



SEEKING (BOND) SHELTER — IN A — TARIFF-IED WORLD

**PUTTING ALTERNATIVE ECONOMIC DATA
UNDER THE MICROSCOPE**
INFOGRAPHIC

SHOWING RESILIENCE AMID UNCERTAINTY
INVESTMENT GRADE

VOLATILITY MAY LEAD TO OPPORTUNITY
HIGH YIELD

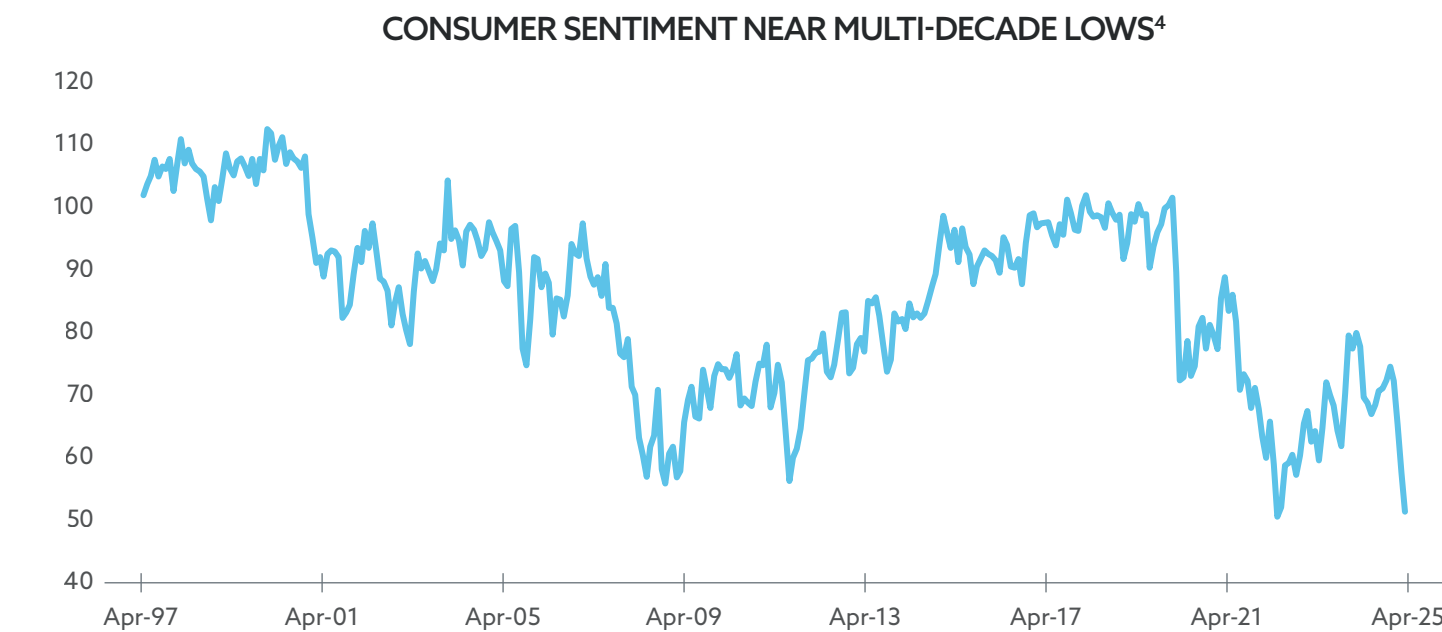
Letter From The CIO

Over the past few weeks, rapidly changing tariff news has whipsawed financial markets, leaving many investors apprehensive and confused. The situation is fluid and there are many unknowns. Even if the tariffs were to be voided by the courts or suspended by the President, our view is significant damage has been done to business and consumer sentiment, which will likely be difficult to repair. Consequently, we believe that regardless of what happens in the days and weeks to come, US and global growth is likely to slow materially.

