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FitchRatings

Loan Market Outlook for the Homestretch of 2021

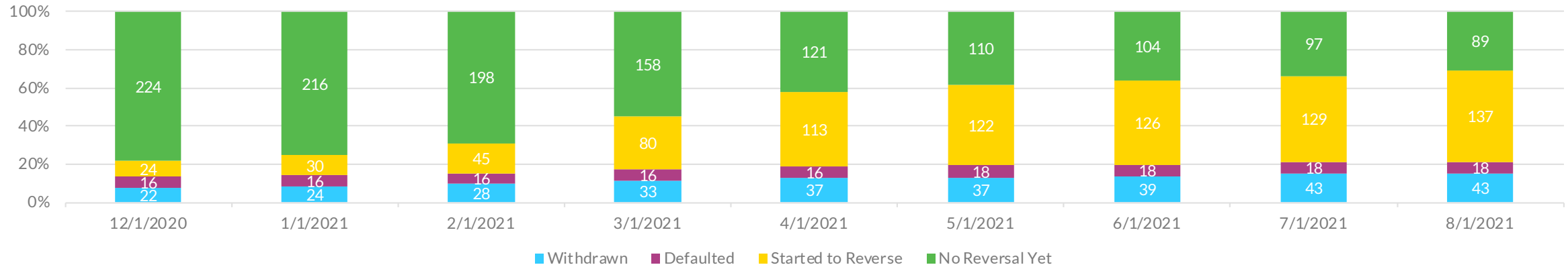
Panel Discussions

Sept. 21, 2021

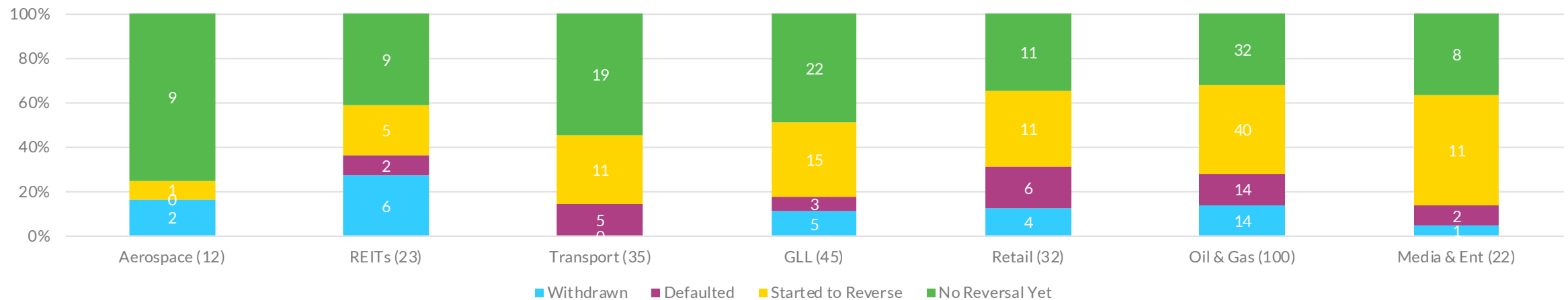


Ratings and outlooks of 48% of affected issuers have started to reverse pandemic-driven negative actions

U.S. & Canada Corporates Rating Reversals

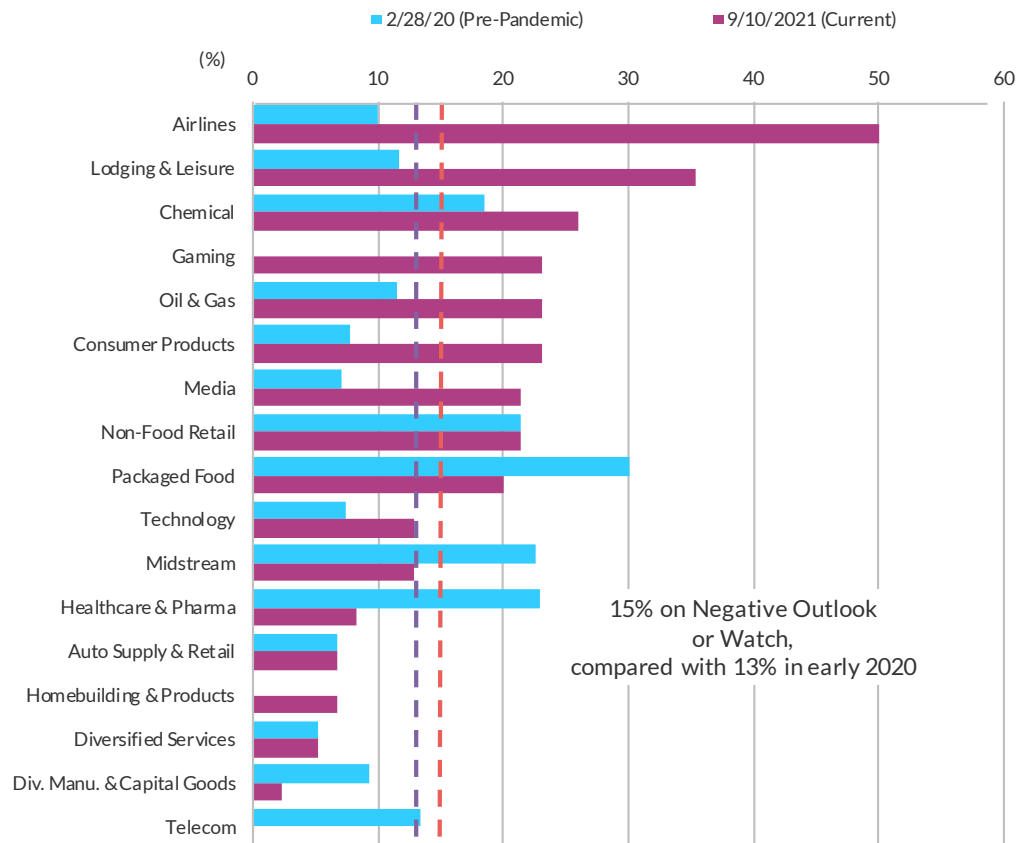


U.S. & Canada Corporates Rating Reversals by Sector



Outlook mix of speculative grade issuers is close to pre-pandemic distribution, with acutely affected sectors slower to recover

Percentage of Sector On Negative Outlook/Watch



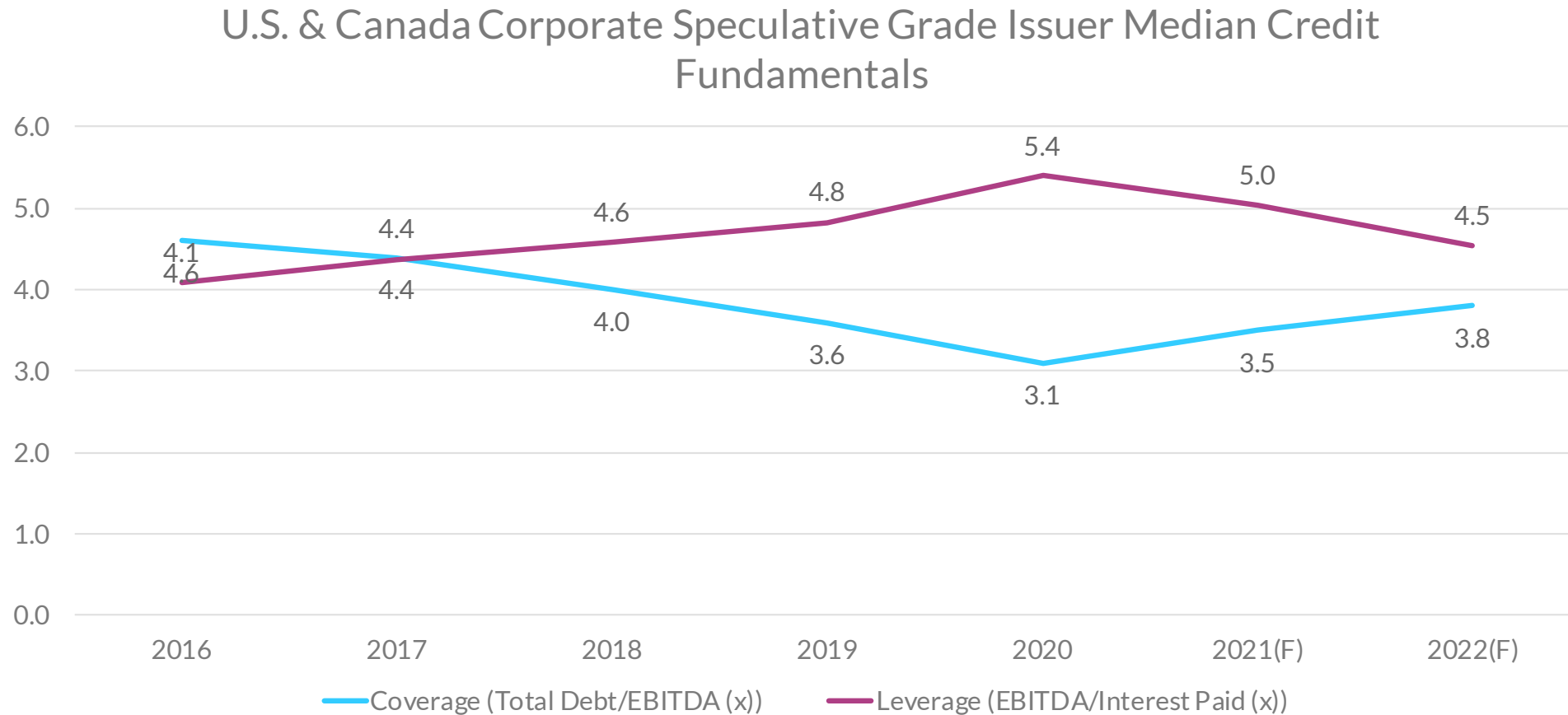
Note: Excludes sectors with fewer than ten issuers the sample.
Source: Fitch Ratings.

