

Global credit amid global uncertainty

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Agenda

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Trends in credit allocations

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Current views & outlook

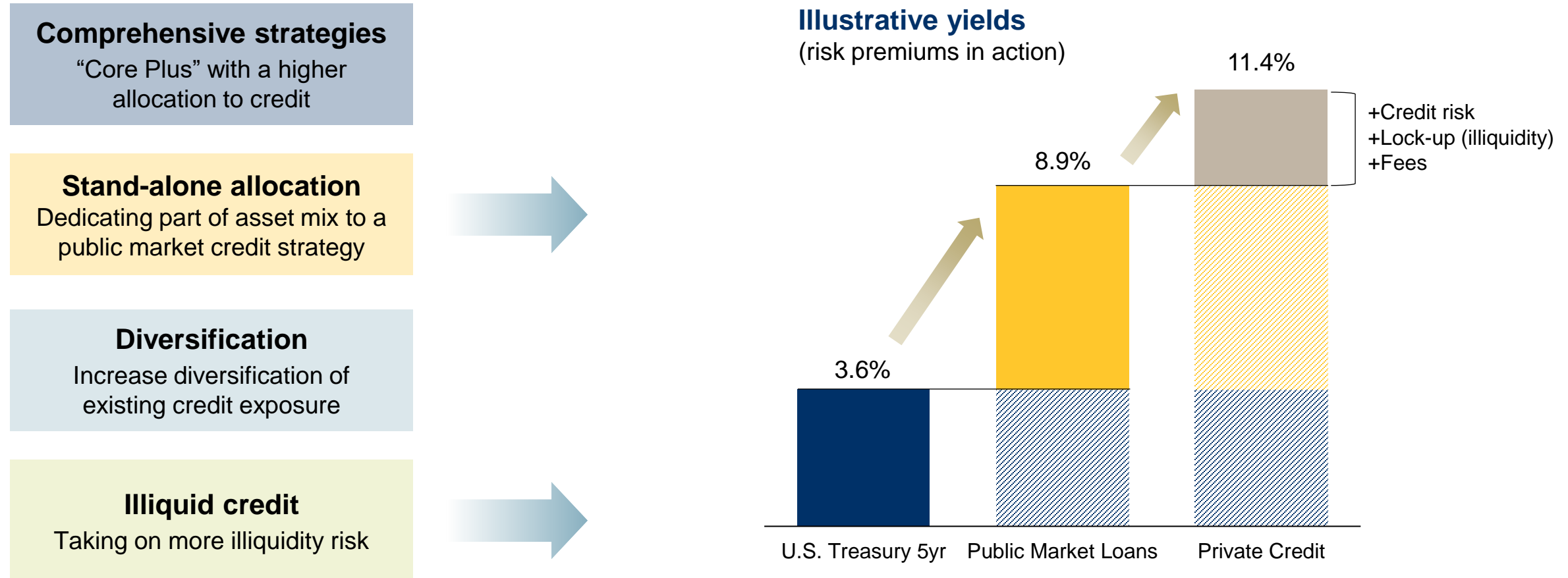
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Questions

