HIGH YIELD COMMENTARY

Stock market momentum continued in 2Q24 with the U.S. bond market relatively flat. The Federal Open Market Committee (FOMC) met twice during the quarter and monetary policy remained unchanged with the Federal Funds rate "paused" at 5.25 to 5.50%, while Quantitative Tightening (QT) continued to reduce the Fed's balance sheet. The June FOMC statement highlighted, "Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. In recent months, there has been modest further progress toward the Committee's 2% inflation objective. The Committee judges that the risks to achieving its employment and inflation goals have moved toward better balance over the past year. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks." U.S. Real Gross Domestic Product (GDP) increased at an annual rate of +1.4% during the first quarter of 2024, the lowest growth rate since the first half of 2022. Inflation, as measured by the U.S. Consumer Price Index (CPI), rose by 3.3% for the twelve-month period ending May 2024. The Bureau of Labor Statistics (BLS) reported the unemployment rate increased slightly in June to 4.1%, while the U6 measure of total unemployed increased slightly to 7.4%. The Conference Board Consumer Confidence Index declined in June to 100.4, down from its recent high in January of 114.8.

The Bloomberg U.S. High Yield Index (Index) gained a modest 1.09% during the second quarter, bringing total returns for the first half of 2024 to 2.58%. By ratings category, BB-rated and B-rated bonds recorded gains of 1.32% and 1.03%, while the CCC-rated cohort lost -0.01% during the quarter, respectively. The Index option-adjusted spread (OAS) widened by 10 bps in the second quarter to +309 bps, while the yield-to-worst (YTW) climbed 25 bps to 7.91%. BB-rated credits now trade at an OAS of +177 bps and offer a YTW of 6.58%, B-rated credits at an OAS of +279 bps and 7.67% YTW, and CCC-rated credits at an OAS of +808 bps and 12.82% YTW. The average dollar price of the Index declined slightly to $93.07 by quarter end. The par-weighted default rate on the ICE BofA High Yield Index as of the end of 2023 was 2.4%, and according to BofA Research, defaults in the Index were almost evenly split between bankruptcy and distressed exchanges.

Capital markets typically don't respond well to mixed signals or ambiguity, but despite increasing levels for both, strong investor sentiment and liquidity continue to fuel positive market momentum.

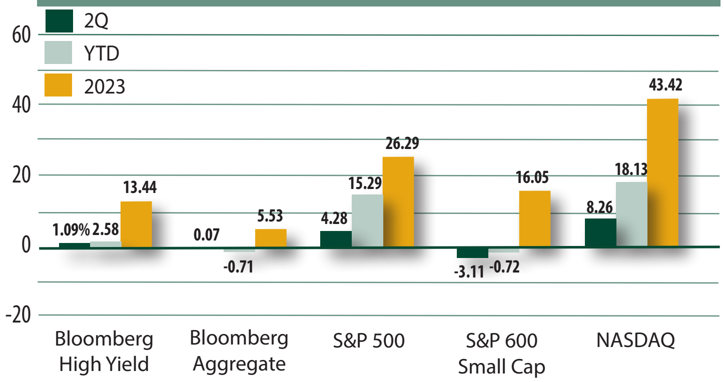
The bond market remains uncharacteristically optimistic for the onset of rate cuts in 2024 with hopes of providing a more supportive backdrop for achieving a "soft landing", with consensus expectations for the initial cut at the September 17-18 FOMC meeting. The U.S. economy appears surprisingly resilient, and while inflation remains stubbornly above the Fed's stated 2% target, a softening economy gives hope that monetary easing is just around the calendar corner. "As of May 31, Bloomberg's index of financial conditions showed that they were easier than before the Fed began raising interest rates more than two years ago. This is due in large part to a strong stock market and rallies in corporate bonds."

The PIA Investment Strategy Group's (ISG) current investment outlook harkens back to our 4Q22 Investment Commentary, where we stated, "the predominant threat to global economic growth remains post-pandemic related inflation," and "we believe the Fed's 2% inflation target would be difficult to achieve with an economic soft landing," meaning without an actual recession. We are not confident the current economic cycle is "different this time"; however, we do believe the strength of the latter part of this cycle has been fueled by the extraordinarily long period of post-Global Financial Crisis (GFC) easy money growth/expansion. As previously stated, the modern-era U.S. pre-GFC economy had proven to sustain growth at/above trend with Fed Fund rates at/above 5%. Additionally, we believe the cumulative deterioration caused by persistent inflation on consumer sentiment and spending power represents a significant long-term economic concern relative to the potential for a mild recession. Therefore, we believe rate cuts may not be warranted until unemployment picks up above 4.25% or inflation falls below 2.5% coupled with real GDP continuing to fall below the 2% trend. However, market consensus is that, unlike the "old Fed" inflation hawks, the current Fed may be described as political economists that put a greater emphasis on their employment mandate than they do on price stability and that this Fed wants to cut rates. Regardless, the optimistic outlook for the onset of rate cuts is to signify victory in the inflation battle and curb the probability of a pending recession.