Speculative Grade Issuer Rating Distribution



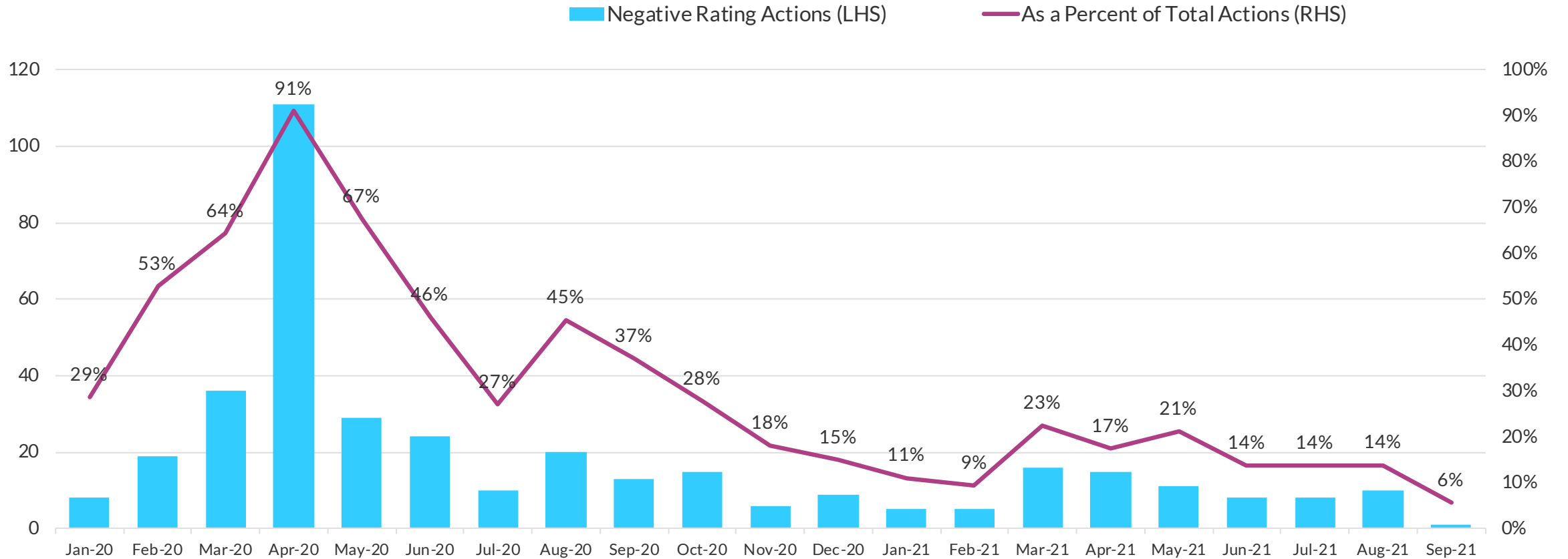
Source: Fitch Ratings; "CC/cc* and Below" includes defaults.

Issuer fundamentals are recovering from pandemic trough, but leverage remains high, our median new public rating in the U.S. has fallen to between 'B' and 'B+'



Negative rating actions have tapered by count and percent of total actions

Negative Rating Actions By Month

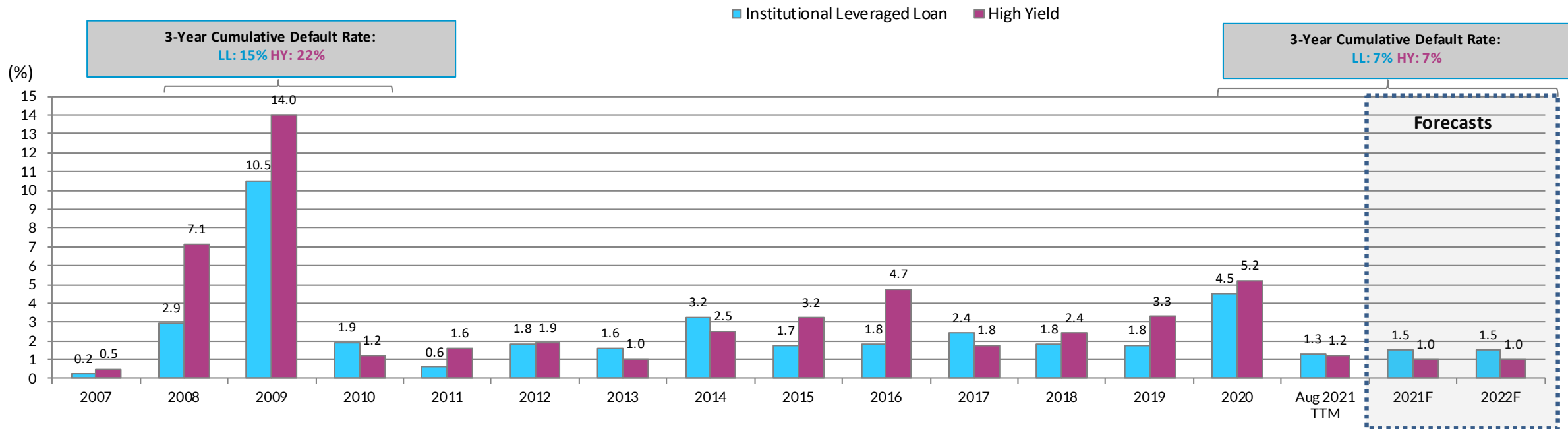


Data through September 15, 2021. Includes all public and private North America speculative-grade ratings. Negative actions defined as either a downgrade or a Rating Outlook Negative.
Source: Fitch Ratings.

