Blackstone Credit

CREDIT INSIGHTS

April 2021 Market Commentary

Performance Overview

- U.S. and European credit markets continued their positive momentum in April amid positive sentiment from the vaccine rollout
- U.S. investment-grade bonds posted the first positive monthly return this year as rates stabilized
- Default and distressed activity in the global credit markets continues to improve

Performance of U.S. below investment-grade corporate credit continued to tick higher in April, ending the month with solid returns boosted by a strong U.S. jobs report fueled by widespread vaccinations and another round of federal aid. Despite the positive economic momentum, U.S. Treasury yields reversed course in April, declining by 11bp, as the Federal Reserve re-affirmed that it does not intend to raise rates this year and inflationary pressures are expected to be transitory.[1] Positive earnings and robust economic data drove equity indices higher led by consumer and growth sectors.

U.S. investment grade bonds, represented by the Bloomberg Barclays US Corporate Investment Grade Index, posted positive monthly returns for the first time this year on the back of lower rates.

In Europe, credit also performed well despite officially entering another recession during the first quarter with a 0.6% contraction in economic output following a 0.7% decline in the prior quarter.

Retail demand for U.S. loans and investment-grade bonds remained strong in April, with net retail inflows of $5.4 billion and $12 billion, respectively. Retail inflows for U.S. high-yield funds turned positive for the first time in 2021 at $2.7 billion over the month.[2] European high yield funds experienced modest yet positive net inflows of €0.2 billion in April.

U.S. default activity remained modest in April, with just two companies defaulting, contributing to another sharp decline in high yield bond and loan last-twelve-month ("LTM") default rates. The par-weighted U.S. high yield default rate decreased 162bp in April to 3.17%, a 14-month-low. The loan par-weighted default rate ended April at 2.25%, a 13-month-low and a decrease of 109bp over the month.[3]

There were no new defaults recorded for either European loan or high yield issuers in April. As a result, the LTM par-weighted default rate remained at 1.10% for European loans and the default rate for European high yield bonds fell to 3.30% due to an increase in the size of the index.[4]

Market Stats (as of April 30, 2021)

	April	QTD	YTD
S&P / LSTA U.S. Leveraged Loan Index	0.51%	0.51%	2.30%
Bloomberg Barclays U.S. Corporate Investment Grade Index	1.11%	1.11%	-3.59%
Bloomberg Barclays U.S. High Yield Index	1.09%	1.09%	1.95%
Credit Suisse Western European Leveraged Loan Index	0.43%	0.43%	2.16%
Credit Suisse Western European High Yield Index	0.67%	0.67%	2.28%
S&P 500	5.34%	5.34%	11.84%
Euro Stoxx 50	1.42%	1.42%	11.93%

	Spread			Yield			Price		
	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD
U.S. Loans	407	-7	-36	4.32%	-0.07%	-0.38%	$97.79	$0.24	$1.59
U.S. HY	291	-19	-69	4.79%	-0.15%	-0.18%	$104.74	$0.58	-$0.22
EU Loans	416	-8	-43	3.76%	-0.05%	-0.11%	€98.44	€ 0.14	€ 1.08
EU HY	370	-14	-54	3.82%	-0.10%	-0.42%	€100.32	€ 0.69	€ 1.73

1 Bloomberg.
2 J.P. Morgan for loans and high yield bonds and Credit Suisse for investment grade bonds, as of April 30, 2021.
3 J.P. Morgan Default Monitor, May 1, 2021.
4 Credit Suisse Default Report May 5, 2021.

