CREDIT INSIGHTS

March 2022 Market Commentary

- **Fed rate liftoff sparks late month rally across credit**
- **Loans outperform as returns move back to black**
- **Yield curve inverts amid recession concerns**
- **Issuance pauses amid the volatility, but private debt market remains open**

Performance Overview

Global credit markets staged a relief rally during the second half of March reversing the broad first half selloff across debt and equity markets amid the worsening war in Ukraine.

Sentiment improved after the US Federal Reserve raised rates by a quarter of a percentage point and took a more hawkish stance to combat the highest inflation in four decades.

Loans again outperformed the rest of credit as returns across both US and European loans inched back into positive territory during the second half of the month. US loan prices were supported by inflows into retail funds pushing average loan prices to $97.6 after falling below $96 at mid-month.[1] European loan prices were supported by ongoing demand from CLO buyers pushing prices to €97.21 on average after falling to €95.89 at mid-month.[2]

It was a different story across other risk assets as global stocks experienced their worst quarter since the pandemic dislocation in 2020, rattled by the war in Ukraine, persistently rising inflation and rising interest rates. Expectations for another eight Fed rate hikes over the next year, including a potential 50bp hike in May, pushed the 10-year Treasury yield to 2.33% by month-end.[3]

Additionally, the yield curve as measured by the difference between 2 year and 10 year Treasury yields, flattened over the quarter before briefly inverting at month-end. This triggered concerns that a slowdown in growth, coupled with an overly aggressive Fed response to inflation, could cause a recession.

The Treasury selloff weighed on the performance of fixed rate corporate bonds and, despite rallying into month-end, investment grade returns ended the quarter deep in negative territory. High yield bonds fared better in the final week of March but likewise posted a negative total return for both the month and quarter.[4]

On the US economic front, consumer confidence edged up in March, while a strong jobs report at month-end underpinned expectations for a yet more aggressive Fed response.

The ongoing Ukraine conflict is expected to have a more significant impact on European economic activity and Eurozone growth forecasts have already been reduced due to higher energy and commodity prices.

European consumer prices rose to 7.5% in March from 5.9% in February, leaving the ECB to grapple with how best to tackle surging inflation against declining growth. For now, it is maintaining a flexible approach to monetary policy although it has announced an accelerated exit from asset purchases. The Bank of England has remained hawkish and increased rates by 25bp for a third time in March.

US high-yield bond and loan last-twelve-month default rates ended the quarter at 0.50% and 0.86%, up slightly from 0.3% and 0.5%, respectively, at the end of 2021.[5]

Market Stats (as of March 31, 2022)[6]

	March	QTD	YTD
S&P / LSTA U.S. Leveraged Loan Index	0.05%	-0.10%	-0.10%
Bloomberg U.S. Corporate Investment Grade Index	-2.52%	-7.69%	-7.69%
Bloomberg U.S. High Yield Index	-1.15%	-4.84%	-4.84%
Credit Suisse Western European Leveraged Loan Index	0.09%	-0.53%	-0.53%
Credit Suisse Western European High Yield Index	-0.97%	-5.45%	-5.45%
S&P 500	3.58%	-4.95%	-4.95%
Euro Stoxx 50	-0.55%	-9.21%	-9.21%

Past performance is not necessarily indicative of future results.

Market Stats (cont'd) (as of March 31, 2022)

	Spread			Yield			Price		
	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD	Level	ΔMTD	ΔYTD
U.S. Loans	430	1	19	4.59%	0.16%	0.38%	$ 97.60	$ (0.28)	$ (1.04)
U.S. HY	325	(34)	42	6.19%	0.35%	1.33%	$ 97.04	$ (1.53)	$ (6.52)
EU Loans	463	4	50	3.98%	0.06%	0.16%	€ 97.21	€ (0.22)	€ (1.49)
EU HY	426	(58)	66	5.02%	-0.09%	1.25%	€ 94.13	€ (0.96)	€ (6.10)

US Investment Grade Market

Despite the month-end rally, investment grade bonds experienced another weak month of performance relative to other credit markets amid the Treasury selloff. Returns ended at -2.52% for March and -7.69% for the quarter. Corporate investment grade spreads reached wides of 141bp ahead of the Fed liftoff, nearly 50bp wider than levels at the end of 2021,[7] before narrowing 19bp into month-end.