Lower default rates are expected through 2022

- Fitch forecasts cumulative 3-year default rates of approximately 7% for both loans and bonds for 2020-2022
 - After a pandemic driven surge in 2020, 2021 and 2022 default volumes are expected fall below the non-recessionary average
 - Default activity has eased as issuers have been able to refinance and extend maturities
 - Corporate fundamentals have improved
- Leisure/entertainment sector rate could reach 10% if Cineworld files for bankruptcy protection; Utilities, power and gas sector could also approach double-digit levels
- Energy and Retail expected to contribute less than prior years on stabilizing oil prices and following several years of elevated default volumes

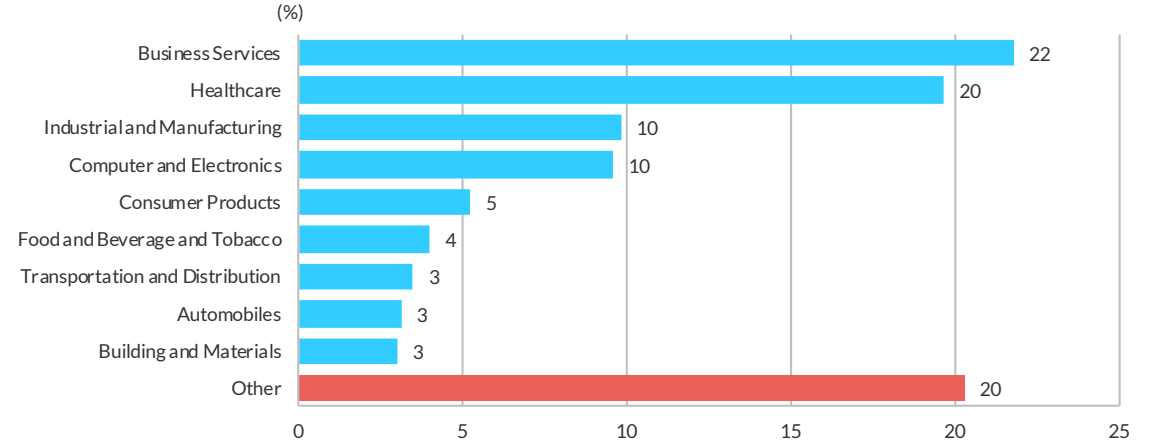
Historical and Forecasted Default Rates



Middle market issuer rating mix slightly worse than pre-pandemic

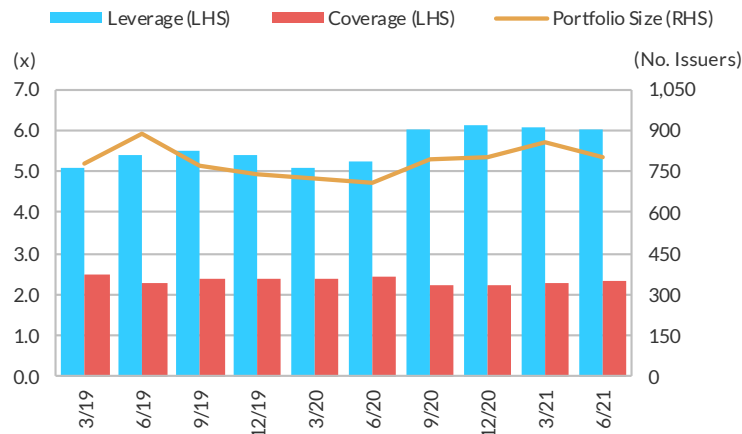
- Fitch's privately covered portfolio of issuers targeted by MM CLOs is generally composed of smaller issuers, although there are a small number of BSL issuers included.
- Our portfolio remains heavily allocated in business services and healthcare, at 22% and 20% of the portfolio, respectively.
- Nearly three-fourths of the portfolio is evaluated at a 'b-*' or lower CO vs. 64% in Q1'20. The relatively high proportion of weaker credit views reflect the effects of the pandemic and the weighting toward sponsored transactions with higher leverage, smaller scale and higher revenue concentration. These factors all lower an issuer's ability to withstand economic downturns.

Portfolio Weighting by Sector



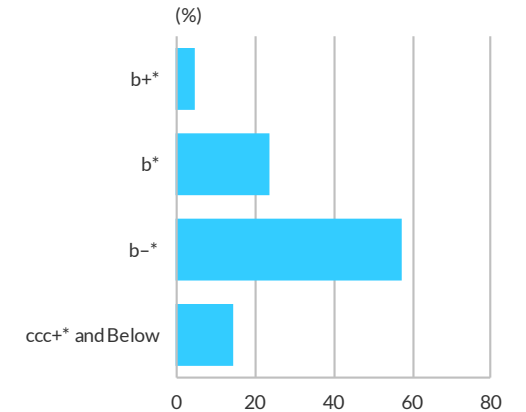
Source: Fitch Ratings.

Median Leverage and Coverage



Source: Fitch Ratings.

Portfolio Weighting by Rating



Source: Fitch Ratings.

Portfolio Statistics

| (TTM as of June 30, 2021) | Revenue | EBITDA |
|----------------------------------|---------|--------|
| Total Portfolio Size: 708 | | |
| Average (\$ Mil.) | 179 | 30 |
| Median (\$ Mil.) | 119 | 23 |

| | Debt/EBITDA (x) | EBITDA/Interest (x) |
|---------------------------------|-----------------|---------------------|
| Credit Metrics (Average) | | |
| b+* | 3.9 | 3.8 |
| b* | 5.0 | 3.1 |
| b-* | 6.2 | 2.3 |
| ccc* | 10.7 | 1.1 |
| Total Portfolio | 6.0 | 2.4 |

| Sectors in Focus (Average) | Debt/EBITDA (x) | EBITDA/Interest (x) | Total Debt (\$ Mil.) |
|------------------------------|-----------------|---------------------|----------------------|
| Business Services | 5.9 | 2.5 | 130 |
| Healthcare | 6.0 | 2.4 | 125 |
| Industrial and Manufacturing | 5.9 | 2.3 | 114 |
| Computer and Electronics | 6.2 | 2.3 | 179 |
| Consumer Products | 6.3 | 2.4 | 185 |

Source: Fitch Ratings.

Broadly Syndicated Loan Discussion

Panelists:

Jeff Bakalar, Voya

Chris Bonner, Goldman Sachs

Judith Fishlow-Minter, RBC Capital Markets

Andrew Sveen, Eaton Vance

Moderator:

