Corporate Credit Highlights

October 2021

PACIFIC FUNDS

	Monthly Return 10/31/21	Year-to-Date Return 10/31/21	OAS* 10/31/21	OAS* 12/31/20	OAS* 12/31/19
U.S. Credit	**0.22%**	**-1.09%**	**82**	**92**	**90**
Single A Bonds	0.18%	-1.79%	70	74	70
BBB Bonds	0.27%	-0.45%	108	124	125
1-3 Year Credit	-0.34%	0.01%	33	30	36
7-10 Year Credit	-0.42%	-2.11%	88	96	98
Long Credit	1.48%	-1.22%	123	141	139
Bank Loans	**0.24%**	**4.90%**	**440**	**486**	**461**
B Loans	0.29%	4.53%	444	469	470
BB Loans	0.19%	2.51%	303	305	262
Loans priced over $90	0.28%	4.27%	417	422	368
Loans priced up to and Including $90	-1.31%	17.21%	1340	1258	1270
Issues over $1 billion	0.15%	4.04%	395	414	379
Issues $201 million to $300 million	0.52%	8.80%	638	755	685
High Yield	**-0.17%**	**4.36%**	**287**	**360**	**336**
BB Bonds	-0.14%	3.69%	202	264	182
CCC Bonds	-0.21%	7.78%	529	658	869
Intermediate High-Yield Bonds	-0.22%	4.09%	289	363	333
Long High-Yield Bonds	0.48%	7.88%	254	329	397
Very Liquid High-Yield Bonds	-0.44%	3.61%	313	340	319

Source: Bloomberg Barclays and Morningstar® as of 10/31/21. U.S. Credit represented by the Bloomberg Barclays U.S. Credit Index and index components. Bank Loans are represented by the Credit Suisse Leveraged Loan Index and index components. High Yield represented by the Bloomberg Barclays U.S. Corporate High Yield Index and index components.
*3-year discount margin shown for Bank Loans. Option adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.
Ratings are grades given to bonds and loans that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond and/or loan issuer's financial strength, or its ability to pay a bond's/loan's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade.

Highlights From October

Investment Grade

- Bank of America on third quarter earnings to date: "By now about half of U.S. investment-grade issuers have released third-quarter results. Earnings so far came in 12% above expectations at the start of the season, while the sales surprise was 2.2%. While above average, both were the lowest in six quarters and down from the peak levels of 21% and 5%, respectively, in second quarter of 2021, likely reflecting the impact from the Delta COVID-19 variant and supply bottlenecks. Based on actual results when available and the latest bottom-up consensus estimates otherwise, we are currently tracking third-quarter earnings growth of 32.9% year-over-year on a 13.8% year-over-year revenue growth. Finally, third-quarter results have been the strongest for the more global companies, with over half of sales coming from outside the U.S." [1]

Bank Loans

- Per Credit Suisse, the U.S. leveraged-loan default rate dropped to a near-record low of 0.20% in October.[2]
- According to J.P. Morgan, "Given rapidly improving credit fundamentals, few distressed candidates, and wide-open access to capital markets, we are making a modest downward revision to our 2022 high-yield bond and loan default rate forecasts to 0.75% apiece (from 1.25%). For reference, the long-term average default rates for bonds and loans is 3.6% and 3.1%, respectively." [3]
- Morgan Stanley on year-to-date issuance: "Private equity-sponsored activity (leverage buyouts and secondary transactions) accounts for 42% ($785 billion). Leveraged loan volume to fund sponsor dividends has reached $60 billion, accounting for about 12% of total institutional loan issuance as of end-September. Despite the uptick in dividend recaps, historical issuance data does not suggest that loan covenants have loosened to an extent that sponsors are re-leveraging target companies any sooner than usual." [4]