Higher-quality, longer-duration bonds generally outperformed in March, led by the Energy sector. Chemicals underperformed due to increasing commodity prices.

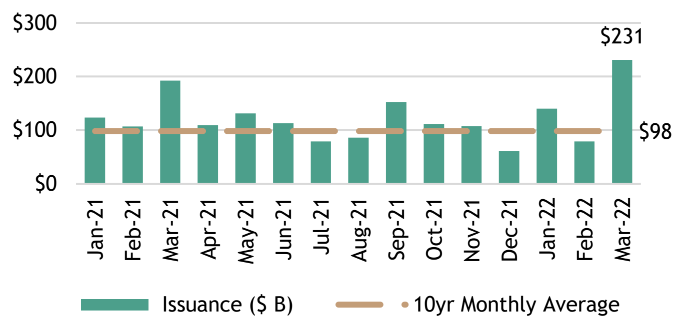
Despite the challenging performance backdrop, investment grade borrowers priced over $230 billion of new deals in March, the fourth highest issuance month on record. Issuers raced to print new transactions ahead of rising costs leaving the year's supply totaling $414.64 billion, just ahead of the same period last year.[8]

Supply is expected to slow in April to just $100 billion as companies enter earnings blackout periods. This should lead to elevated secondary market trading which has generally supported average prices.[9]

New issue yields rose to 3.58% on average for deals completed in March compared with 2.23% for deals priced in March 2021 as issuers offered steep discounts on new deals. The last time new issue yields were higher than this was in June 2019.[10] As conditions improved post the mid-month Fed action, new issue concessions contracted to single digits once again from the month's high of 35bp.

Demand from retail investors slowed in March as outflows resumed and totaled $11.8 billion for the month, although ETFs received $5.3 billion of inflows. Net buying from Asian investors reached its highest level since November given historically attractive USD investment grade yields from a Japanese investor perspective.[11]

March Issuance Hits Fourth Highest Since Inception[12]



US Loan and High Yield Markets

The rally in the second half of March across US loans and high yield bonds helped dial back the losses incurred earlier in the month. Loans were the standout performer, however, as a sharp rebound in prices led returns back into positive territory for March at 0.05%.[13]

US loan mutual funds and ETFs experienced outflows for the first time in 13 weeks in March, pushing average loan prices to mid-month lows of $95.8 before the subsequent rebound. Inflows resumed post Fed-hike as both retail and institutional investors alike resumed buying, driving prices to $97.6 by month-end.[14] Demand from CLO buyers, however, eased as CLO creation decreased amid uncertain markets.

Loan issuance slowed in March bringing the year-to-date total to $149 billion, 32% behind 2021 levels.[15] In the final week of March, transactions that did price were oversubscribed and those issuers were able to reduce their funding costs, signaling a potential easing of conditions in April.

130 of 156 new loan transactions that priced during the first quarter were SOFR linked with 82 of these containing Credit Spread Adjustments.[16]

Past performance is not necessarily indicative of future results.

High yield also rallied strongly into month end helping improve performance through the more challenging first half and leaving returns at -1.15% for March and at -4.84% for the year. High yield spreads tightened, and yields fell to 6.04% after having risen to 6.29% mid-month.[17]

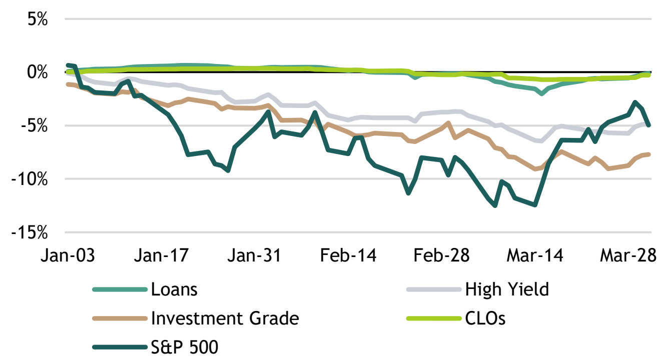
Higher-quality loans and bonds outperformed lower-rated credits in a reversal of the broader trend over the past two years.