Steve Miller, Fitch Solutions

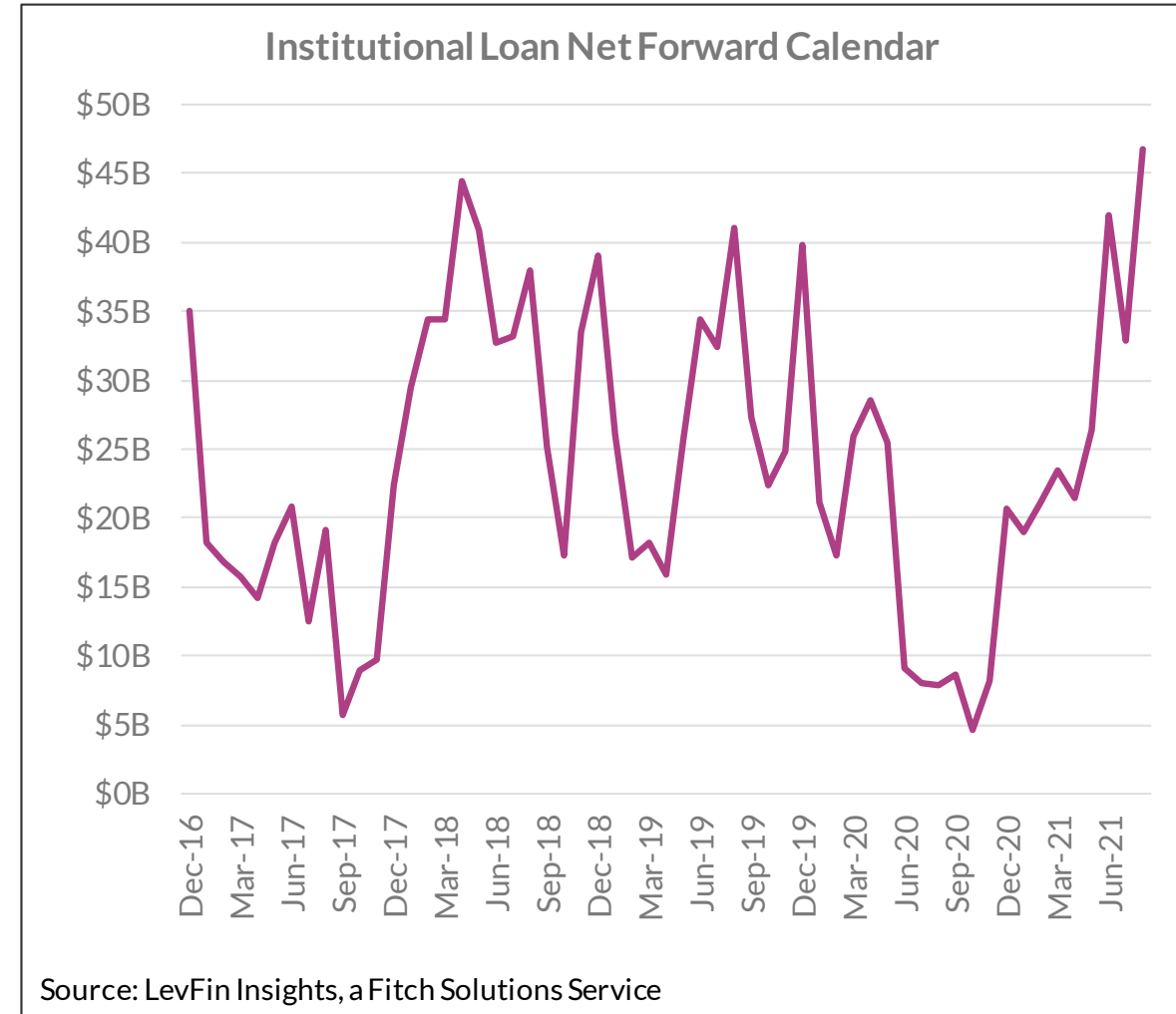
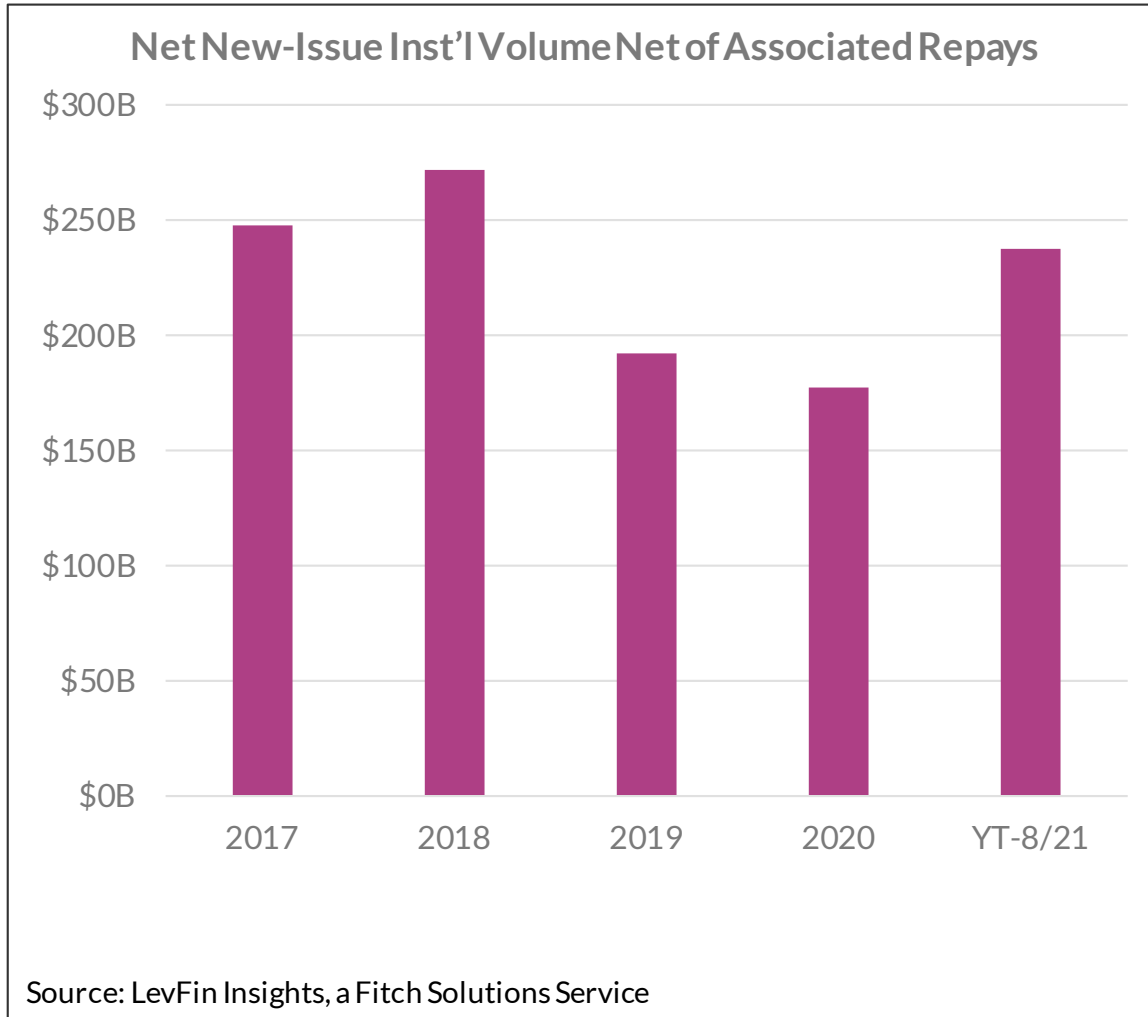
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Panel Topics

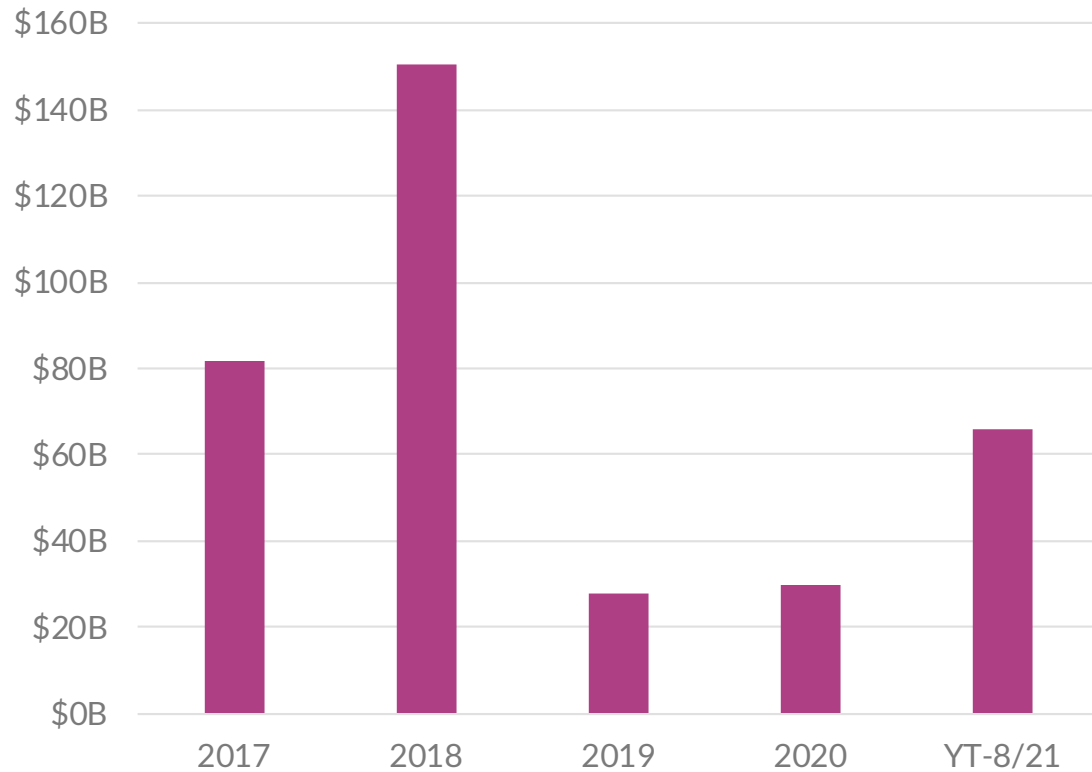
- New-issue Activity/Pipeline
- Market Technical Dynamics
- Trends in Spreads & Covenant Terms
- Credit Trends—Primary
- Credit Trends—Loan Index
- Default Rate
- LIBOR Succession Themes
- ESG
- Q&A/Parting Thoughts