High Yield Corporates

- From J.P. Morgan: "High-yield bond default rate experienced further declines in October. Including distressed exchanges, the U.S. high-yield bond default rate decreased 56 basis points month-over-month to 0.44% and are down 632 basis points year-to-date."[5]
- According to Bank of America , "High-yield issuance has broken many historical records this year. Whether you look at absolute volume (on track to $500 billion) or percentage-of-index (40% in March), gross or net ($152 billion), the amount of new duration (averaging 7.8 years), or credit quality (averaging B/BB), all these figures are new records in their respective categories.[1]
- "We expect upgrades to continue to outpace downgrades next year given a continued supportive economic backdrop. In that context, we expect $20-$30 billion of fallen angels and $90-100 billion of rising stars in 2022," according to Barclays.[6]
- From Bank of America: "In terms of the risk profile of high-yield new issues, we continue to see record maturity extension with an average new bond coming in at 7.5 years to maturity. As a result, the weighted average duration of the high-yield index has now extended by almost two years since late 2019." [1]

1 Mikkelsen, Hans et al. Credit Market Strategist, BofA Global Research, October 2021.
2 Koch, Fer et al. CS Credit Strategy Daily Comment. Credit Suisse. November 1, 2021.
3 Jantzen, Nelson et al. JPM High-Yield Leveraged Loan Morning Intelligence. J.P. Morgan, November 1, 2021.
4 Sankaran, Srikanth, et al. LBOs and Dividends Through the Loan Lens. Morgan Stanley. October 18, 2021.
5 Jantzen, Nelson et al. JPM High-Yield Leveraged Loan Morning Intelligence. J.P. Morgan, October 29, 2021.
6 Rogoff, Bradley, et al. Outlook Call. Barclays. October 2021.

Definitions

The **Bloomberg Barclays US 1-3 Year Credit Index** measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with 1 to below 3 years to maturity.
The **Bloomberg Barclays US 7-10 Year Credit Index** measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with 7 to below 10 years to maturity.
The **Bloomberg Barclays US Long Credit Index** measures the performance of the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets that have a remaining maturity of greater than or equal to 10 years.
One **basis point** is equal to 0.01%.
The **Bloomberg Barclays US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market.
The **Bloomberg Barclays US Corporate Investment Grade Index** is the Corporate component of the U.S. Credit index and measures the investment grade, fixed-rate, taxable corporate bond market.
The **Bloomberg Barclays US Credit Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets.
The **Credit Suisse Leveraged Loan Index** is an index of U.S. dollar-denominated leveraged loan market securities.
Duration is often used to measure a bond's or fund's sensitivity to interest rates. The longer a fund's duration, the more sensitive it is to interest-rate risk. The shorter a fund's duration, the less sensitive it is to interest-rate risk.
Issue refers to a debt issue that is a financial obligation that allows the issuer to raise funds by promising to repay the lender at a certain point in the future and in accordance with the terms of the contract.

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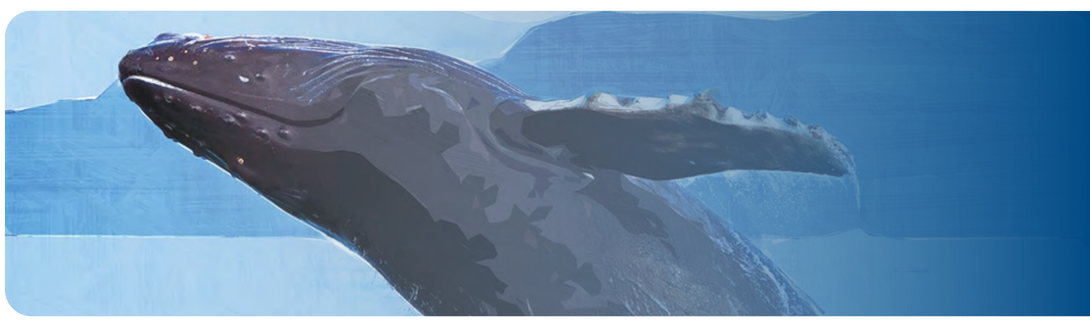

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