While financial conditions appear to be accommodative, there are heightened risks of supply chain disruptions and growing concerns over the wars in Ukraine and the Middle East, including their impact on the U.S. The climbing costs of rising national debt and deficits, the risks of rising energy and commodity costs, and the added expense of trade fragmentation, particularly between the U.S. and China, are all potential contributors to inflationary pressures in the long run. The Conference Board Index of Leading Economic Indicators was positive in Q1 for the first time since April 2022; however, it resumed its negative trend in April and May. "There were 346 U.S. companies that filed to either liquidate or re-organize through bankruptcy in the first six months of 2024, the highest half-year level since 2010." – S&P Global Market Intelligence. Given the breadth in macro and idiosyncratic risks and the ambiguity in potential 2025 fiscal policies due to the election year, we remain modestly cautious with our credit selection. However, with due consideration to the revolving door of risks to credit, the primary drivers that shape our positive view of the high yield market remain intact – historically attractive yield, a resilient domestic economy, the Fed on pause and biased to ease, and a modest default rate outlook. And while credit spreads are near historically tight levels, corporate capital structures are quite healthy given over 50% of the amount of high yield bonds outstanding were issued in 2020 and 2021 when yields were very low. As of June 2024, high yield interest coverage remains above the historical average and credit quality has never been stronger – more than half of the high yield market consists of BB-rated credit, up from 41% just 10 years ago. We expect this constructive environment for the high yield market to continue for the remainder of 2024.

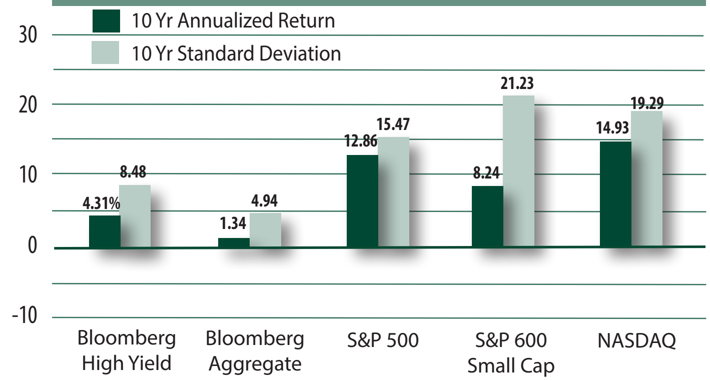
PIA Investment Strategy Group

INDEX RETURNS



Source: Bloomberg, Informais PSN
Past performance is not a guarantee of future results.

HISTORICAL PERFORMANCE



Source: Informais PSN; Annualized 10 Years
Past performance is not a guarantee of future results.

INDEX **RETURNS**	2Q	YTD	2023
BB	1.32%	2.47%	11.60%
B	1.03	2.41	13.78
CCC	-0.01	2.13	19.84
CC - D	4.68	18.53	16.41
Basic Industry	1.61	3.59	12.18
Capital Goods	1.15	2.81	12.82
Consumer Cyclical	1.30	3.86	16.03
Consumer Non-Cyclical	2.51	4.73	12.93
Energy	1.62	4.18	12.81
Technology	1.67	3.11	12.64
Transportation	0.54	2.53	9.68
Communication	-1.76	-3.63	12.18
Other Industrials	2.20	4.69	15.98
Utility	1.49	1.81	10.10
Financial	1.56	3.39	14.80

Index is Bloomberg U.S. High Yield Index. Source: Bloomberg

INDEX **SPREADS**	6/30/24	12/31/23	12/31/22
BB	208	232	317
B	315	346	514
CCC	841	760	1,017
CC - D	1,216	785	3,148
Basic Industry	321	364	451
Capital Goods	261	284	424
Consumer Cyclical	272	283	492
Consumer Non-Cyclical	344	407	540
Energy	239	299	388
Technology	353	386	520
Transportation	414	372	433
Communication	672	529	584
Other Industrials	-548	-246	468
Utility	222	272	298
Financial	296	332	528

