AUGUST CREDIT OUTLOOK

Corporate Credit Remains Fragile

PMI & Unemployment

The U.S. ISM Index for July was 46.4%, which rose by .4%; however, remained in contractionary territory. Demand weakened and production slowed marking nine straight months of declines. Furthermore, the U.S. shows a cooling job market with only 187,000 jobs added in July as opposed to the consensus of 200,000. The unemployment rate maintains its century-low levels at 3.5%, down by .1%; virtually unchanged. However, wages continue to grow at .4% and up 4.4% from a year ago. The Fed will need to manage wage inflation so another 25 basis points could be in play.

Inflation

Inflation for the month of July came in at 3.2%, which is up 0.2% from the prior month attributed to housing. Also, core CPI increased by the same amount as shelter prices went up by .4% compared to prior month and up 7.7% on a yearly basis. This breaks a 12-month period of slowdowns, and the Feds hand will be forced as wage inflation, core inflation, and CPI were elevated for the month.

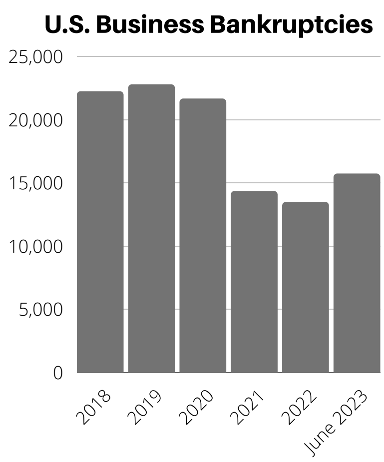
Insolvency

July commercial filings were at 362 versus 212 filings the previous year, which marks a 71% increase year over year. The breakdown shows commercial filings increased by 21% and small businesses were hammered with 61% when compared to the prior year. Small businesses are struggling, which can be tied to uncertain economic environment, rising interest rates, refinancing troubles, difficulty in getting liquidity, and lack of labor, causing a recipe for disaster. We continue to believe storm clouds are ahead and insolvencies will worsen as businesses depending on seasonal spending will be put to the test for the back half of the year.

CURRENT & EVOLVING CREDIT RISKS

Lender Woes Return

Credit agencies have changed their rating for multiple lenders citing weaker credit profiles. The lender downgrades were M&T, Pinnacle Financial, Mellon, U.S Bancorp, State Street, Truist Financial, Cullen Frost, North Trust, Webster, BOK, and Old National Bancorp. Also, Capital One, PNC Financial, and Fifth Third Bancorp outlook was changed to negative along with 11 other banks. This comes after the U.S. debt was downgraded causing people to question the credit strength and financial backbone of the economy.



Elevated Defaults

Defaults continue to climb with the default rate at 1.75% up by .4%. Non-sponsored companies continue to default at a higher rate as opposed to sponsored companies at 2.4% versus 1.75%. This typically isn't the case, but overall, defaults are rising rapidly across both profiles, and we believe we are in a period of steadily increasing defaults.

Refinancing the Maturity Wall

Over the next 12 months there is $1.9 trillion due with $57.6 billion rated B- or lower. Looking at a 24-month period it more than doubles to $4.35 trillion with $201.5 billion rated B- or lower. Overall, with the higher for longer rate environment, leveraged companies are finding it more difficult to refinance at favorable terms and are facing immediate challenges from uncertain credit conditions.