Trends in credit allocations

Trend has been towards an increased allocation to global credit

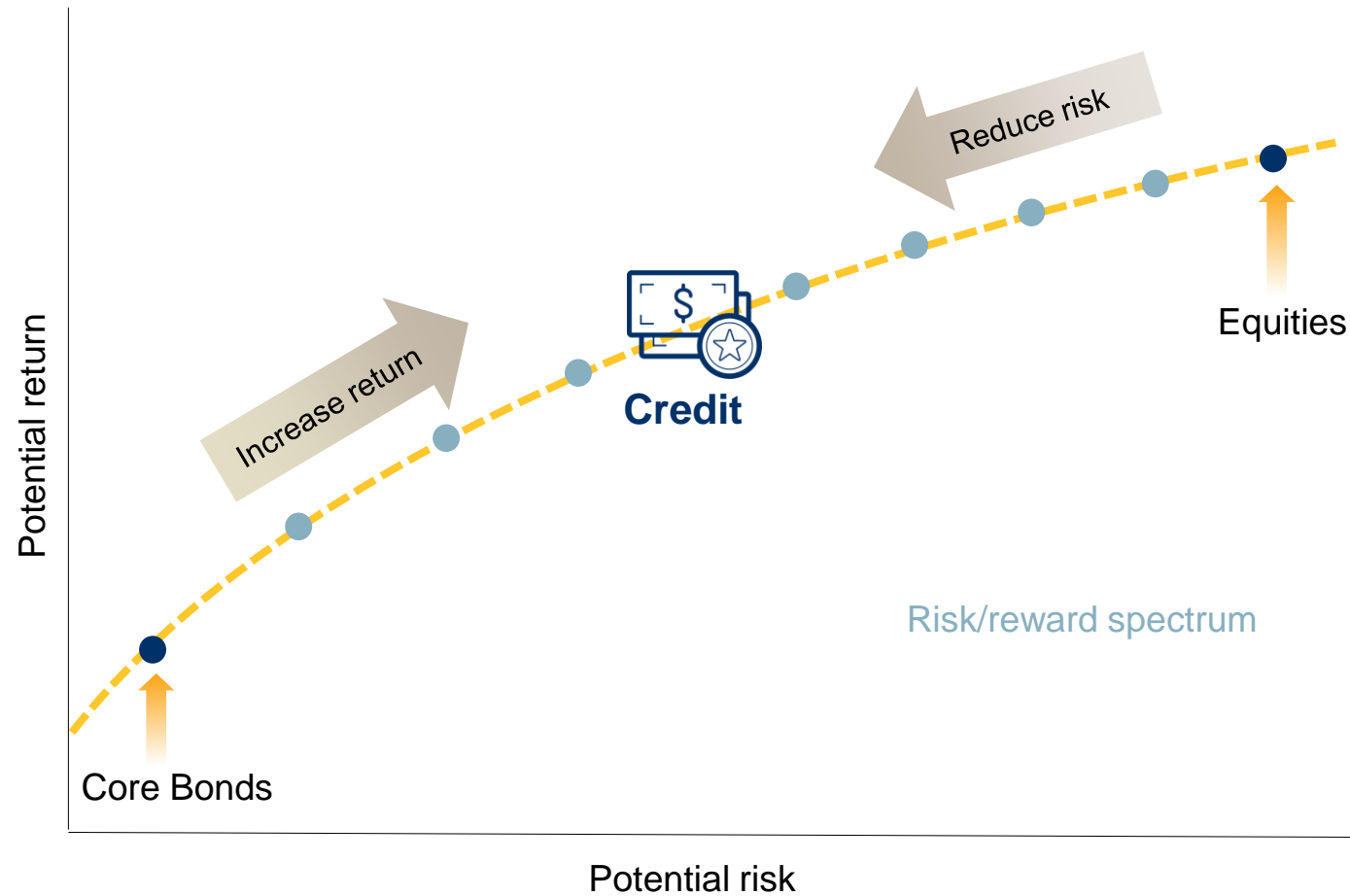
We are seeing different ways institutional investors are increasing credit exposure



Source: RBC GAM. RHS: As of September 30, 2024. Source, RBC GAM, Bloomberg, JP Morgan, Cliffwater. Public Market Loans represented by JP Morgan Leveraged Loan Index, Private Credit represented by the Cliffwater Direct Lending Index. Yield shown for U.S. Treasuries and Multi-Asset Credit is Current Yield. Yield shown for Private Credit is 3 year Takeout Yield. Past performance is not indicative of future results.