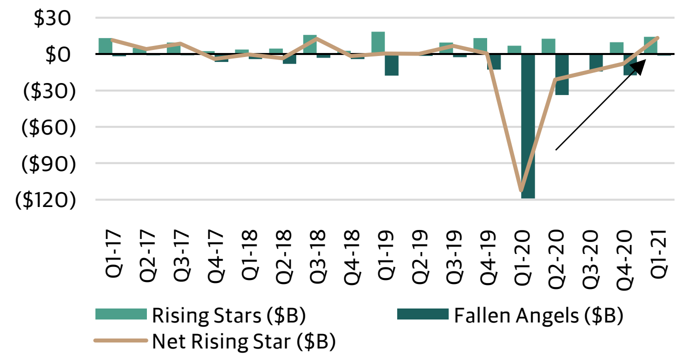
U.S. Investment Grade Market

U.S. investment grade bonds posted positive returns in April of 1.11%, the highest monthly total return since November, as Treasuries rallied for the first time in 2021. Retail investor sentiment remained supportive with an inflow of $12 billion during the month.

New-issue supply totaled $120 billion in April, well above historical averages, although we witnessed signs of primary market fatigue as new issue concessions ticked up despite an increase in oversubscribed deals.

After record downgrades last year, we are witnessing the highest quarterly ratings upgrade total in two years. These rising stars outpaced fallen angels by $14 billion year-to-date, reversing last year's trend.[5] Notably, rising stars have outperformed peers year-to date and may be a valuable source of alpha given tight valuations. We anticipate an additional $60 billion of rising stars in the next 6-12 months as positive ratings momentum in the U.S. high-yield market accelerated in March and April.

Fallen Angels vs. Rising Stars ($ in billions)



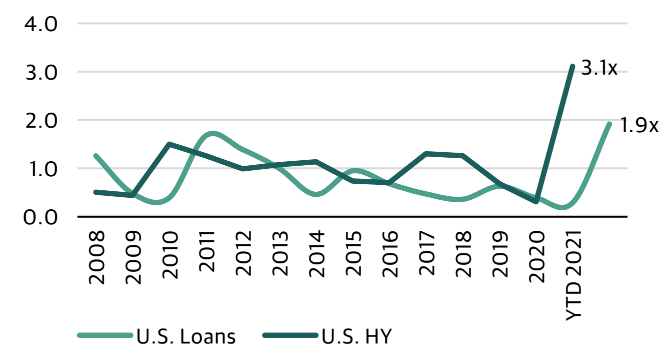
U.S. Loan and High Yield Markets

U.S. loans performed well in April, returning 0.51%, as the repricing wave slowed and investors turned their attention to a slew of positive earnings reports. The new issue pipeline lightened over the month, despite a surge in M&A financing with about 50% of transactions financing a leverage buy out.[6]

Notably, the upgrade-to-downgrade ratio for rated loan issuers increased to nearly 2:1 in April, reversing a trend that began prior to 2020.[7] For high yield issuers, net rating upgrades have also occurred at breakneck pace, exceeding downgrades by $110 billion, the fastest rate in five years.[8]

The combination of lower rates, a further rally of risk assets and inflows into U.S. high-yield bonds led to a 1.09% gain in April. BB- and CCC-rated bonds led the momentum and average spreads declined 11bp to a multi-year low of 395bp as the economic recovery accelerated, quarterly earnings exceeded expectations, and Treasury yields receded from one-year highs.[9]

U.S. Loan and U.S. HY Upgrade - to Downgrade Ratios



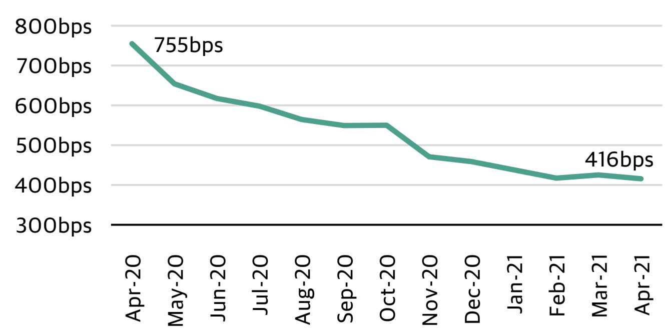
European Loan and High-Yield Markets

The European loan market closed out April on a firm tone, returning 0.43%, for the month. This was propelled by a combination of better-than-expected earnings and improvements in European vaccination rates.