New-Issue Activity & Pipeline



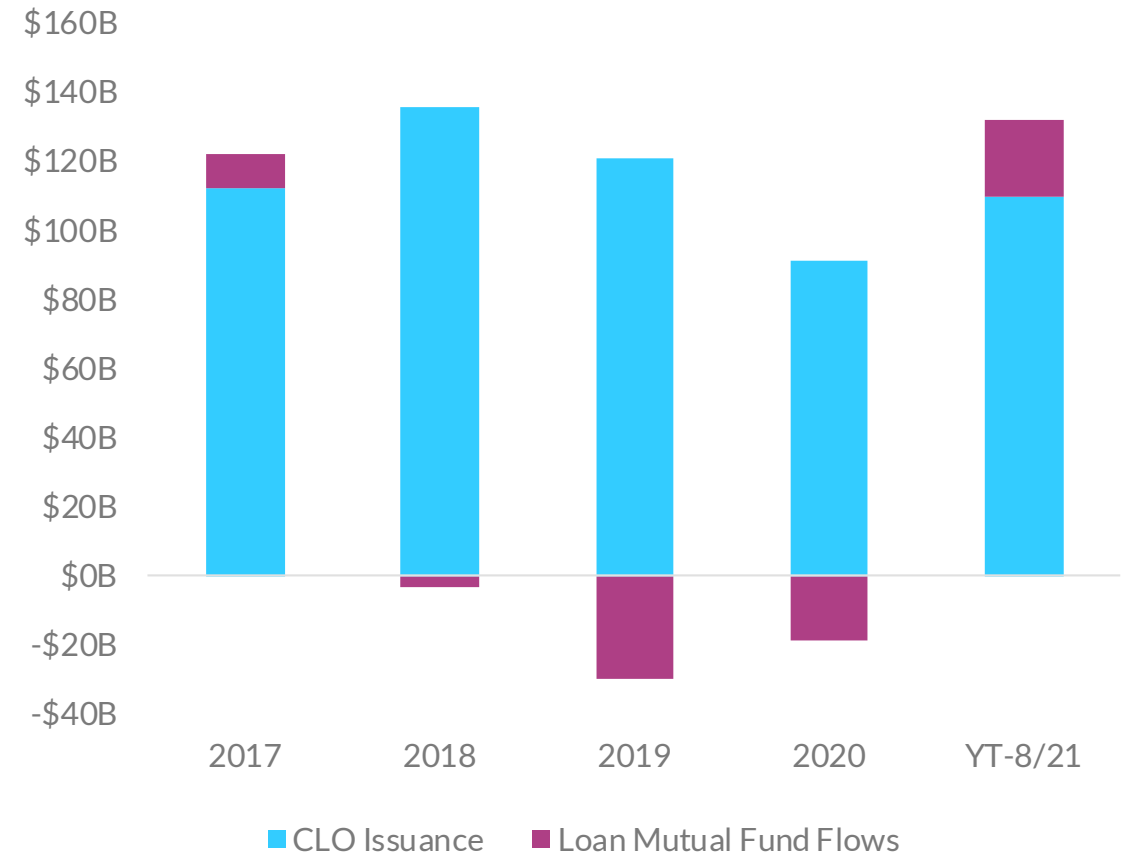
New-Issue Technical Dynamics

Growth of Credit Suisse Lev. Loan Index Outs



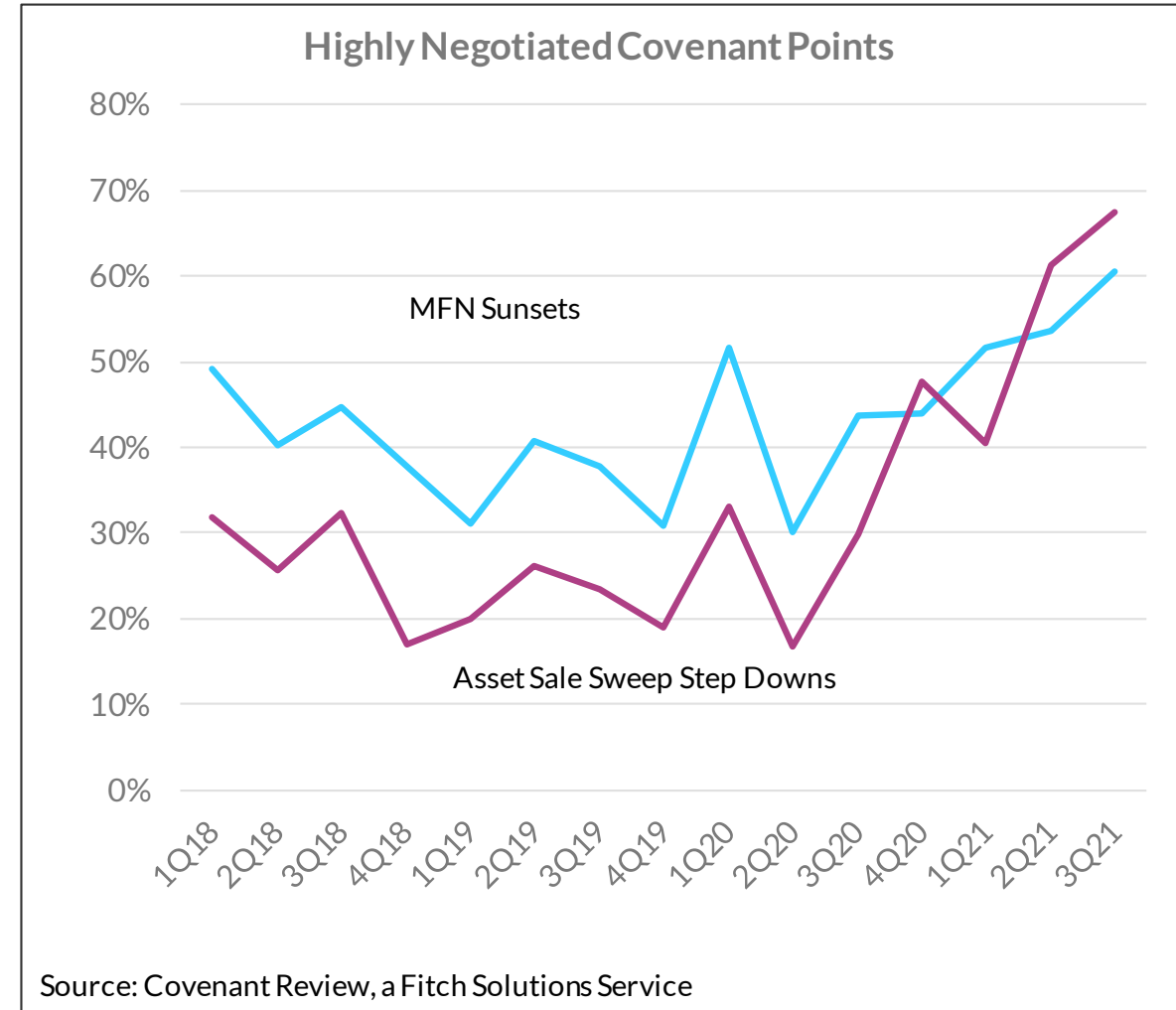
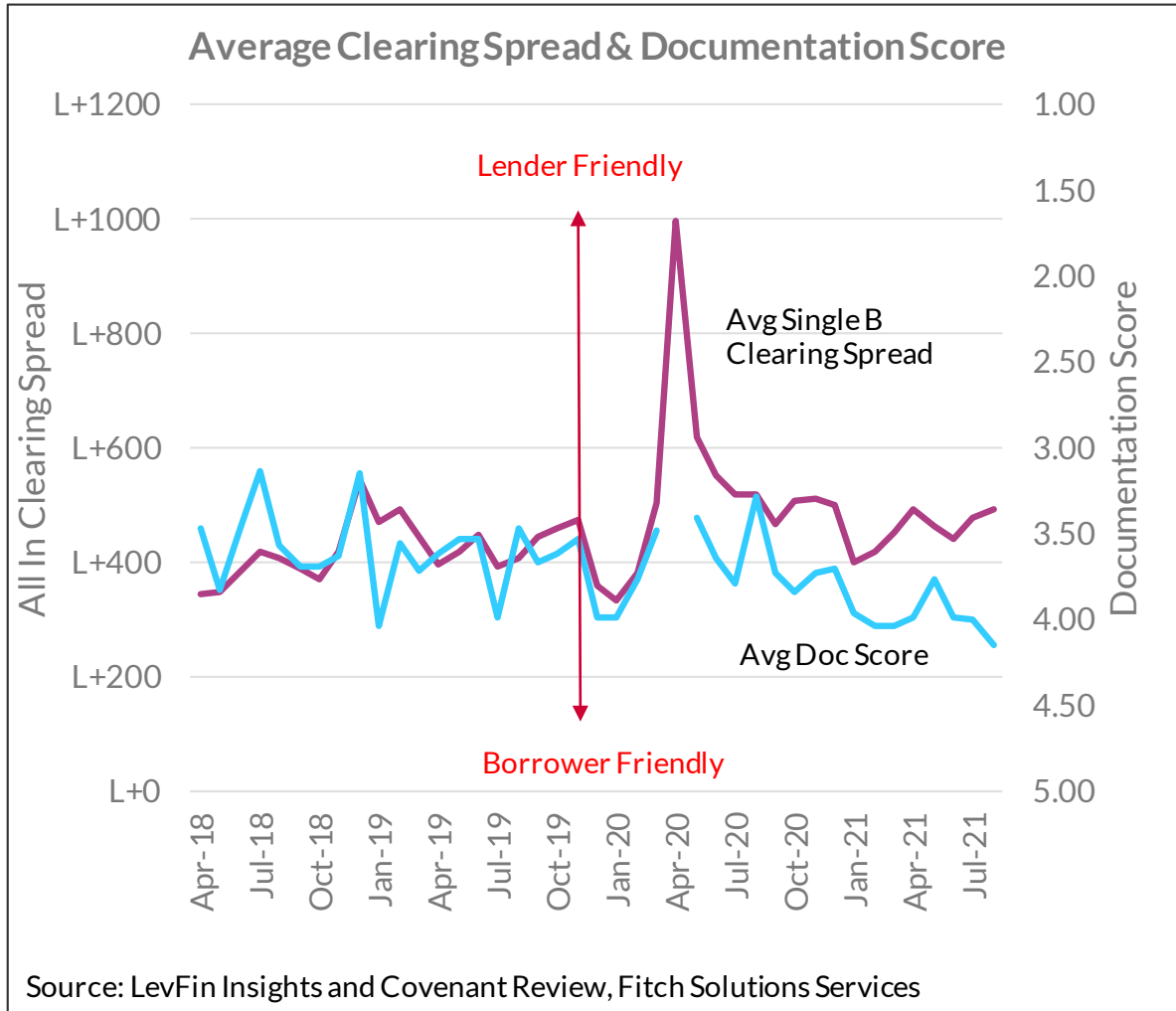
Source: Credit Suisse