Credit is a middle-ground for changing portfolio objectives

Recently, greater interest in credit as a risk-reducer



Can improve the efficiency of a portfolio's asset mix



Useful tool for total return-focused and liability-focused investors



Source of funding will determine the ultimate portfolio impact

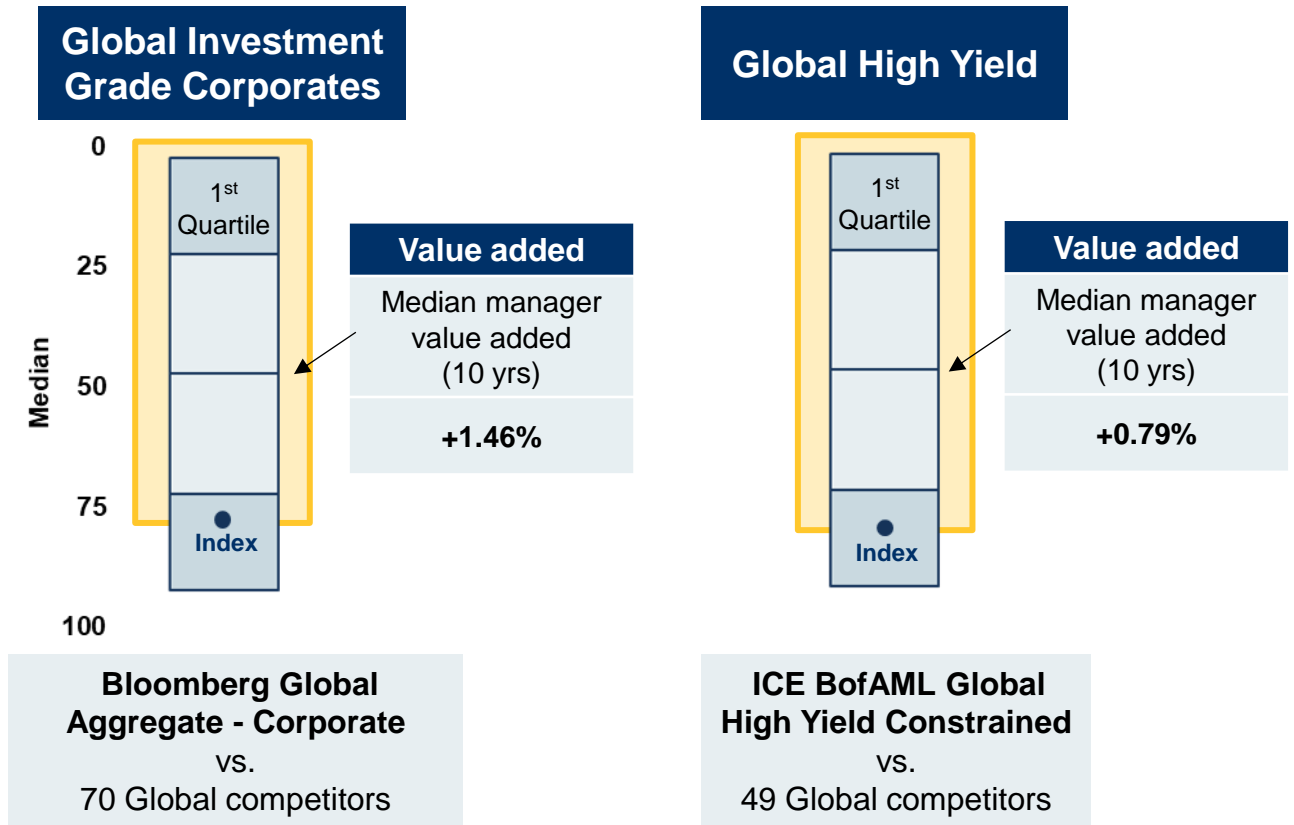
Source: RBC GAM. Potential risk and/or return of a particular strategy is assessed in relation to other strategies using historical average returns and standard deviations from those returns. Consequently, the order of strategies within a risk continuum may be subject to change over time. For illustrative purposes only.

Opportunity to add alpha within public market credit strategies

Many different levers available for an active manager to outperform the benchmark

Many levers to generate Alpha	
Geography	✓
Sector	✓
Security	✓
Currency	✓
Capital structure	✓
Duration	✓
Yield curve	✓
Credit quality	✓
Illiquidity	✓

10-year manager performance in global credit



As of December 31, 2024. Source: RBC GAM, eVestment. Returns are Gross of Fees and in U.S. Dollars. Rankings change monthly. eVestment Alliance and its affiliated entities (collectively, "eA") collect information directly from investment management firms and other sources believed to be reliable; however, eA does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. All categories not necessarily included; Totals may not equal 100%. Copyright 2011-2024 eVestment Alliance, LLC. All Rights Reserved. Past performance is not a guarantee of future results.

