

	Monthly Return (%)	Year-to- Date Return (%)	Yield (%)	Option-Adjusted Spread (BPS)			
	10/31/23	10/31/23	10/31/23	10/31/23	12/31/22	12/31/21	12/31/20
Investment-Grade Corporate Bonds	-1.78	-1.75	6.25 ¹	119	121	87	92
Single A Bonds	-1.86	-2.29	6.19	113	109	74	74
BBB Bonds	-1.84	-1.18	6.62	156	159	115	124
1-3 Year Credit	0.25	2.46	5.99	82	61	35	30
7-10 Year Credit	-2.08	-2.27	6.42	149	152	93	96
Long Credit	-4.13	-6.64	6.52	137	157	130	141
Bank Loans ²	0.03	9.94	11.04	578	652	439	486
BB Loans ³	0.35	7.54	9.15	351	363	307	305
B Loans ³	-0.05	10.97	11.25	561	691	444	469
Over \$90 ³	0.16	9.29	10.37	473	497	417	422
Up to and including \$90 ³	-1.13	10.48	21.18	1554	1419	1380	1258
Issues over \$1 billion ³	-0.11	9.83	10.99	535	596	395	414
Issues \$201 million to \$300 million ³	0.73	10.48	14.47	883	932	639	755
High Yield	-1.16	4.63	9.49 ¹	437	469	283	360
BB Bonds	-0.59	3.33	7.99	286	295	194	264
CCC Bonds	-3.41	8.27	14.75	966	1008	549	658
Intermediate High-Yield Bonds	-1.13	4.74	9.50	438	471	285	363
Long High-Yield Bonds	-2.57	0.80	8.83	377	401	252	329

Source: Bloomberg, Credit Suisse and Morningstar as of 10/31/23.

Investment-grade corporate bonds represent the Bloomberg US Credit Index and index components. This index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with at least ten years to maturity. **Bank loans** represent the Credit Suisse Leveraged Loan Index and index components. This index is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. **High yield** represents the Bloomberg US Corporate High Yield Index and index components. This index covers performance for U.S. high-yield corporate bonds. An **option-adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.

¹ Yield quoted is yield-to-worst. **Yield-to-worst** is a measure of the lowest possible yield from purchasing a bond apart from a company defaulting.

² Yields represent four-year effective yields. The **effective yield** is a financial metric that measures the interest rate (or coupon rate) return on a bond.

³ Yields represent three-year effective yields. The effective yield is a financial metric that measures the interest rate (or coupon rate) return on a bond.

Highlights

Investment Grade

- Morgan Stanley trade desk thoughts on the investment-grade market: “The asset class is set up well to handle higher rates. Supply should be lower from corporates especially at the long-end, while yield buyer demand will remain strong, looking to lock in 6% yields ... Spreads at 130 basis points on the index is about fair, that’s where our year-end target is. Short-term, could be more choppiness on more outflows and Bank of Japan headlines. But if you look at prior sell-offs, index does not spend much time north of 140 basis points. Any move wider from here should be bought.”¹
- Goldman Sachs’ 2024 investment-grade primary forecast: “The USD (U.S. dollar) investment-grade primary market is still on track to end the year in the neighborhood of \$1.3 trillion, right in line with our forecast from last year’s Outlook. For 2024 we again forecast \$1.3 trillion of gross supply, in line with the last two years. For net supply, we expect the USD investment-grade market to decelerate somewhat next year to \$375 billion, down from the \$450 billion where we expect full year 2023 to end up. Our flat gross supply forecast is predicated on two ingredients. The first is the fact that refinancing needs are in line with the past two years. The second is our expectation that debt-funded mergers and acquisition activity is unlikely to revert to pre-COVID norms, given the prospects for higher-for-long cost of funding. Our lower net supply forecast is almost entirely attributable to our expectation of a weaker momentum for rising stars in 2024 vs. 2023.”²