Despite the uncertainty created by tariffs and the resulting maelstrom in equity markets, investment grade (IG) corporate bonds have held up reasonably well relative to other asset classes. As the table shows, bonds are once again demonstrating some of their defensive characteristics in times of market upheaval. Year-to-date, IG credit has outperformed most asset classes, supported by higher yields and Treasury rates which tend to drift lower in times of economic turbulence. Currently, the yield to worst of IG corporate bonds stands at 5.27%, which lands in the 85th percentile over the last 10 years.¹ For comparison, this is much higher than their level of 3.40% at the start of the first Tariff Wars in 2018 and provides a significant cushion for yields to fall, while protecting total returns. [As we have](#)

[pointed out previously](#), yields at the time of investment tend to be a good predictor of long-term total return in bonds, and we believe that to be the case in the current environment. The higher income potential of US fixed income becomes even more compelling for investors when considering that bonds have typically been less volatile over the last 20 years, with US corporate bond returns producing a standard deviation of 6.1% versus 15.1% for stocks.²

2025 YEAR-TO-DATE TOTAL RETURNS ³	
Investment Grade	1.13%
High Yield	-0.20%
Bank Loan	-0.37%
S&P 500	-9.83%
Russell 2000	-15.35%



As of 23 April 2025. Unless otherwise stated, the information presented has been prepared from market observations and other sources believed in good faith to be reliable. As market conditions remain fluid, we will continue to revisit our assumptions and expectations as new information becomes available. This summary reflects PPM's best judgment based on current market and economic assumptions and observations, and the statements and opinions stated herein are subject to change without notice. We are providing this information for informational purposes only and should not be relied upon as an investment recommendation. We assume no obligation to update the information herein. Past performance is no guarantee of future results. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. (1) Barclays. Yield to worst of the Bloomberg US Credit Index. 1st is the lowest percentile for yield to worst over the last 10 years while 100th is the highest. As of 17 April 2025. (2) Morningstar. 20-year standard deviations through 31 March 2025 for the Bloomberg US Credit Index and the S&P 500 Index. (3) FactSet and PitchBook Data, Inc. Investment grade as represented by the Bloomberg US Credit Index, high yield as represented by the ICE BofA US High Yield Constrained Index and bank loan as represented by the Morningstar LSTA US Leveraged Loan Index. As of 17 April 2025. (4) University of Michigan. Index of Consumer Sentiment. Data through 11 April 2025.

Higher yields are not the only factor that make fixed income markets attractive at this point in time. Supply and demand technicals have been strong and are likely to remain so. Even with an uptick in corporate issuance in 2024 which has continued into this year, demand for IG credit has remained steady. Furthermore, we expect a reduction in new issuance to further tighten supply, as has always happened in times of increased volatility. This lower new issuance will likely occur at the same time as the large amount of five-year bonds issued during the pandemic continue to mature, further reducing net supply. Additionally, we believe that IG corporations are in no hurry to issue as most are starting from a strong fundamental footing given they are not over-levered and maturities have been largely termed out.

Having said all that, even with higher yields and strong technicals, investors still need to sift through the risks and opportunities created by tariffs in order to generate attractive returns. We believe our fundamental, bottom-up approach to investing better positions us to identify which companies and industries are likely to be largely unscathed from US trade policies and which are at most risk.

We rely on our deep and experienced corporate credit analyst team, which collaborates closely with portfolio managers and traders to position client portfolios in optimal risk-adjusted investment options. With the recent tariff announcements, the team assessed their potential impact on 71 sub-sectors. Upon establishing baseline scenarios for the sub-sectors, we then examined which credits within each sub-sector are equipped to perform well relative to others.⁵

In the team's view, the two sectors that will experience the most negative effects are Automotive Original Equipment Manufacturers (OEMs) and Automotive Suppliers. OEMs are currently subject to a 25% import tariff on non-US manufactured vehicles. Our analysts believe that, due to price sensitivity, OEMs will only be able to partially pass tariff costs on to the consumer and therefore will experience lower margins and cash flows. With respect to Suppliers, we estimate that they may be able to pass on a high proportion of the 25% import tariff on non-US made auto parts to OEMs. However, higher car prices will ultimately hurt demand and lead to lower industry volumes which will, in turn, hurt Suppliers' operating leverage likely leading to lower profitability and cash flows.