Index is Bloomberg U.S. High Yield Index. Source: Bloomberg

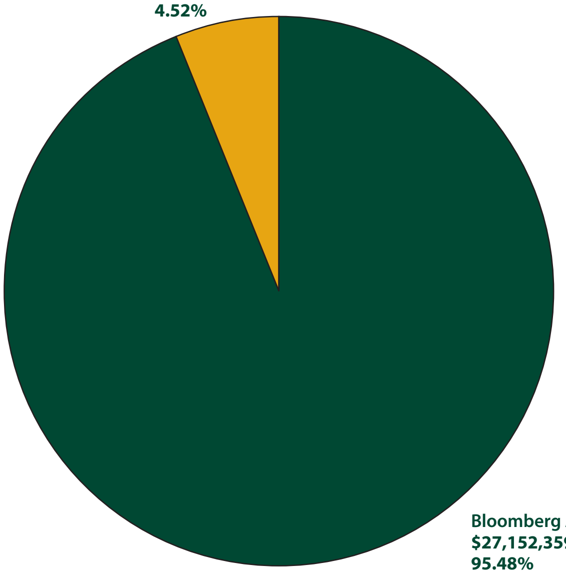
KEY **CHARACTERISTICS**	6/30/24	12/31/23
Duration	3.1	3.2
Yield To Maturity	8.1	7.8
Current Yield	6.8	6.5
Yield To Worst	7.9	7.6
Weighted Average Maturity	4.9	4.9
% $500mm and under	25.9	26.5
% $501mm and over	74.1	73.5

Index is Bloomberg U.S. High Yield Index. Source: Bloomberg, Yield Book

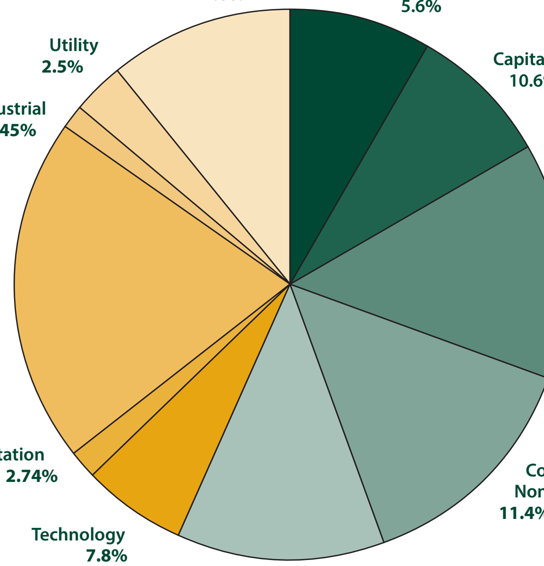
KEY **CHARACTERISTICS**	6/30/24	12/31/23
% BB or >	50.6	46.1
% B	36.6	41.1
% CCC	11.3	11.7
% CC and below	1.5	1.1
% Debt Maturing in < 3 Years	19.1	20.7
% Debt Maturing in 3 - 5 Years	41.0	33.8
% Debt Maturing in > 5 Years	39.9	45.5

Index is Bloomberg U.S. High Yield Index. Source: Bloomberg

US **DEBT MARKET ($MM)**



BLOOMBERG **HIGH YIELD**



Source: Bloomberg

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Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors.

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

S&P SmallCap 600 covers approximately 3% of the domestic equities market. Measuring the small cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable.

Nasdaq Composite is a stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market, meaning that it has over 3,000 components. It is highly followed in the U.S. as an indicator of the performance of stocks of technology companies and growth companies. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not exclusively a U.S. index.

ICE BofA U.S. High Yield Index Tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

Bond ratings provide the probability of an issuer defaulting based on the analysis of the issuer's financial condition and profit potential. Bond rating services are provided by credit rating agencies currently registered as Nationally Recognized Statistical Rating Organizations ("NRSROs"). Bond ratings start at AAA (denoting the highest investment quality) and usually end at D (meaning payment is in default). Securities not covered by any agency will receive a non-rated (NR) rating.

Standard Deviation - is applied to the annual rate of return of an investment to measure the investment's volatility.

Yield to Maturity - The rate of return anticipated on a bond if held until the end of its lifetime.

Weighted Average Maturity - Tells how many years it will take to pay half of the outstanding principal.

Current Yield - Annual income (interest or dividends) divided by the current price of the security.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country's economic health.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

Consumer Confidence Index (CCI) is a survey, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

The Bureau of Labor Statistics (BLS) is a federal agency that collects and disseminates various data about the U.S. economy and labor market.

The Conference Board (CB) is a not-for-profit research organization that distributes vital economic information to its peer-to-peer business members.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy specifically by directing open market operations (OMOs).

Monetary - consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Basis point (bp)- A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Yield - The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost.

Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Quantitative tightening (QT) (or quantitative hardening) is a contractionary monetary policy applied by a central bank to decrease the amount of liquidity within the economy.

Spread - The difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors.

The U-6 (Unemployment) rate measures the percentage of the U.S. labor force that is unemployed, plus those who are underemployed, marginally attached to the workforce, and have given up looking for work.

Option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

Yield to worst - the lowest potential yield that can be received on a bond without the issuer actually defaulting.

The Leading Economic Index (LEI) provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

The interest coverage ratio, sometimes referred to as the "times interest earned" ratio, is used to determine a company's ability to pay interest on its outstanding debt.

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance does not guarantee future results.

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