High yield borrowers stepped back amid the volatility leaving new issuance running 70% behind last year, while supply over the first quarter is the slowest since 2018.[18]

Demand from high yield retail funds slowed in March as outflows totaled $5 billion, although a late month inflow broke an 11-week string of outflows.[19] ETFs, however, experienced the largest weekly inflow since December totaling $1.39 billion during the final week of the month.[20]

Meanwhile, credit fundamentals for leveraged loan and High Yield issuers continued to improve with both revenues and EBITDA reported for 4Q21 meaningfully above pre-pandemic levels and leverage levels continuing to decline.[21]

Loans and CLOs Outperformed All Other Credit Assets in March[22]



European Loan and High Yield Markets

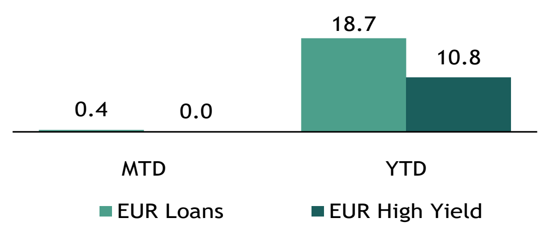
European loans and high yield bonds rallied in the second half of March, similar to their US counterparts, paring back losses experienced earlier in the month. European loan prices fell to €95.89 mid-month, before rebounding to €97.21, supported by ongoing demand from CLO buyers. Interest paid on loans also contributed to a positive return of 0.09% for the month.[23]

European high yield bond average prices rose from a mid-month low of €93.12 to €94.13, but not enough to push returns into the black, instead leaving March's return at -0.97%. In a reversal to February, the BB, Split BB, B-rated bonds outperformed lower quality bonds during the month.[24]

Both loan and high yield primary markets ground to a halt in March as markets digested the Russian invasion of Ukraine. European loan new issuance totaled just €0.4 billion from two privately placed deals, bringing year-to-date issuance to €18.7 billion, 55% less than for the same period in 2021.[25]

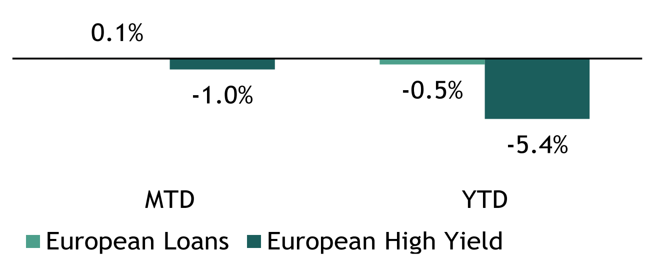
European high yield issuers, already struggling with negative sentiment from rising rates, priced no new transactions in March leaving this year's €10.8 billion total 72% behind 2021.[26]

European Loan and High Yield Issuance (€)[27]



Despite the current pause in sub-investment grade issuance, the forward calendar is building with new transactions expected to price after the Easter break.

European Loan and High Yield Returns (%)[28]



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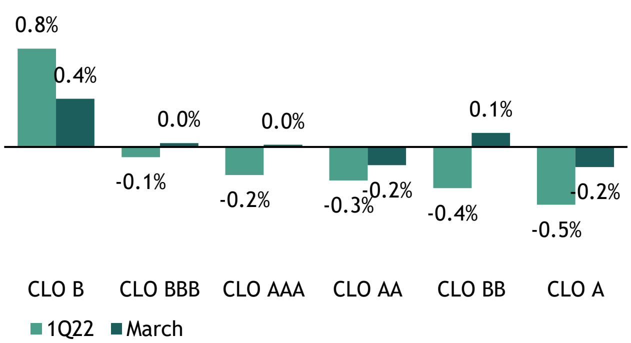
US and European CLO Markets

CLOs benefitted from the month-end rally after volatility pushed liability spreads wider during early March. CLOs benefitted from the month-end rally after volatility pushed spreads wider during early March. Average new issue SOFR benchmarked spreads widened to 142bp for deals pricing mid-March, from 129bp in January.[29]

CLO AAA-rated tranches outperformed tranches rated AA through A in March, while single-B rated tranches outperformed all others for both the month and also year to date.[30]

US CLO issuance slowed in March leaving first quarter volume at $30 billion, 46% behind the final quarter of 2021.[31] This contributed to an 49% decrease in global CLO issuance during the first three months compared to the fourth quarter of 2021.[32] Legacy CLO liabilities referencing LIBOR have traded wider due to both the increased LIBOR-SOFR basis since the Russia-Ukraine war, and macroeconomic concerns. This put pressure on primary liability spreads in the US and contributed to the slowdown in new issuance.