There are, however, other sectors that our analysts have identified as likely to be more resilient to the impact on US trade policy. Since tariffs are placed on traded goods, insulated sectors include primarily service industries, including Utilities and Telecom. For the largely defensive-

and domestic-focused Utilities sector, our expectation is any increases in capital expenditure due to tariffs will be passed on to customers. In the case of Telecom companies, they do not engage in international trade or sales but provide a consumer-driven product that is viewed as a necessity.

Looking beyond US credit, the impact of tariffs will vary in global markets, including emerging markets (EMs). Lower-rated EM sovereigns are one obvious sector that is vulnerable to tightening financial conditions. However, unorthodox US policy moves, in conjunction with extreme uncertainty on US policy implementation, have led to higher investor interest in non-US markets, including EM. This development which could lead to EM fixed income outperformance in a 'risk off' market environment. Going forward, our EM debt team is focused on navigating the challenging macro backdrop but sees opportunities in more developed EM as well as in frontier markets, especially in countries that have diversified export markets away from the US.

We understand that the recent turmoil in the financial markets can unsettle even the most seasoned investors. However, as has been the case many times in the past, uncertainty can also present opportunities to the discerning investor. We believe that PPM's proficiency in security selection and sector rotation when married to attractive current yields in fixed income, especially IG credit, provides a platform for alpha generation in our clients' portfolios.

Our credit team continually re-runs sub-sector sensitivities and evaluates changing trading levels to identify new opportunities. As a result of minimal spread give-up, we currently maintain an up-in-quality bias in our clients' portfolios with an eye to tactical risk deployment on more material spread moves. Ongoing communication between portfolio managers and traders, a hallmark of our investment process, allows the best ideas to be reflected in the portfolios in real time. In this way, we can truly capitalize on our in-depth knowledge of industries and companies for the benefit of our clients. We have done this successfully for our clients since 1990, and we believe we are well positioned to do it again.



OGECHI NWACHUKWU
Chief Investment Officer

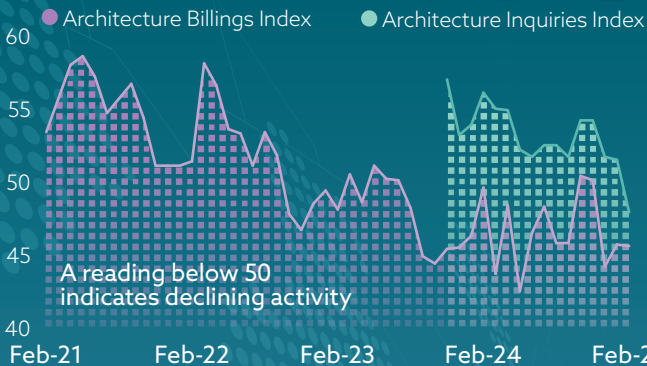
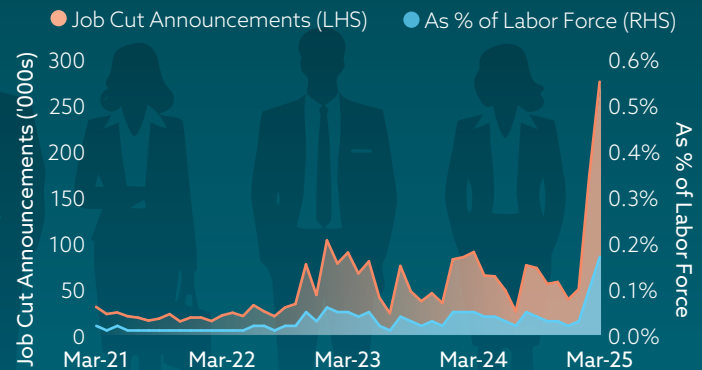
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Putting Alternative Economic Data Under the Microscope

The macro picture is murky. Rapidly changing tariff headlines have created uncertainty, which has manifested in weaker consumer and, in some cases, business sentiment. So far, this bearish inflection in sentiment has yet to show clearly in hard economic data. It may be too early, given most broad economic datapoints are reported with a lag. However, some less-followed economic data are pointing to increasing headwinds.

