PACIFIC FUNDS

CORPORATE CREDIT HIGHLIGHTS

DECEMBER 31, 2022

	Monthly Return (%)	Year-to-Date Return (%)	Option-Adjusted Spread (BPS)			
	12/31/22	12/31/22	12/31/22	12/31/21	12/31/20	12/31/19
Investment-Grade Corporate Bonds	-0.43	-15.26	121	87	92	90
Single A Bonds	-0.41	-15.15	109	74	74	70
BBB Bonds	-0.39	-15.90	159	115	124	125
1-3 Year Credit	0.22	-3.40	61	35	30	36
7-10 Year Credit	-0.49	-15.51	152	93	96	98
Long Credit	-1.13	-25.29	157	130	141	139
Bank Loans*	0.36	-1.06	652	439	486	461
BB Loans	0.65	2.70	363	307	305	262
B Loans	0.26	-1.33	691	444	469	470
Over $90	0.55	0.58	497	417	422	368
Up to and including $90	-0.59	-19.72	1419	1380	1258	1270
Issues over $1 billion	0.48	-1.01	596	395	414	379
Issues $201 million to $300 million	-0.25	-2.46	932	639	755	685
High Yield	-0.62	-11.19	469	283	360	336
BB Bonds	-0.45	-10.80	295	194	264	182
CCC Bonds	-0.90	-16.29	1008	549	658	869
Intermediate High-Yield Bonds	-0.65	-10.54	471	285	363	333
Long High-Yield Bonds	0.05	-22.18	401	252	329	397
Very Liquid High-Yield Bonds	-1.11	-12.64	520	309	340	319

Source: Bloomberg, Credit Suisse and Morningstar® as of 12/31/22.
U.S. credit represented by the Bloomberg US Credit Index and index components. Bank loans are represented by the Credit Suisse Leveraged Loan Index and index components. High yield is represented by the Bloomberg US Corporate High Yield Index and index components.
*3-year discount margin shown for bank loans.

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Highlights

Investment Grade

- Goldman Sachs strategy comments on IG new issue concessions last year: "On our estimates, new issue concessions in the USD IG primary market averaged around 19bp this year, spending much of the middle of the year well above 20bp. This persistent upward shift (the first since the 2011/2012 European debt crisis) reflects the strength of primary market activity, against a backdrop of weaker demand for risky assets and elevated volatility. New issue concessions have been moving lower in recent weeks but remain high by historical standards."[1]

- JP Morgan Strategy on 2022 IG supply: "HG issuance in 2022 came in at $1.2tr, the fourth highest year on record. This is down 12% YoY but happens to be exactly in line with the 2017-21 average (ex-2020). Financials saw record issuance in dollar terms this year with $597bn of supply (up 5% y/y) while non-financial supply was down 24%. Financials contributed 49% of total supply, the highest share since 2007. M&A funding in HG markets was relatively light with $126bn … The average coupon of new issues this year was 4.24%, which is 88bp higher than the average coupon of maturing bonds of 3.36%, the widest the gap has been since 2008 as refinancing costs surged.[2]

- BAML's syndicate desk out with their 2023 forecast expecting a 9% increase in total IG supply in 2023 over 2022 with largest gainers coming from healthcare (+85%), real estate (+42%) and technology (+24%)."[3]

- JP Morgan Strategy on 3Q IG fundamentals: "A review of 3Q22 credit metrics highlights the strong credit position of US HG non-financial issuers heading into a potentially slower growth period. Most notably, debt levels have been stable for six consecutive quarters while revenue and EBITDA have continued to grow. This conservative balance sheet management makes us comfortable that HG credit risk is unlikely to weaken much, even if/when the economy slows further."[4]

High-Yield Corporates

- JP Morgan Strategy on HY fundamentals following 3Q earnings: "Leverage of US HY issuers decreased in 3Q to 3.98x from 4.20x in 2Q22 and 6.20x in 1Q21. Leverage is now at its lowest level since 4Q12's 3.95x. Meanwhile leverage for BB, B, and CCC-rated companies is 3.3x, 4.8x, and 7.7x versus the past few years' peak of 5.0x, 9.0x, and 12.0x."[5]

- Goldman Sachs strategy comments on HY dealer inventories last year: "From Feb. 12 to Nov. 19, HY dealer net inventories spent 38 out of 39 weeks in negative territory (i.e.: dealers were net short HY bonds in aggregate), making 2022 the first year with negative average weekly HY dealer inventories. Prior to this year, HY dealer net positioning had only flipped negative a handful of times over the previous 10 years. Our model suggests the main driver of negative net inventories has been the dramatic decline in primary market issuance (down nearly 80% vs. last year) which has translated into very low dealer inventory. If issuance bounces back next year, as we expect, dealer inventories should moderate back to more normal levels."[6]

Bank Loans

- According to Citi's Loan Tracker, just 2.4% of the loan market is currently trading above par.[7]

- Per JPM, "In 2022, 351 new loan deals have priced for $252.5bn of which 323 totaling $246.2bn are SOFR linked with 179 of these containing CSAs. As of Friday's close, 23.64% of the JPMorgan first-lien loan index was SOFR linked."[8]

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Highlights

- CLO new issuance saw $129bn print in 2022, which marks the second most issuance of all time after 2021's $177bn."[9]

- Citi estimates that there are over 180 open CLO warehouses right now, 50% of which are already aged over 9 months as of October. That being said, Citi does not foresee major liquidation risk from existing warehouses in the near term, as managers will explore various options to facilitate deal formation.[10]

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Sources

[1] Goldman Sachs Strategy, Jan. 3, 2023.
[2] Beinstein, Eric, JPM Daily Credit Strategy & CDS/COX am update. J.P. Morgan, Dec. 19, 2022.
[3] Seliger, Yuri et al. Credit Market Strategist BofA Global research "Situation Room," December 2022.
[4] Beinstein, Eric, JPM Daily Credit Strategy & CDS/COX am update. J.P. Morgan, Dec. 13, 2022.
[5] Beinstein, Eric, JPM Daily Credit Strategy & CDS/COX am update. J.P. Morgan, Dec. 16, 2022.
[6] Goldman Sachs Strategy, Jan. 3, 2023.
[7] Citi Loan Tracker, Dec. 12, 2022.
[8] Beinstein, Eric, JPM Daily Credit Strategy & CDS/COX am update. J.P. Morgan, Jan. 3, 2023.
[9] Citi Strategy Team, Jan. 3, 2022.
[10] Citi loan trading commentary, Dec. 16, 2022.

Disclosures

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