US CLO Performance (bp)[33]



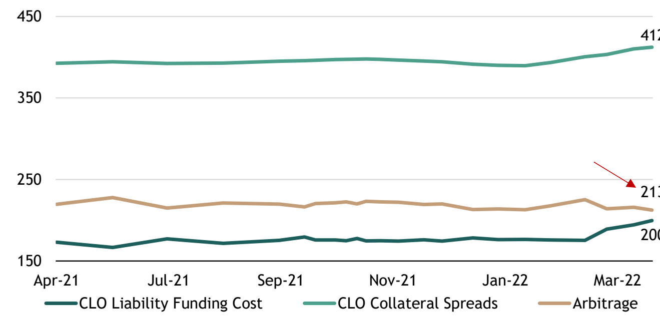
By contrast, European CLO issuers continued to price new deals in March, despite AAA spreads widening by over 30bp to the mid-120bp area during the month. Issuance for the quarter rose to €10 billion, pushing year-to-date supply ahead of the same period last year.[34]

Managers in both regions leaned on structuring solutions last used during the COVID-19 volatility in 2020. These included shorter-dated and static structures to reduce overall funding costs, and also provided managers with the option of repricing over the next year.

Funding costs for new US CLOs averaged 196bp in March, up from 185bp the previous month.[35] In Europe, those same costs rose to 230-240bp in March from 180-190bp at the beginning of February.[36]

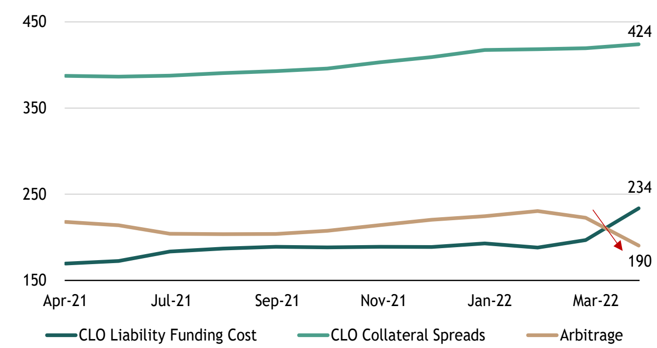
Increasing loan spreads may partially offset higher funding costs as new-issue spreads for institutional loans rose to 431bp in March, from 405bp in February. In addition, underlying benchmark rates rose during the quarter, with three-month rates for both LIBOR (0.96%) and term SOFR (0.56%) now higher than floors on the majority of new loans issued.[37]

US CLO Arbitrage (bp)[38]



Strained equity arbitrage will remain a key hurdle to new CLO creation going forward, absent a contraction in CLO liability spreads or a widening of loan spreads. Conversely, for existing deals, managers will likely continue to take advantage of loan price volatility to build par by selling higher dollar loans in favor of cheaper ones.

European CLO Arbitrage (bp)[39]



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Market Outlook

March has drawn to a close and with it a rocky first quarter is behind us. From a humanitarian standpoint, the terrible devastation, suffering and tragic loss of life caused by Russia's continued war in Ukraine remains firmly on our minds. To echo our colleague Joe Zidle in his monthly letter, '[Seeing Through War Clouds]', our hearts remain with all those in Ukraine.

The financial markets have likewise experienced a challenging start to the year. Fears have grown over a global inflation shock from rising commodity prices due to Russian sanctions and concerns about the impact of supply disruptions on global growth. The risk-off sentiment pervading much of the quarter has impacted performance across credit markets pushing returns in negative territory across most asset classes.

Europe remains more vulnerable to the economic impact of a prolonged war in Ukraine, and there is mounting concern over the ability of central bankers in Europe and the US to navigate a path between soaring prices and a gloomy growth outlook without pushing economies into recession. Already growth forecasts have been reduced in Europe, while the region's CPI surged again to 7.5% in March from a year ago, up from 5.9% in February.[40]

Even so, some positive signs emerged in March. Conviction from Fed Chairman Powell about the strength of the US economy following its first rate hike since 2018 bolstered sentiment not only in the US, but also in Europe.

We remain optimistic about the resilience of the US economy in the face of a new inflation shock. While the more robust US economy is further along in its recovery from the COVID pandemic, we believe European central bankers will act to seek to mitigate the impact of war-driven spikes in energy and commodity prices. By making use of COVID-era fiscal and monetary policy tools to backstop economic growth and subsidize households, we believe they will guide the European economy to avoid a hard landing.