Visible Capital Formation

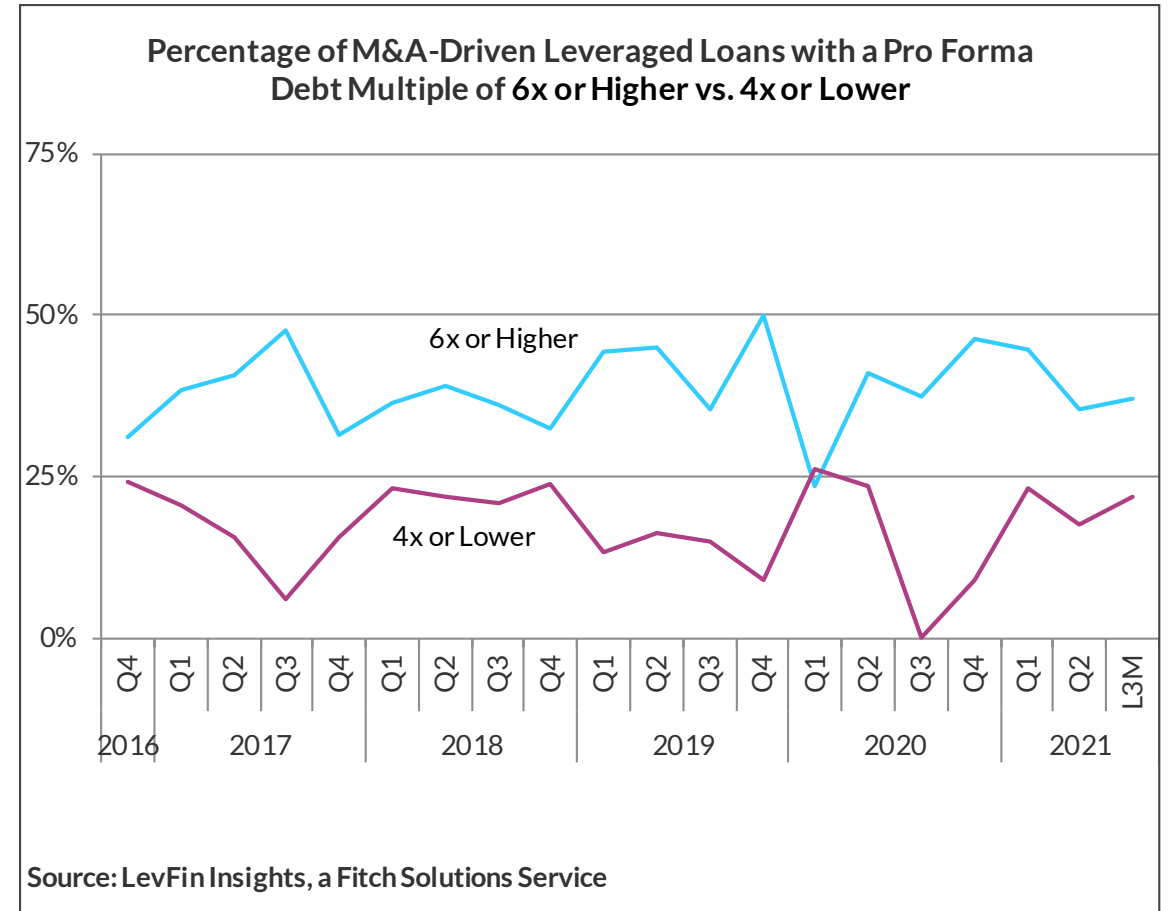
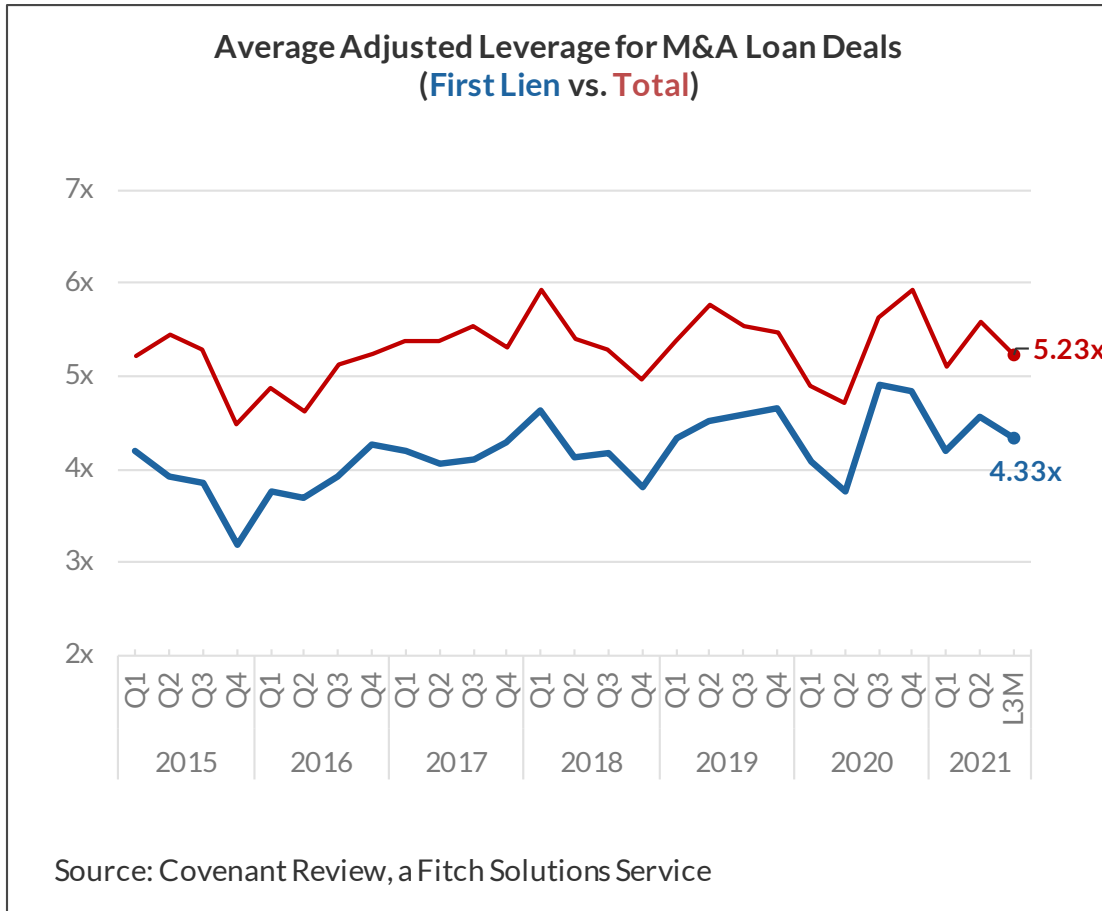