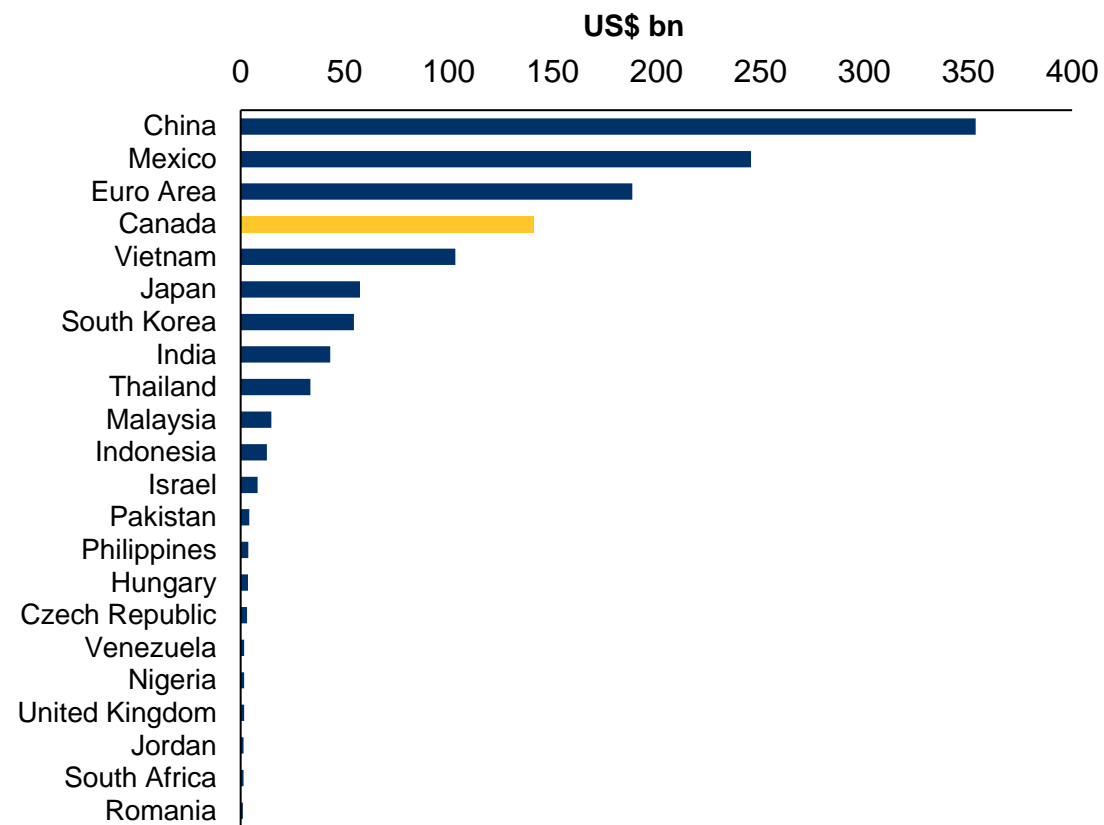
Current views & outlook

Trade war complacency ended when this happened....

