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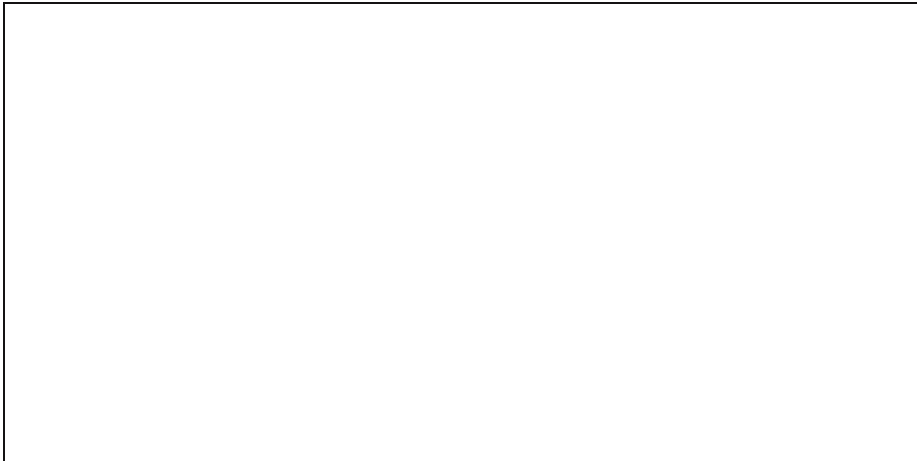
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JULY 8, 2020

Floating-Rate Loans

2020 Mid-Year Outlook: Floating-Rate Loans

Boston - We expect loan prices to keep rising, with starts and stops along the way.



Picture
of

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"How we manage credit on a day-to-day basis, in a case-by-case basis, credit by credit, very much remains the same."

For the second half of 2020, we do expect loan prices to continue to rise. We do think they will continue to grind higher, but not necessarily in a linear fashion. There will be starts and stops along the way.

Now, the true economic impacts of the COVID pandemic will play out over the next several months. And we do expect the default rate to rise — perhaps mid to upper single digit defaults for the remainder of 2020, and a low single digit default rate for 2021. That feels about right.

Now, the aggregate default rate during the global financial crisis over a three-year period was 15.2%. So we do think we'll come in a bit under that. But the market is pricing in the default rate of almost two times that that was realized during the global financial crisis. So we do think loans are cheap. We think there's value in the market.

Now, we're an experienced management team. We managed through the dot.com bust, 9/11, global financial crisis and the oil and gas turmoil of 2015 and 2016. How we got to this point in the economic cycle —with a pandemic — is very different from past episodes. However, how we manage credit on a day-to-day basis, in a case-by-case basis, credit by credit, very much remains the same.

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resale market and are generally subject to contractual restrictions that must be satisfied before a loan can be bought or sold. These restrictions may impede the Strategy's ability to buy or sell loans (thus affecting their liquidity) and may negatively impact the transaction price. It may take longer than seven days for transactions in loans to settle. Due to the possibility of an extended loan settlement process, the strategy may hold cash, sell investments or temporarily borrow from banks or other lenders to meet short-term liquidity needs. Loans may be structured such that they are not securities under securities law, and in the event of fraud or misrepresentation by a borrower, lenders may not have the protection of the anti-fraud provisions of the federal securities laws. Loans are also subject to risks associated with other types of income investments. Investments in debt instruments may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. Investments rated below investment grade (sometimes referred to as "junk") are typically subject to greater price volatility and illiquidity than higher rated investments. As interest rates rise, the value of certain income investments is likely to decline. Investments in foreign instruments or currencies can involve greater risk and volatility than US investments because of adverse market, economic, political, regulatory, geopolitical, currency exchange rates or other conditions. Changes in the value of investments entered for hedging purposes may not match those of the position being hedged.

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