At Blackstone Credit, we remain committed to preserving value [1]for our investors as we navigate a lower-growth, rising-rate and inflationary environment. We continue to see value in shorter-duration, floating-rate assets in this rising interest-rate environment, which is also accretive to loan returns as rates rise above LIBOR floors.

Additionally, while traditional fixed income may be more vulnerable to rising rates, we have been able to hedge this impact through our Systematic platform. This active management is key to performance across our platform, which has enabled us to position portfolios to capture relative value opportunities across credit markets and geographies in order to maximize returns.[2]

We also continue to monitor our portfolios for exposure to Russia, Ukraine as well as companies exposed to higher commodity inputs, reducing exposure as necessary. By focusing on duration management and higher quality investments, we aim to preserve value as some companies begin to show signs of struggle amid difficult operating conditions. We continue to favor the healthcare and technology sectors but have become more cautious around sectors such as industrials and chemicals.

On a final note, while issuance across the syndicated loan and high yield bond markets has been disrupted in recent weeks, private debt markets have remained open, presenting an attractive alternative to companies and sponsors in volatile markets. We consider this a positive development for platforms such as ours that can offer a variety of financing solutions across public and private debt markets thereby reducing the funding uncertainty that challenging markets can bring.

[1] Products are subject to the risk of capital loss and investors may not get back the amount originally invested.
[2] Risk Management seeks to mitigate risk but does not reduce or eliminate risk and does not protect against losses.

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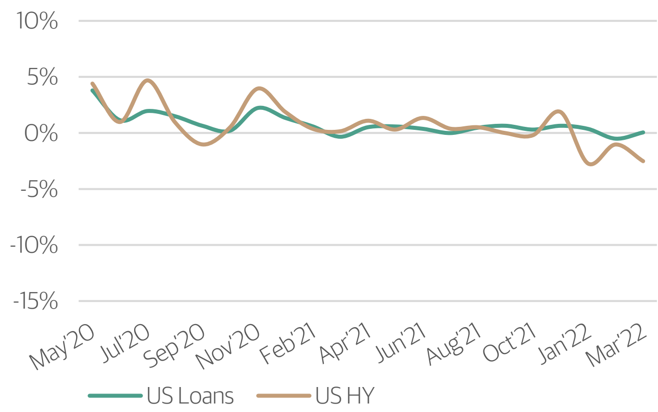
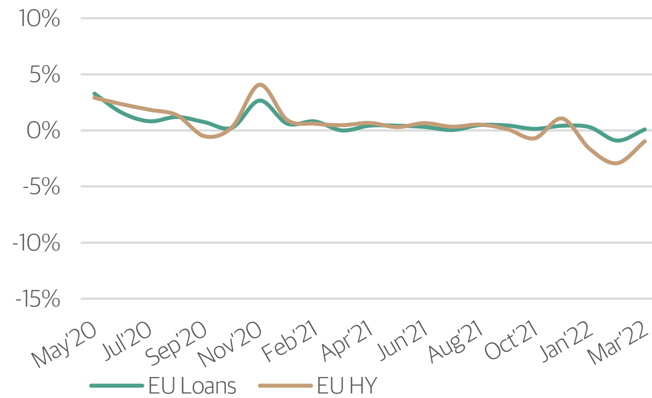
Market Snapshot

(As of March 31, 2022)[41]