Sentiment in the travel / leisure space was bolstered by France unveiling a way out of its lockdown, and Germany administering record vaccine doses. The improved tone led to a continuation of the "risk-on" trade, as the 3yr discount margin for loans reached a 12-month tight of 416bp by the end of April.

European high yield performance rebounded in April, following a mixed March, gaining 0.67%, the strongest monthly return year-to-date. Index spreads tightened 17bp in April translating into total and excess returns of 63bp and 78bp, respectively. The rally was led by strong outperformance of CCC- rated bonds, whose spreads reached a new post-crisis low according to iBoxx data. Across sectors, consumers (particularly services) and TMT outperformed, while energy lagged.[10]

EU Loan 3Yr Discount Margin



[5] Credit Suisse Strategy Daily, May 11, 2021.
[6] Credit Suisse Strategy Daily, April 22, 2021.
[7] LCD.
[8] Credit Suisse Strategy Daily, May 11, 2021.
[9] J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor, as of May 3, 2021.
[10] Morgan Stanley May 4, 2021.

U.S. and European CLO Markets

U.S. CLO new issuance volume in April reached the third-highest monthly total on record as 85 U.S. CLOs priced for $36.3 billion including $13.3 billion of new issuance and $23.0 billion of refi / reset volume, the second-highest refinancing volume since 2014.[11]

The pace was similar in the European CLO new issue market with seven new deals totaling €3,1 billion pricing, pushing year-to-date new issuance to nearly €11 billion.

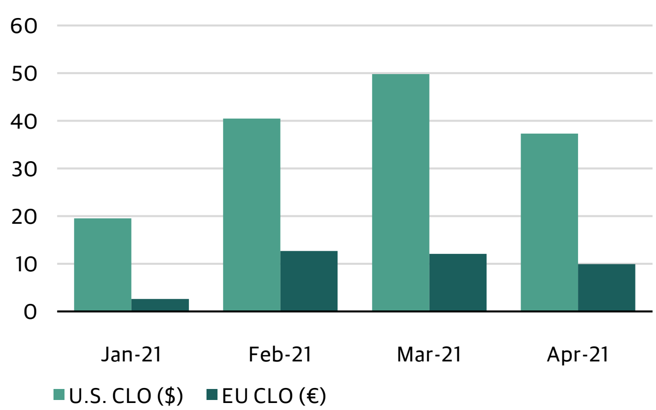
CLO AAA spreads widened in in the primary market in April in both the U.S. and Europe while spreads in the secondary market continued to tighten with mezzanine tranches benefitting in particular.[12,13]

The material spread tightening in 2021 has led to record refinancing activity. U.S. CLO refinancing and reset full year forecasts now top $240 billion, up from the original forecast of $193 billion.[14] In Europe, market participants are now forecasting an annual volume for CLO refi/resets of up to €70 billion, a 75% uplift on initial forecasts.[15]

Blackstone Credit had another busy month of CLO issuance in April. In the U.S. we priced Tallman Park, a new $400 million USD CLO and Rockland Park CLO, a $500 million call-and-roll USD CLO. We also priced the reset of Harriman Park CLO, a U.S. $500 million 2020-vintage CLO. We continue to price these transactions with better pricing across all tranches on average compared to our peers. In Europe, we priced the reset of Crosthwaite Park CLO, a €500 million European CLO. Notably, Stratus 1 CLO, a 2020 static USD CLO launched during the height of the COVID-19 crisis, was redeemed in April with equity holders realizing an IRR of approximately 89%.[16]

U.S. CLOs continued to offer higher yield relative to other fixed income asset classes at the end of April, with CLO BB-rated tranches yielding 6.68% vs. 3.45% for similarly rated high yield bonds and 3.41% for loans.[17] European CLOs also remain attractive relative to high yield bonds and loans. At the end of April, European CLO BB-rated tranches were yielding 5.80% vs. 2.18% for similarly rated high yield bonds and 2.98% for loans.[18]

U.S. CLO and EU CLO YTD Issuance ($/€ in billions)



Market Outlook

Our outlook for a continued recovery remains optimistic. Vaccination rates continue to steadily increase in the U.S. and Europe, and although we are closely monitoring COVID-19 variants deemed to be of global concern, early data suggest existing vaccines are effective enough to protect against the worst outcomes. While we note a "vaccine hesitancy" among meaningful portions of the public, we expect consumer spending on travel, out-of-home entertainment, and commuting to sharply recover over the next few months.

