CRESCENT

Crescent Capital Group Market Commentary
First Quarter 2023

MARKET REVIEW

In the first quarter of 2023, all fixed income markets rallied retracing some of the losses sustained in 2022 despite the late quarter market disruptions caused by the failures of two US regional banks, SVB and Signature Bank and the takeover of Credit Suisse by UBS. US high yield bonds generated +3.72% and leveraged loans returned +3.23%; US high yield bonds outperformed most other fixed income asset classes including US Investment Grade, TIPs, leveraged loans, EU and EM high yield and Mortgages.

During the quarter, the US Fed continued to combat inflation and raised rates twice although in smaller increments, 25 basis points each at the February and March FOMC meetings. Treasury yields moved lower; the 10-year treasury yield ended at 3.47% (down 41 basis points QoQ) and the 5-year treasury yield ended at 3.57% (down 43 basis points QoQ) at the end of March. Yields and spreads tightened in high yield bonds, ending Q1 at 8.50% and 474 basis points, respectively. In leveraged loans, yields widened to 10.26%. WTI oil prices ended Q1 at $75.67/ barrel, down 6% since the end of 2022.

All sectors participated in the rally in Q1 for the high yield market; the best performing sectors were Leisure, Consumer Goods and Automotive and the worst performing sectors were Banking, Telecommunications and Media. For leveraged loans, sector performance was mixed; the best performing sectors were Transportation, Automobiles & Components and Consumer Durables & Apparel and the worst performing sectors were Telecommunication Services, Real Estate and Utilities. In terms of credit quality, CCCs were the best performers in both high yield bonds and leveraged loans. More specifically, CCC bonds returned +5.09%, outperforming BB and B bonds by 171 and 127 basis points, respectively. In leveraged loans, CCC loans returned +3.92%, outperforming BB and B loans by 184 and 10 basis points, respectively.

Quarterly fund flows were negative for both US high yield at $14.9 billion outflows and leveraged loans at $11 billion outflows. Capital market activity declined significantly in Q1 amid the turmoil in the banking sector. As such, high yield bond issuance totaled $40.5 billion gross and $11.8 billion net of refinancing/repricing, which was the lightest quarterly volume since Q1 2022. Similarly, loan issuance totaled $70.3 billion gross and $14 billion net of refinancing/repricing, which was down 42% and 83%, respectively, as compared to the same period last year. The Moody's global LTM default rate for High Yield bonds stood at 2.76% and for loans, it was 1.32% according to Morningstar LSTA Leveraged Loan, both up from last quarter.

MARKET OUTLOOK

Going into 2023, the US high yield and leveraged loan markets are off to a strong start, perhaps indicating a turnaround following outsized losses for fixed income markets in 2022. Credit fundamentals remain strong, although moderating, and we continue to expect most borrowers to exhibit revenue and cash flow growth in 2023, resulting in declining leverage ratios. However, at the same time, we believe interest coverage ratios have likely peaked as benchmark rates (and floating coupons) begin to increase from historically low levels. While elevated interest rates may pressure certain borrowers, many have ample liquidity and would benefit from private equity sponsor support, if needed. Credit defaults are likely to trend higher but are expected to remain below their historical averages in 2023.

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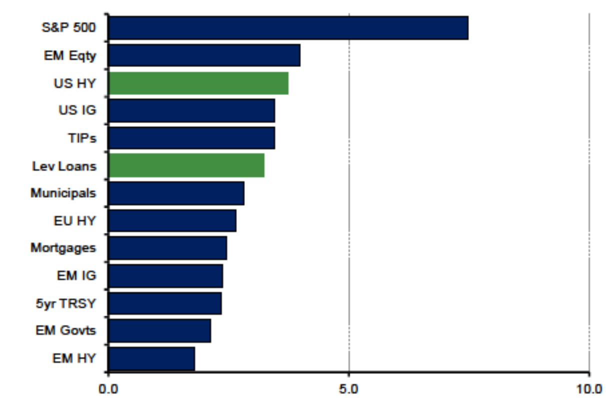
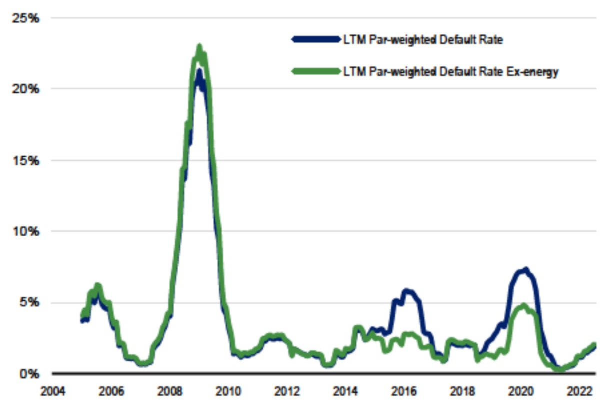
Cross-Asset Total Return Performance Q1