High Yield

- Goldman Sachs’ 2024 high-yield primary forecast: “For USD high yield, we mark-to-market our 2023 forecast and now expect that gross supply will finish the year at \$170 billion, a bit lower than the \$190 billion we had been forecasting. For 2024 we expect gross issuance will further accelerate to \$225 billion, slightly behind the 2015-2019 pre-COVID average pace but up significantly vs. 2022 and 2023. On a net basis, we forecast high-yield net supply will flip back to positive next year to roughly \$65 billion after surprising us to the downside this year at -\$40 billion year to date (Oct. 31, 2023). Our higher gross supply forecast reflects our expectations of higher refinancing activity. While elevated funding costs will continue to pressure high-yield issuers, the increased share of bonds maturing in the near to medium term, coupled with the significant erosion of balance sheet liquidity positions, will stimulate primary market activity ... Our forecast for \$65 billion in net issuance next year includes \$60 billion of organic net issuance and \$5 billion of net rating migrations into high yield (\$75 billion of fallen angels, \$50 billion of rising stars, and \$20 billion of net defaults).”³

High Yield

- Citi Strategy on collateralized loan obligations (CLO) issuance: “U.S. broadly syndicated loan (BSL) CLO issuance is now about \$75 billion year-to-date (Oct. 27, 2023), which is down by 28% year-over-year. Meanwhile, private credit CLO issuance has continued to chug along with \$19.4 billion in issuance so far this year, just \$3 billion shy of its historical record at \$23 billion back in 2021. Citi expects BSL CLO issuance is likely to fall under our \$95 billion target given the CLO spreads widening on the back of macro uncertainty whereas private credit CLO issuance for fiscal year 2023 is still expected to hit \$25 billion.”⁴
- LCD note on loan default rate: “The default rate by amount outstanding in the Morningstar LSTA US Leveraged Loan Index is 1.36% in October.”⁵

Sources

- ¹ Morgan Stanley trade desk, Nov. 1, 2023.
- ² Goldman Sachs Outlook, Nov. 1, 2023.
- ³ Goldman Sachs Outlook, Nov. 1, 2023.
- ⁴ Citi Strategy Team, Oct. 31, 2023.
- ⁵ Leveraged Commentary & Data (LCD) analysis, Oct. 31, 2023.

Definitions

- **Bank loans** (also known as **floating-rate loans** or **leveraged loans**) invest in bonds and other fixed-income securities that have variable, as opposed to fixed, interest rates.
- A **basis point** is one hundredth of a percent, so 100 basis points is equivalent to 1%.
- **Bonds** are debt securities issued by governments and companies to raise funds.
- **Broadly syndicated loans** are loans issued by below-investment grade companies and purchased by institutional investors.
- A **collateralized loan obligation (CLO)** is a single security backed by a pool of loans, collected into a marketable instrument via process known as securitization.
- A **corporate bond** is a type of debt security issued by a corporation and sold to investors.
- A **credit spread**, also known as a **yield spread** or simply a **spread**, is the difference in yield between two debt securities of the same maturity but different credit quality.
- In a **debt-funded merger**, a company uses debt security, such as issuing bonds, as a means of financing an acquisition.
- **Fallen angels** refers to investment grade bonds that are given a reduced rating to “junk bond” due to a decline in the credit rating of the issuer.
- **High-yield bonds**, or **junk bonds**, are corporate debt securities that pay higher interest rates than investment-grade bonds.
- **Investment grade** refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at “BBB” or higher by Standard and Poor's or Moody's.
- An **issue** or **issuance** is a process of offering securities in order to raise funds from investors. Companies may issue bonds or stocks to investors as a method of financing the business.
- The **long end of the Treasury yield curve** refers to bonds with maturities of 10 years or more.
- **Mark to market (MTM)** is a method of measuring the fair value of accounts that can fluctuate over time, such as assets and liabilities.
- **Maturity** is the agreed-upon date on which the investment ends, often triggering the repayment of a loan or bond, the payment of a commodity or cash payment, or some other payment or settlement term.
- The **Morningstar LSTA US Leveraged Loan 100 Index** is designed to measure the performance of the 100 largest facilities in the US leveraged loan market.
- The **primary market** is where securities are created. In the primary market, companies sell new stocks and bonds to the public for the first time, such as with an initial public offering (IPO).
- **Private credit investors** lend money to borrowers who may have trouble accessing loans elsewhere, while private equity involves buying ownership shares in a nonpublic company.
- A **rising star** refers to a bond that is rated as a “junk bond” but could become investment grade because of improvements in the issuing company's credit quality.
- **Spread** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by treasury bonds. Spread income refers to the additional income from this difference.
- **Yield** is the income returned on an investment, such as the interest received from holding a security.

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