Reciprocal tariffs announced

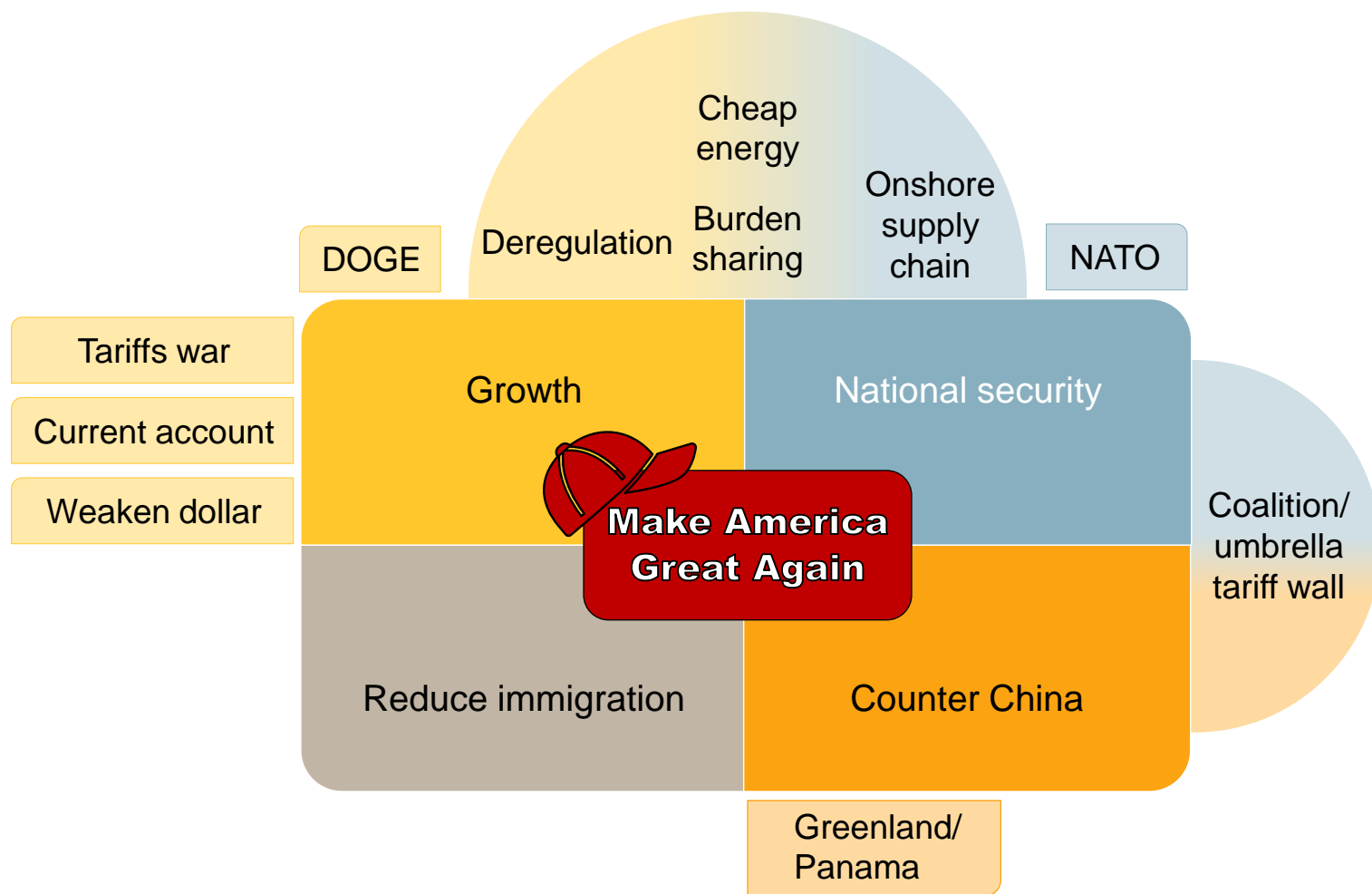


A few countries account for the U.S. trade deficit



Source: LHS: iStock; RHS: RBC Global Asset Management, IMF DOTS database for data in chart.

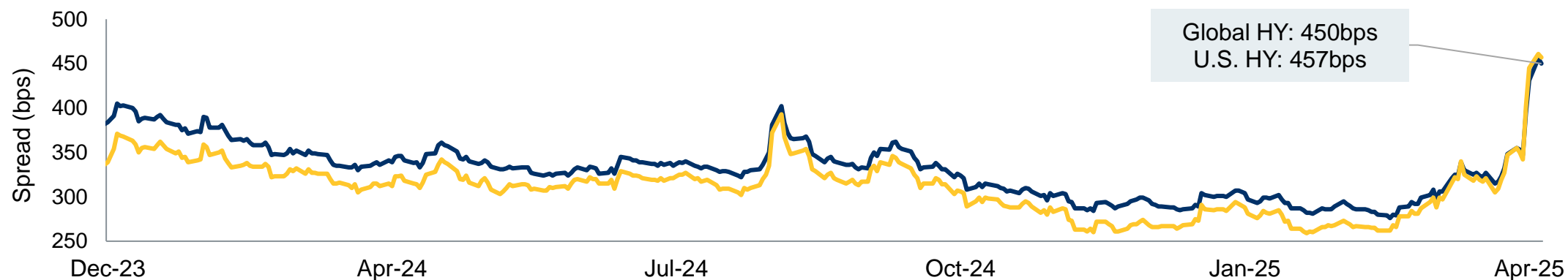
What is Trump trying to achieve?



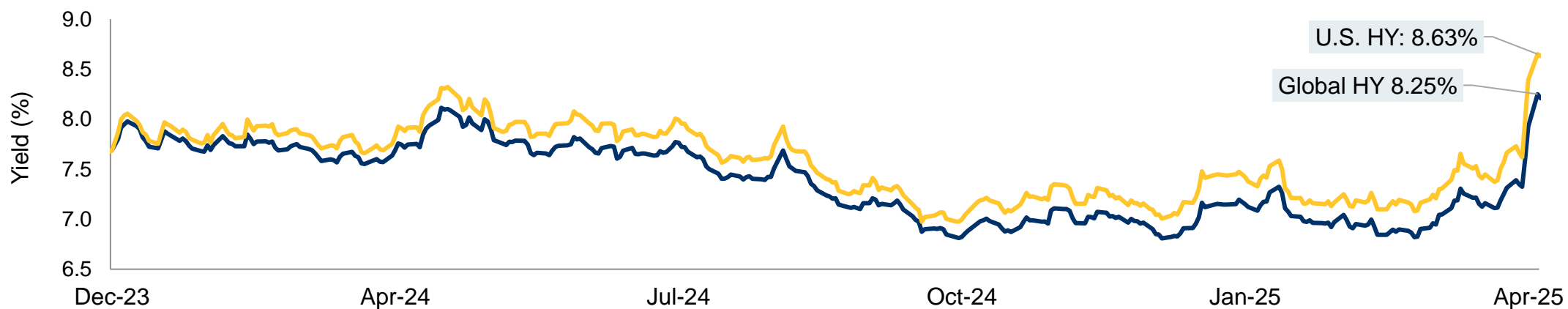
Source: RBC Global Asset Management (illustrative description of the macroeconomic landscape)