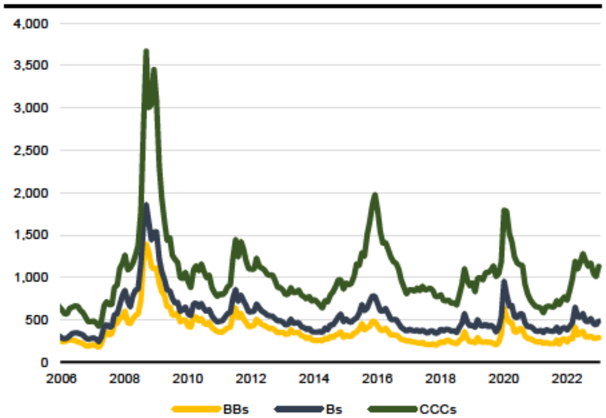
Source: BofA Merrill Lynch Global Research, ICE Data Indices LLC, S&P LCD

HY Default Rates



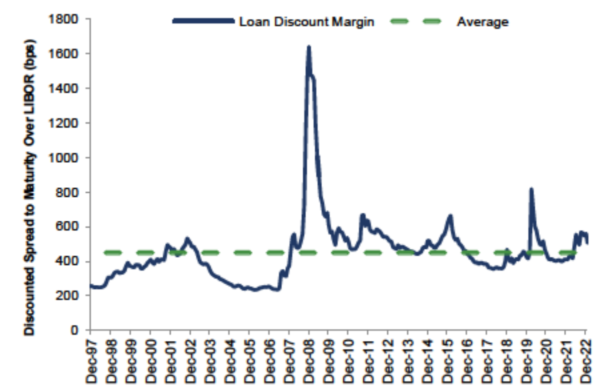
Source: BofA Merrill Lynch Global Research, ICE Data Indices LLC, S&P LCD

HY Bond Spreads by Credit Quality



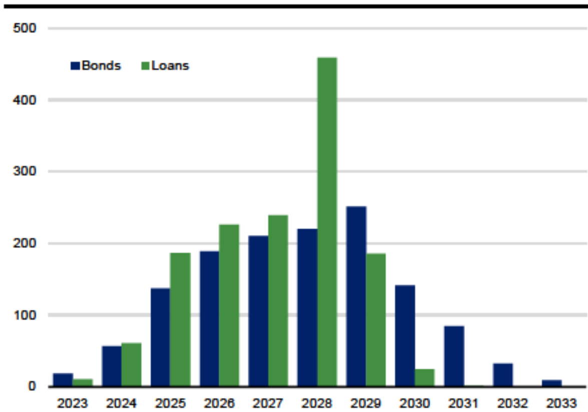
Source: BofA Merrill Lynch Global Research

Bank Loan Spreads over Libor



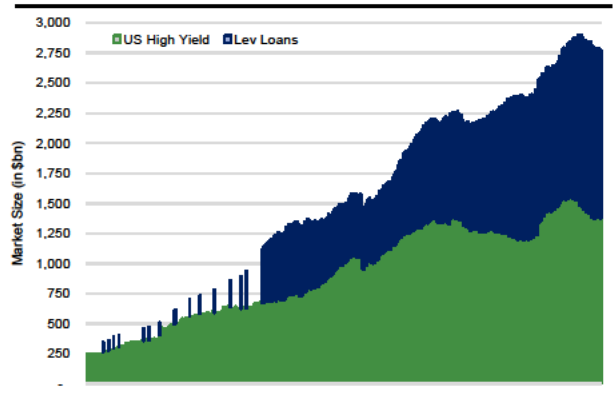
Source: LCD – S&P LSTA Lev Loan Index

HY and Leveraged Loan Maturity Profile



Source: BofA Merrill Lynch Global Research

Growth of US HY and Leveraged Loan Markets



Source: BofA Merrill Lynch Global Research, S&P LCD

About Crescent Capital

Crescent Capital Group is headquartered in Los Angeles with offices in Boston, Chicago, London, and New York. With more than 100 investment professionals and over 200 employees, the firm invests at all levels of the capital structure, with a significant focus on below investment grade credit through strategies that invest in senior bank loans, unitranche loans, high yield debt, mezzanine debt, and other private debt securities. As of December 31, 2022, Crescent Capital Group managed over $40 billion of privately-originated debt investments as well as marketable securities. For more information about Crescent Capital Group, please visit www.crescentcap.com.