Source: LevFin Insights, a Fitch Solutions Service and Refinitiv Lipper

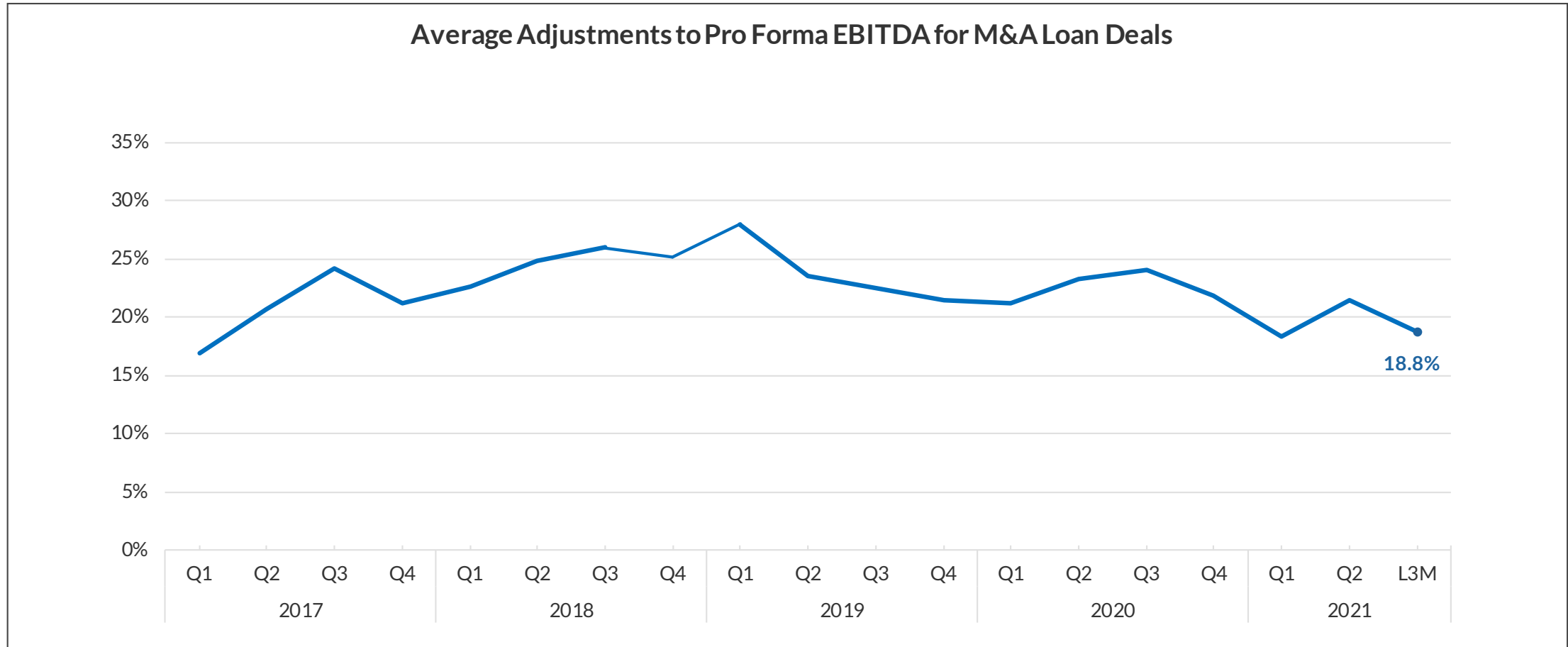
New-Issue Clearing Spreads and Terms



Credit Trends—New Issue Market



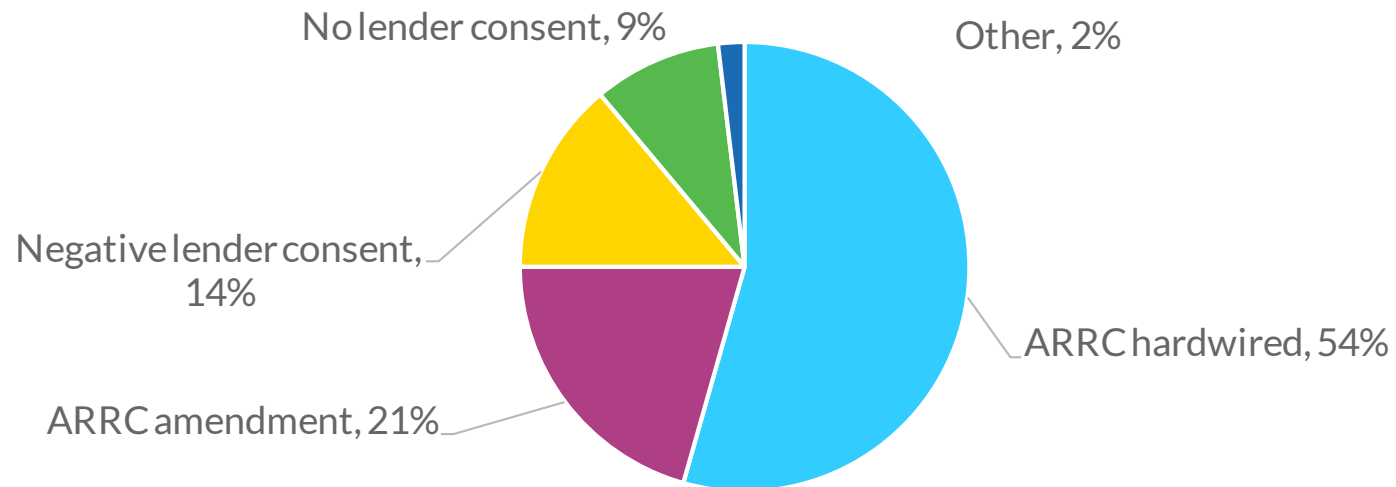
Credit Trends—New Issue Market Cont'd



Source: Covenant Review, a Fitch Solutions Service

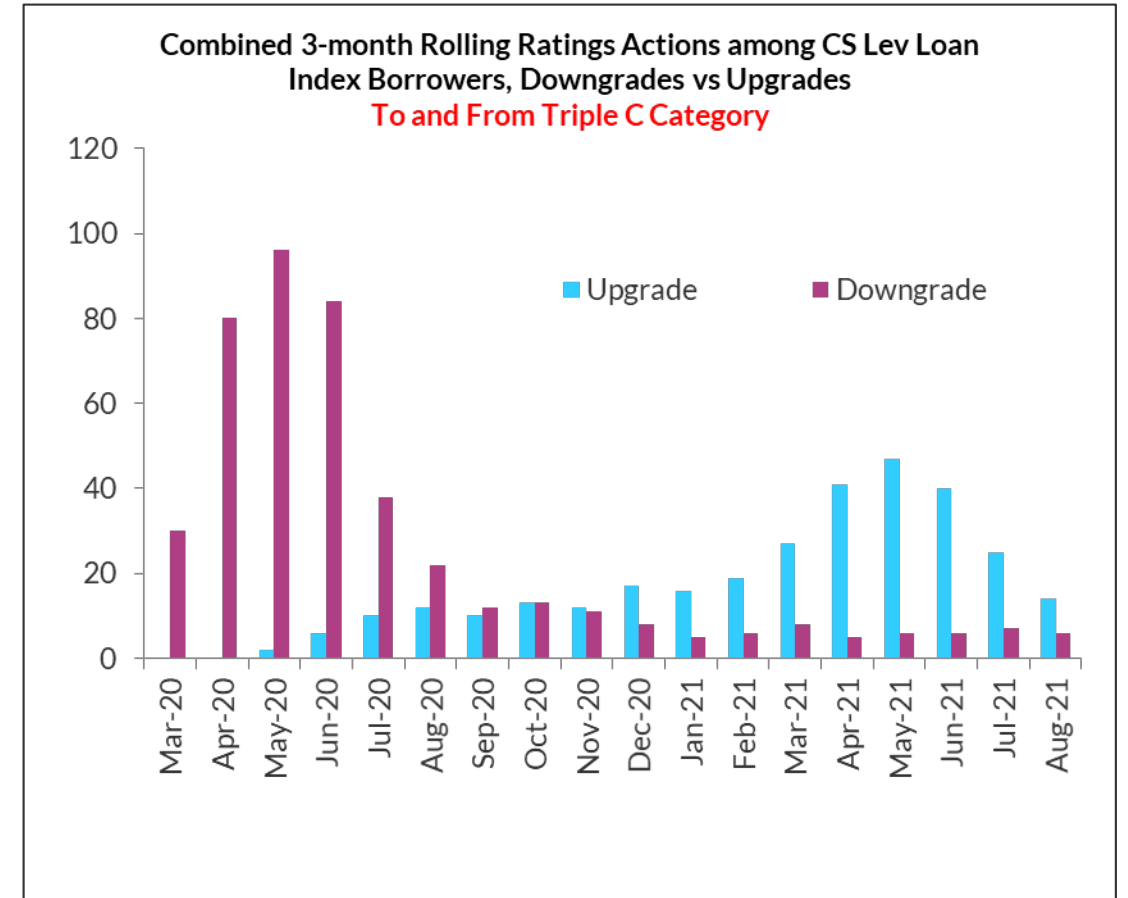
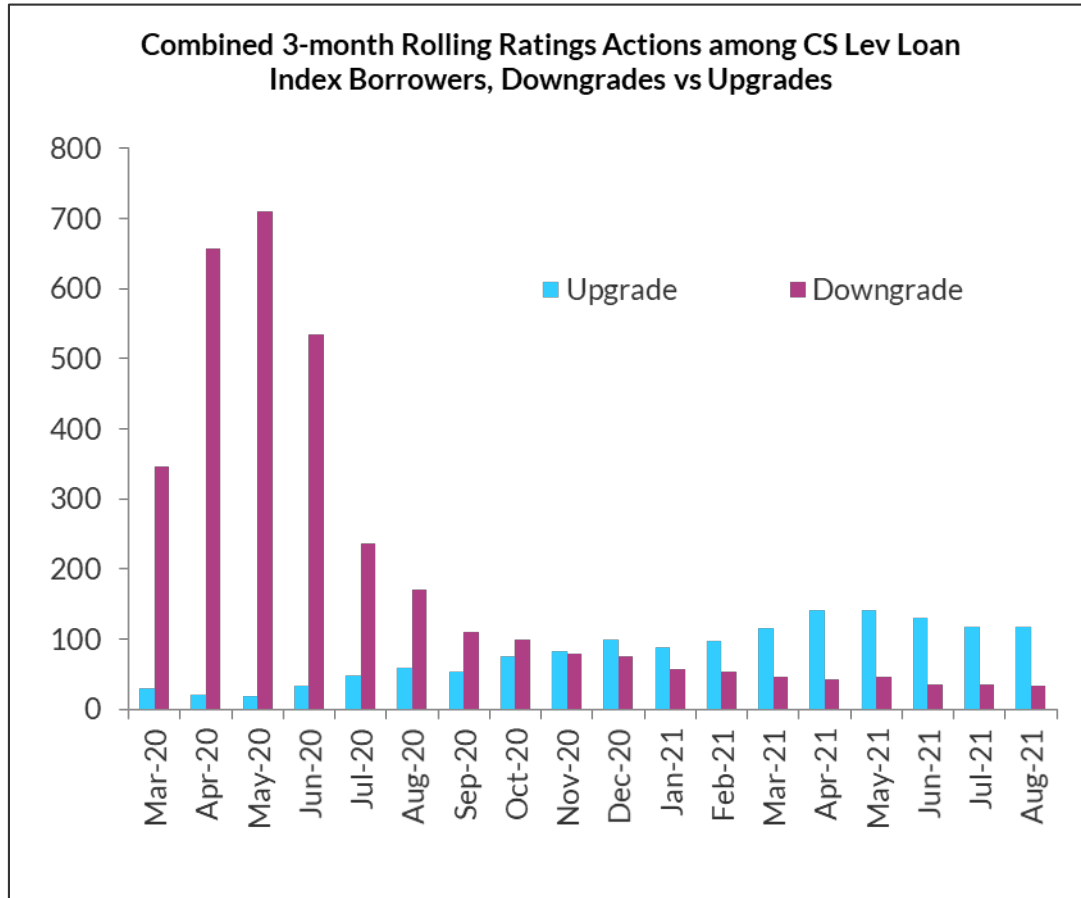
LIBOR Succession Language

New Issue and Amended Loans in the CS Leveraged Loan Index, Oct-21 To Date