Global and U.S. HY markets have re-priced materially

Credit spread of Global and U.S. High Yield Index¹



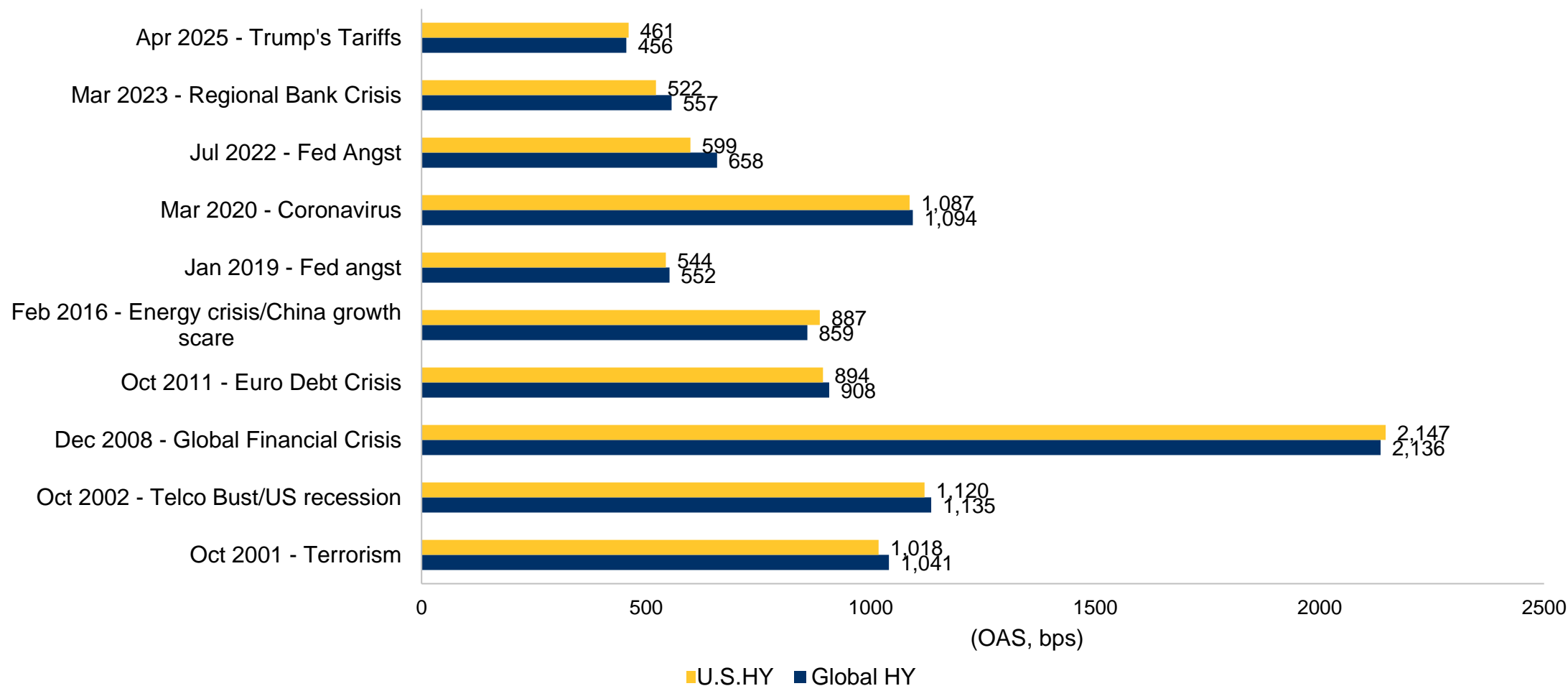
Yield of Global and U.S. High Yield Index (YTW, %)¹



Source: RBC GAM, ICE BofA, Bloomberg, as of April 8, 2025. For information purposes only. There is no assurance that any of the trends depicted or described herein will continue.

Note: ¹ Global High Yield Index refers to the ICE BofA Global High Yield Constrained Index and U.S. High Yield Index refers to the ICE BofA US High Yield Index.

