Corporate Credit Highlights

September 2021

PACIFIC FUNDS

	Monthly Return 9/30/21	Year-to-Date Return 9/30/21	OAS* 9/30/21	OAS* 12/31/20	OAS* 12/31/19
U.S. Credit	**-1.07%**	**-1.30%**	**80**	**92**	**90**
Single A Bonds	-1.10%	-1.97%	67	74	70
BBB Bonds	-1.09%	-0.73%	106	124	125
1-3 Year Credit	-0.04%	0.35%	28	30	36
7-10 Year Credit	-1.15%	-1.70%	85	96	98
Long Credit	-1.97%	-2.66%	123	141	139
Bank Loans	**0.65%**	**4.65%**	**438**	**486**	**461**
B Loans	0.62%	4.22%	444	469	470
BB Loans	0.52%	2.31%	302	305	262
Loans priced over $90	0.58%	3.98%	417	422	368
Loans priced up to and Including $90	2.74%	18.77%	1209	1258	1270
Issues over $1 billion	0.67%	3.88%	391	414	379
Issues $201 million to $300 million	0.73%	8.24%	642	755	685
High Yield	**-0.01%**	**4.53%**	**289**	**360**	**336**
BB Bonds	-0.21%	3.83%	203	264	182
CCC Bonds	0.52%	8.00%	524	658	869
Intermediate High-Yield Bonds	0.04%	4.33%	292	363	333
Long High-Yield Bonds	-0.62%	7.37%	250	329	397
Very Liquid High-Yield Bonds	0.00%	4.07%	318	340	319

Source: Bloomberg Barclays and Morningstar® as of 9/30/21. 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 September

Investment Grade

- J.P. Morgan on debt levels declining: "Debt for the companies we track declined year-over-year for the first time since 2010. Total debt peaked in the second quarter of 2020 amidst the COVID-driven precautionary capital raises across all types of debt instruments (bank revolvers and loans, commercial paper, bonds, etc). Since then, companies have been repaying debt outside the bond market (revolvers and loans) with both cash from operations and with cash raised in the bond market as well."[1]

- According to J.P. Morgan, "While the high-grade bond market is still growing, this is not representative of releveraging at the company level. In summary, there is more bond debt but less overall debt from the non-financial companies in our fundamentals dataset. This has contributed to a nearly full reversal of the leverage jump last year. With the inclusion of results from the third quarter of 2021 that will be reported soon, we expect leverage to decline further."[2]

Bank Loans

- Barclays on collateralized loan obligation (CLO) demand: "Demand has been buoyed by strong CLO issuance, with LCD reporting year-to-date issuance now standing at $119.93 billion, more than double the $54.71 billion year-to-date level seen at this point last year."[3]

- J.P. Morgan on LIBOR floors: "The Alternative Reference Rates Committee (ARCC) officially endorsed the Secured Overnight Financing Rate (SOFR) on July 29, 2021, and a number of new loan deals referencing SOFR are expected to begin pricing in October. Recall no new LIBOR contracts should be originated after Dec. 31 2021, and all tenors of LIBOR will end June 30, 2023.Of the loans in the current marketplace containing floors above 0%, 43% of them are at 100 basis points, 34% are at 75 basis points, and 22% are at 50 basis points."[4]

High Yield Corporates

- Credit Suisse on rising stars: "We continue to see rising stars as a viable source of alpha for investors and a core strategy in 2021. ...We estimate the names with a greater than 50% chance of being upgraded to investment grade in the next 6-12 months have a total volume potentially as high as $80 billion."[5]

1 Beinstein, Eric et al. JPM Daily Credit Strategy & CDS/CDX am update. J.P. Morgan, September 29, 2021.
2 Beinstein, Eric et al. JPM Daily Credit Strategy & CDS/CDX am update. J.P. Morgan, September 30, 2021.
3 Rogoff, Bradley, et al. Outlook Call. Barclays. September 2021.
4 Jantzen, Nelson et al. JPM High-Yield Leveraged Loan Morning Intelligence. J.P. Morgan, September 30, 2021
5 Koch, Fer et al. CS Credit Strategy Daily Comment. Credit Suisse. September 30, 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.
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.

Past performance does not guarantee future results. Index performance is not indicative of fund performance. Standardized performance for the fund can be obtained by visiting www.PacificFunds.com.

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