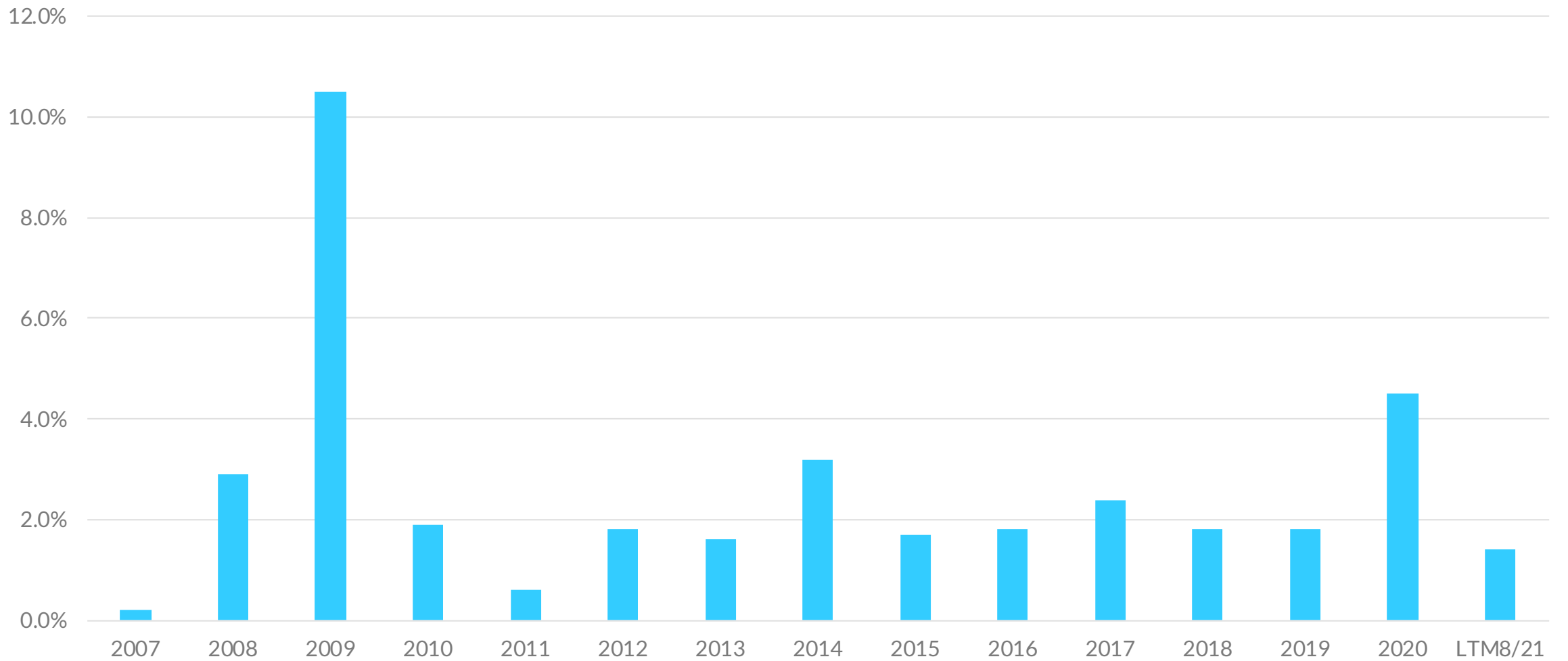
Source: Covenant Review, a Fitch Solutions Service, Credit Suisse Leveraged Loan Index

Credit Trends—Loan Index Portfolio



Source: LevFin Insights, a Fitch Solutions Service, Credit Suisse Leveraged Loan Index, Moody's, S&P

Institutional Loan Default Rate



Source: First U.S. Leveraged Loan Default Index, Refinitiv LPC, Bloomberg.

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