Peak for high yield spreads during historical periods of widening

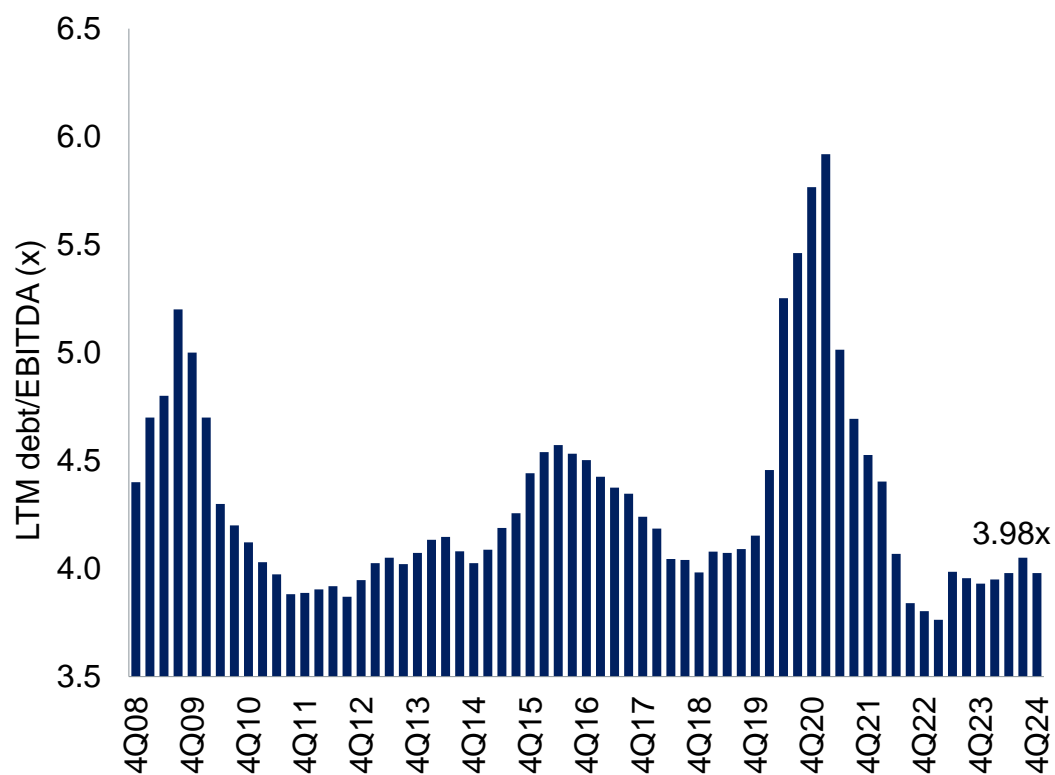


Source: ICE BofA, Bloomberg, as of April 8, 2025.

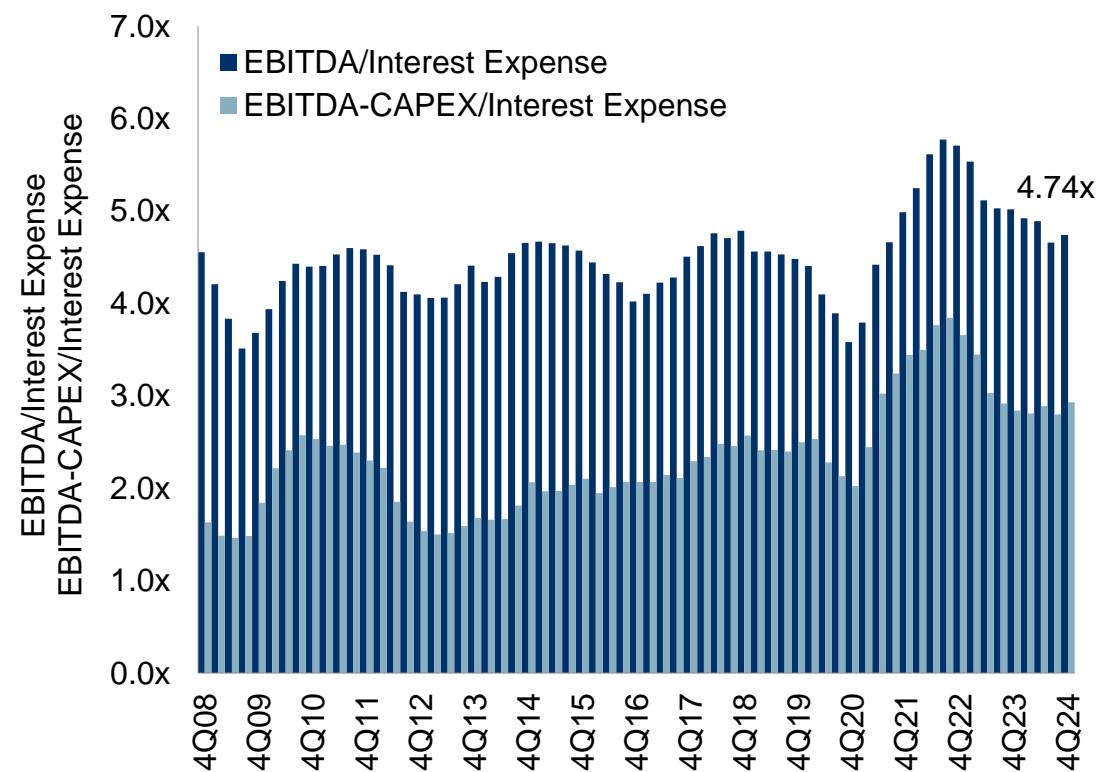
Note: 'Global HY' = Global High Yield Index refers to the ICE BofA Global High Yield Constrained Index and 'U.S. HY' = US High Yield Index refers to the ICE BofA US High Yield Index.