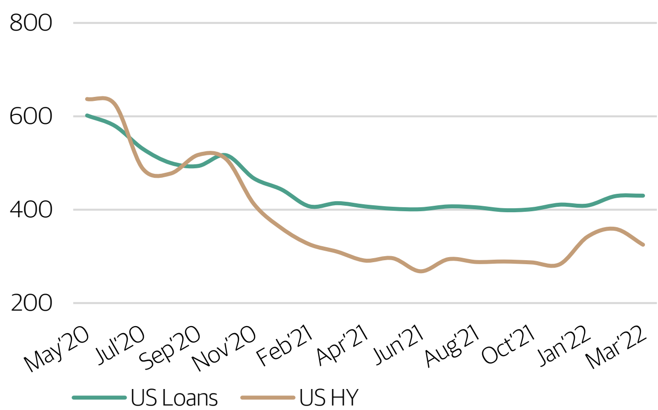
US Credit Monthly Return



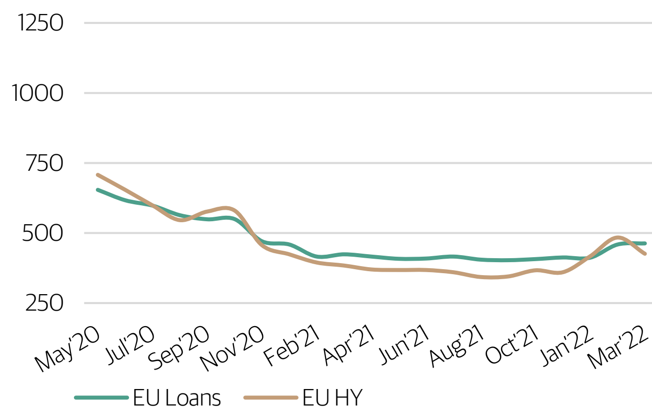
EU Credit Monthly Return



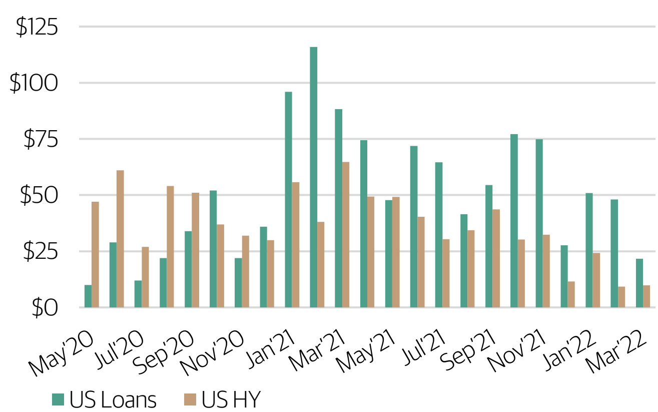
US Credit Spreads (in bp)



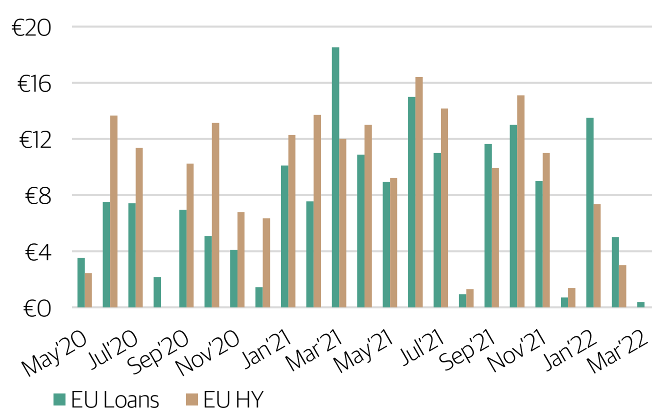
EU Credit Spreads (in bp)



US Credit Issuance ($ in billions)



EU Credit Issuance (€ in billions)



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Key Risk Factors

In considering any investment performance information contained in the Materials, **prospective investors should bear in mind that past or estimated performance is not necessarily indicative of future results** and there can be no assurance that a Fund will achieve comparable results, implement its investment strategy, achieve its objectives or avoid substantial losses or that any expected returns will be met.

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COVID-19. Certain countries have been susceptible to epidemics which may be designated as pandemics by world health authorities, most recently COVID-19. 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.

Diversification; Potential Lack Thereof. Diversification is not a guarantee of either a return or protection against loss in declining markets. The number of investments which a Fund makes may be limited, which would cause the Fund's investments to be more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. There is no assurance that any of the Fund's investments will perform well or even return capital; if certain investments perform unfavorably, for the Fund to achieve above-average returns, one or a few of its investments must perform very well. There is no assurance that this will be the case. In addition, certain geographic regions and/or industries in which the Fund is heavily invested may be more adversely affected from economic pressures when compared to other geographic regions and/or industries.