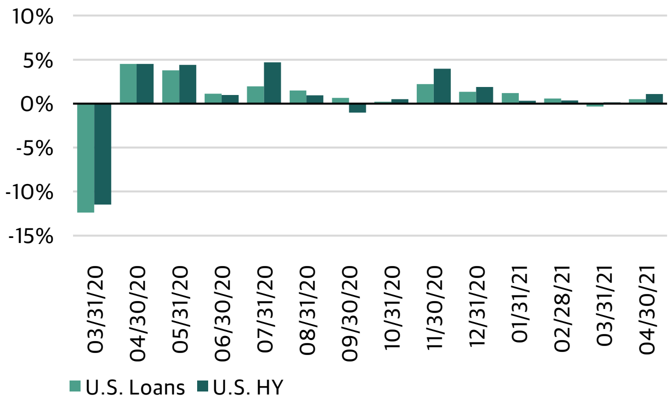
We believe a handful of factors have caused the U.S. yield curve to remain relatively stable and even decline during April, including the significant amount of quantitative easing ($120 billion per month), higher rates on sovereign debt in Europe, and, most notably, the increase in personal savings held at banks that has driven their demand for treasuries. That said, we do believe that some of these factors are transitory and expect treasuries to climb further as continued signs of inflation appear in economic data. We expect duration-sensitive fixed income to remain volatile around employment and inflation releases. Accordingly, investors should consider assets with shorter durations and the ability to re-rate to hedge against inflation risk and higher long-term interest rates.

Default rates in U.S. credit are tracking even lower than the 2% forecast by J.P. Morgan for both 2021 and 2022. Many long-term stressed credits in secularly declining sectors were restructured during the summer 2020 flurry, so the remaining potential defaults will likely be those impacted by social distancing restrictions. Given the apparent strength of the rebound in travel, leisure and dining, driven by unprecedented pent-up demand and generous stimulus payments, we believe many of these companies may ultimately avoid default and, as such, expect their debt to continue to trade steadily towards par.

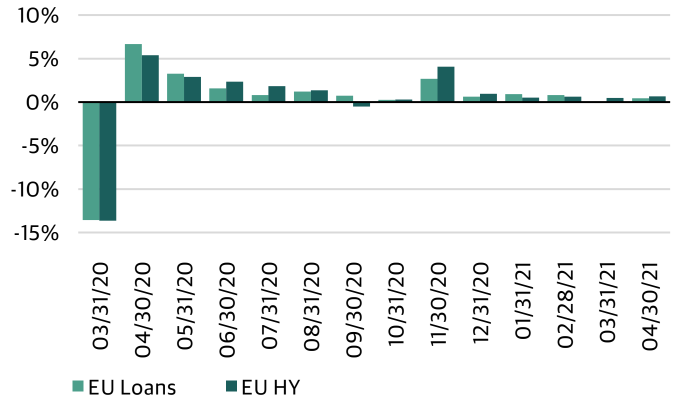
11 J.P. Morgan, as of April 30, 2021.
12 DB Euro CLO Monthly May 12, 2021.
13 Bank of America.
14 DB U.S. CLO Weekly, April 30, 2021.
15 DB Euro CLO Monthly May 12, 2021.
16 Blackstone Credit.
17 Bank of America for U.S. CLO spreads and yields; Credit Suisse for U.S. loan and high yield spreads, as of April 30, 2021.
18 Citi Velocity, for European CLO spreads and yields; Credit Suisse for European loan and high yield spreads, as of April 30, 2021.

