest driver of CLO volumes. Including distressed exchanges the leveraged loan default rate now stands at 4.62%.

Best Performing Industries MTD:

- Transportation (+3.86%)
- Gaming & Leisure (+2.54%)
- Retail (+2.39%)

Best Performing Industries YTD:

- Telecom (+1.85%)
- Healthcare (+1.18%)
- Technology (+1.13%)

Worst Performing Industries MTD:

- Utility (+0.33%)
- Cable & Satellite (+0.60%)
- Housing (+0.72%)

Worst Performing Industries YTD:

- Energy (-12.28%)
- Transportation (-9.45%)
- Gaming & Leisure (-6.72%)

Performance by Ratings MTD:

- Split B/CCC-rated loans (+4.91%)
- B-rated loans (+1.39%)
- BB-rated loans (+0.71%)

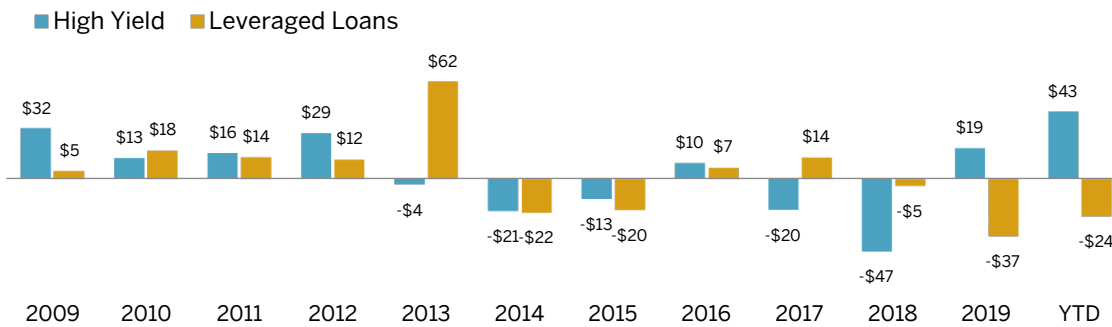
Performance by Ratings YTD:

- B-rated loans (-0.63%)
- BB-rated loans (-1.89%)
- Split B/CCC-rated loans (-11.02%)

| As of August 31, 2020 | Performance | | Characteristics | | | | |
|--|-------------|--------|-----------------|------------|---------------|----------------|-------------------|
| | Month | YTD | Spread | YTD Change | Average Price | Yield to Worst | Yield to Maturity |
| 10-Year US Treasuries | -1.29% | 12.70% | --- | --- | --- | 0.7% | 0.7% |
| Bbg Barclays Aggregate Bond Index | -0.81% | 6.85% | 70 bp | +16 bp | \$110.52 | 1.2% | 1.2% |
| JP Morgan BB-B Rated Loan Index | 1.13% | -2.66% | 489 bp | +91 bp | \$96.31 | 5.1% | --- |
| ICE BofA 1-3 Year BB-B Rated Index | 0.88% | -1.00% | 428 bp | +169 bp | \$100.83 | 4.4% | 4.8% |
| ICE BofA BB-B Rated Non-Distressed Index | 0.69% | 1.89% | 391 bp | +125 bp | \$104.19 | 4.2% | 4.7% |
| ICE BofA BB-B Rated Index | 0.77% | 1.79% | 420 bp | +137 bp | \$103.31 | 4.5% | 5.0% |
| ICE BofA High Yield Index | 1.00% | 0.67% | 508 bp | +136 bp | \$100.66 | 5.4% | 5.9% |

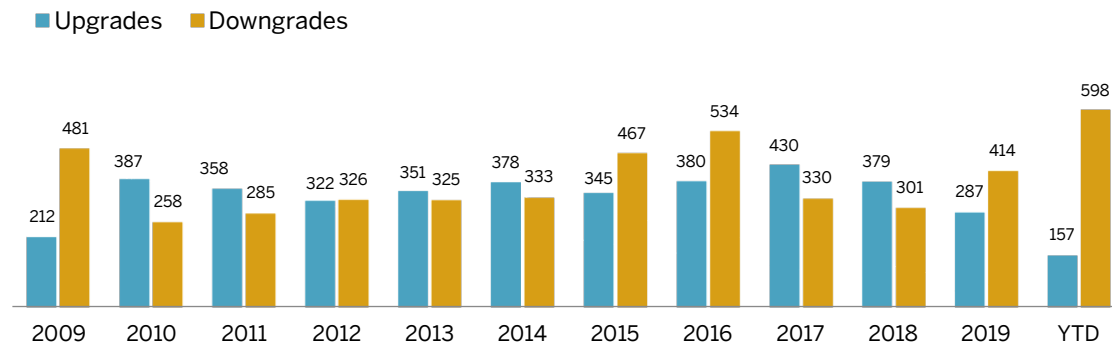
Mutual Fund Flows (\$ Billion)

Source: JP Morgan



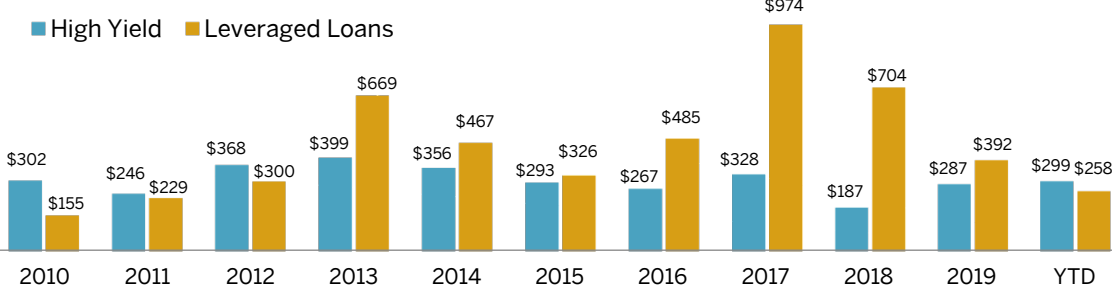
High Yield Upgrades/Downgrades (Issuer)

Source: JP Morgan



Gross New Issuance Volume (\$ Billion)

Source: JP Morgan



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| Spreads / Default Rates | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | YTD |
|---------------------------|--------|----------|--------|--------|--------|----------|--------|--------|----------|----------|----------|
| ICE BofA BB-B Rated Index | 485 bp | 612 bp | 443 bp | 344 bp | 434 bp | 558 bp | 348 bp | 297 bp | 462 bp | 283 bp | 420 bp |
| ICE BofA BB Rated Index | 399 bp | 503 bp | 357 bp | 281 bp | 336 bp | 427 bp | 286 bp | 228 bp | 365 bp | 213 bp | 357 bp |
| ICE BofA B Rated Index | 573 bp | 736 bp | 524 bp | 417 bp | 549 bp | 722 bp | 432 bp | 381 bp | 578 bp | 370 bp | 529 bp |
| ICE BofA CCC Rated Index | 874 bp | 1,262 bp | 943 bp | 766 bp | 976 bp | 1,648 bp | 977 bp | 843 bp | 1,102 bp | 1,012 bp | 1,171 bp |
| JPM HY Default Rate* | 2.4% | 2.2% | 2.0% | 2.1% | 1.6% | 2.8% | 5.2% | 2.5% | 2.8% | 3.2% | 5.5% |