Forward-Looking Statements. Certain information contained in the Materials constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology or the negatives thereof. These may include financial estimates and their underlying assumptions, statements about plans, objectives and expectations with respect to future operations, and statements regarding future performance. Such forward-looking statements are inherently uncertain and there are or may be important factors that could cause actual outcomes or results to differ materially from those indicated in such statements. Blackstone believes these factors include but are not limited to those described under the section entitled "Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and any such updated factors included in its periodic filings with the Securities and Exchange Commission, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in the Materials and in the filings. Blackstone undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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Material, Non-Public Information. In connection with other activities of Blackstone, certain Blackstone personnel may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities, including on a Fund's behalf. As such, a Fund may not be able to initiate a transaction or sell an investment. In addition, policies and procedures maintained by Blackstone to deter the inappropriate sharing of material non-public information may limit the ability of Blackstone personnel to share information with personnel in Blackstone's other business groups, which may ultimately reduce the positive synergies expected to be realized by a Fund as part of the broader Blackstone investment platform.

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Russian Invasion of Ukraine. On February 24, 2022, Russian troops began a full-scale invasion of Ukraine and, as of the date of this Material, the countries remain in active armed conflict. Around the same time, the United States, the United Kingdom, the European Union, and several other nations announced a broad array of new or expanded sanctions, export controls, and other measures against Russia, Russia-backed separatist regions in Ukraine, and certain banks, companies, government officials, and other individuals in Russia and Belarus. The ongoing conflict and the rapidly evolving measures in response could be expected to have a negative impact on the economy and business activity globally (including in the countries in which the Fund invests), and therefore could adversely affect the performance of the Fund's investments. The severity and duration of the conflict and its impact on global economic and market conditions are impossible to predict, and as a result, could present material uncertainty and risk with respect to the Fund and the performance of its investments and operations, and the ability of the Fund to achieve its investment objectives. Similar risks will exist to the extent that any portfolio entities, service providers, vendors or certain other parties have material operations or assets in Russia, Ukraine, Belarus, or the immediate surrounding areas.

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[1] S&P/LSTA Leveraged Loan Index, March 31, 2022
[2] CS Western European Leveraged Loan Index, March 31, 2022.
[3] Bloomberg, March 31
[4] Bloomberg HY Index, March 31, 2022.
[5] JP Morgan Default Rates
[6] The volatility and risk profile of the indices presented is likely to be materially different from that of a Fund. In addition, the indices employ different investment guidelines and criteria than a Fund and do not employ leverage; as a result, the holdings in a Fund and the liquidity of such holdings may differ significantly from the securities that comprise the indices.
[7] Bloomberg US Corporate Investment Grade Index, March 31, 2022.
[8] LCD, March 31, 2022.
[9] CS Credit Strategy Daily, March 29, 2022.
[10] LCD, March 31, 2022.
[11] CS Credit Daily Strategy, April 1, 2022.
[12] LCD Data, March 31, 2022.
[13] S&P/LSTA US Leveraged Loan Index.
[14] S&P/LSTA US Leveraged Loan Index.
[15] LCD, March 31, 2022.
[16] JP Morgan data through March 24.
[17] Bloomberg HY Index, March 31, 2022.
[18] LCD, March 31, 2022.
[19] Lipper Funds
[20] Lipper Funds, reporting via LCD, March 31, 2022.
[21] JP Morgan Research, March 28 and April 2, 2022.
[22] Loan return data from LCD, IG and HY data from Bloomberg, CLO data from JPM, Equities from S&P, March 31, 2022.
[23] CS Western European Leveraged Loan Index, April 1, 2022.
[24] CS Western European High Yield Index, March 1, 2022.
[25] LCD, March 31, 2022.
[26] LCD, March 31, 2022.
[27] LCD, March 31, 2022.
[28] CS Western European High Yield and Loan Indices, March 31, 2022.
[29] LCD CLO data at March 31, 2022.
[30] JP Morgan CLOIE, March 31, 2022.
[31] S&P LCD data as of March 31, 2022.
[32] S&P LCD data as of March 31, 2022.
[33] JP Morgan CLOIE, March 31, 2022.
[34] LCD, March 31, 2022.
[35] DB, US CLO Weekly, March 28, 2022.
[36] DB, European ABS Barometer, March 25, 2022.
[37] LCD data, March 31, 2022.
[38] Morgan Stanley, March 31, 2022.
[39] Morgan Stanley, March 31, 2022.
[40] Financial Times, April 1, 2022.
[41] S&P/LSTA Leveraged Loan Index (represented by spread to maturity and yield to maturity), Bloomberg US 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 January 31, 2022.

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