Market Snapshot (as of April 30, 2021)[19]

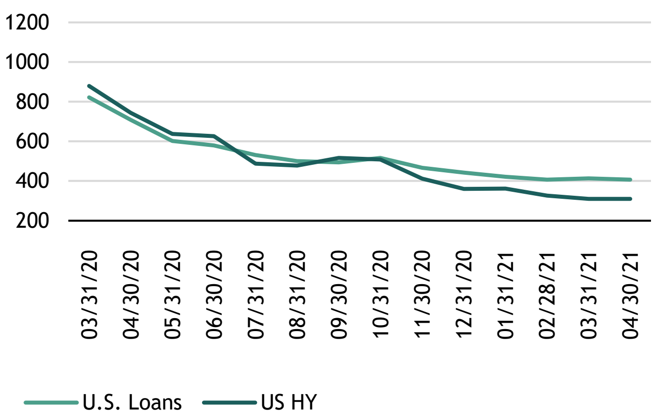
U.S. Credit Monthly Returns



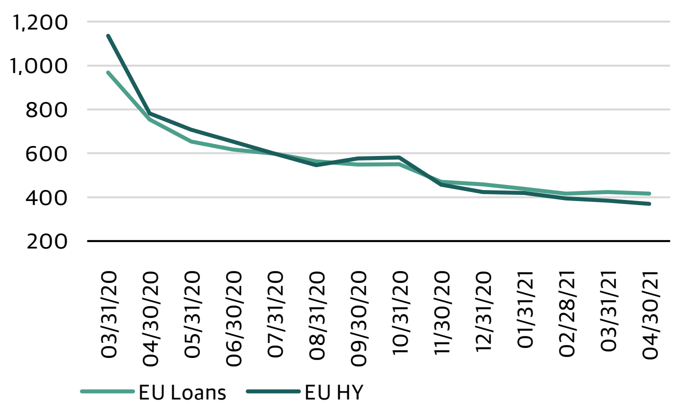
EU Credit Monthly Returns



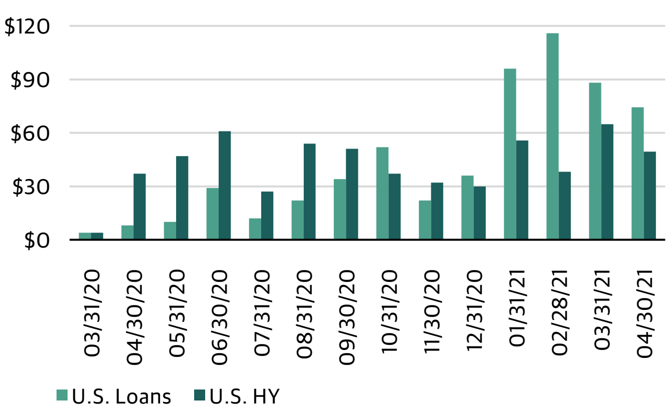
U.S. Credit Spreads (in bps)



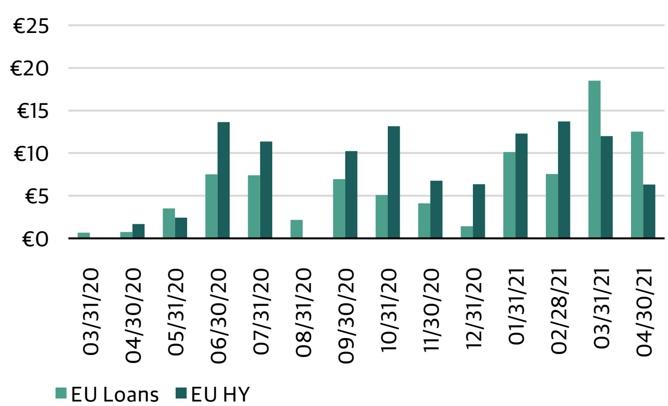
EU Credit Spreads (in bps)



U.S. Credit Issuance ($ in billions)



EU Credit Issuance (€ in billions)



[19] 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 April 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.