U.S. credit metrics are robust – look for trouble elsewhere

U.S. High Yield leverage close to the lows

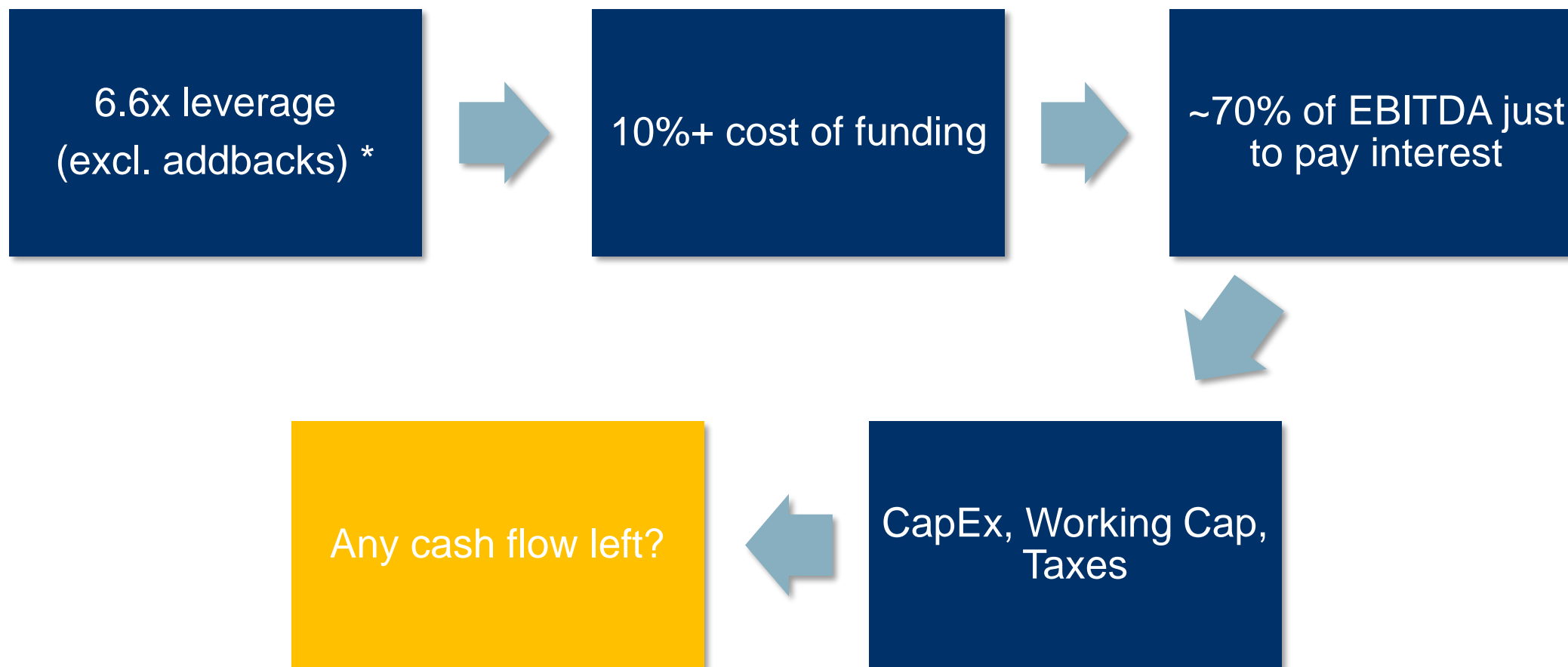


U.S. High Yield interest coverage high



Source: LHS & RHS JP Morgan 4Q24 results, as of March 19, 2025

U.S. direct lending private credit – does it still add up?



Summary of views



TOP-DOWN CREDIT: Waiting game until tariff end-state and Fed's response are clear

- Spreads widened dramatically post tariff announcements, though still not at 2022 wides
- Since the crisis was manufactured, we assume some tariffs might be reduced, though expect the bulk to stay
- U.S. recession is not our base case, but expect the market to extrapolate ugly scenarios as data points to U.S. slowdown
- Market concerns about the risk of outflows, status of Treasuries as a safe haven asset



PORTFOLIO STRATEGY: Tread lightly, eventual rebound likely sees bullish de-compression (quality rallies first)

- U.S. IG yields above 5.5% (100bp above Sept '24 lows), U.S. HY yields above 8.6% (160bp above Sept '24 lows)
- Focus on less growth sensitive corporates, domestic issuers less exposed to global trade and senior bank debt
- Avoiding deep cyclicals, weakly positioned issuers and private credit businesses



PUBLIC vs. PRIVATE: Public debt is the safer place to be

- Structural considerations with mid-market direct lending – cash flow weakness and limited ability to weather a slowdown?
- Public markets are cleaner, default risk more limited and recent dislocations offer meaningful alpha generation opportunity

Questions?



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