LOOKING BEYOND JOBLESS CLAIMS¹

While initial jobless claims remain historically low, Challenger, Gray & Christmas compile “announced” job cuts from both the government and private sector. Announcements have spiked given plans to eliminate positions in the federal government – March’s figure was the third highest monthly total on record. As a percentage of the labor force, announced job cuts remain low, though they have ticked up.

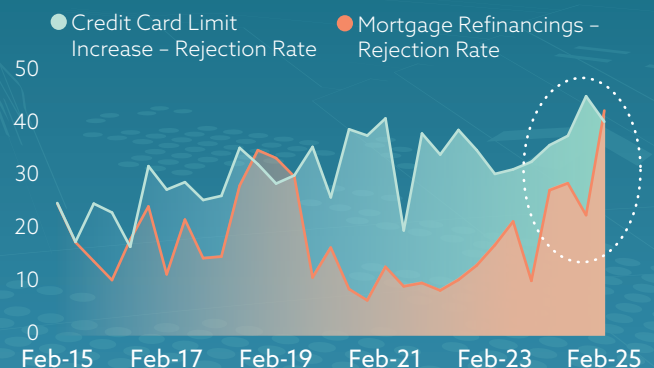


CONSTRUCTION LEADING INDICATORS²

Architectural billings can lead construction spending by roughly half a year, according to Piper Sandler, and architectural inquiries can lead billings.³ Indices from AIA/Deltek show declining activity in both. Architectural billings have been weak since late 2022, while inquiries have taken a notable downtick in the last few months.

GAUGING CREDIT ACCESS⁴

Credit conditions also appear to have tightened for consumers. The New York Fed’s Survey of Consumer Expectations includes data on credit applications. While applications for credit card limit increases are within their historical range, the rejection rate has risen over the last decade. Mortgage refinance applications are historically low given today’s rates, but, for those who do apply, the rejection rate has spiked over the last year.



(1) FactSet, Challenger, Gray & Christmas. Monthly data through March 2025. (2) FactSet, AIA/Deltek. Monthly data through February 2025. (3) Piper Sandler. “Quick Take: Architectural Billings Continue to Weaken.” 19 March 2025. (4) New York Fed. SCE Credit Access Survey. February 2025.



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KEY TAKEAWAYS

- > Tariff announcements and uncertainty about future policy actions have overwhelmed US markets in March and April, but investment grade has remained relatively resilient
- > We believe investors should continue to add US fixed income exposure at attractive all-in yields given the relative safety of investment grade bonds versus equities amid market volatility
- > We expect security selection to be the primary source of alpha generation, especially as dispersion increases across our investment universe

TARIFF NEWS OVERWHELMS RISK MARKETS

Tariff announcements and uncertainty about future policy actions roiled US markets in Q1 2025. However, investment grade (IG) spreads only widened modestly from historical tights as investors sought safety in fixed income and the market's constructive backdrop remained in place. The spread of the Bloomberg US Credit Index (Index) widened 12 bps during the quarter to 89 bps.¹ Still, the Index produced a positive total return of 2.36%, driven by a flight-to-quality in US Treasuries. Conversely, the S&P 500 Index returned -5.63% during the quarter.²

Further tariff policy escalations and a subsequent 90-day targeted pause in early April have exacerbated the turmoil, causing both equities and fixed income to whipsaw amid heightening concerns of slowing global economic growth and continued sticky inflation. IG spreads have now widened to 102 bps as of April 17th, while the year-to-date total return has dipped to 1.13%. Still, the IG market has held up well compared to the S&P 500 (-9.83% YTD as of the 17th).³

DEMAND SHOULD REMAIN

The IG bond market resilience is due to a handful of factors. One area to highlight has been demand in the asset class since 2023. Even with elevated issuance in 2024 and to start 2025, investors have been adding US fixed income exposure at attractive all-in yields. We expect this to continue, given the relative safety of IG bonds versus equities amid market volatility. Coupled with the potential for supply to taper as the year progresses, technicals should remain supportive in the medium term.

VALUATIONS BECOMING MORE ATTRACTIVE

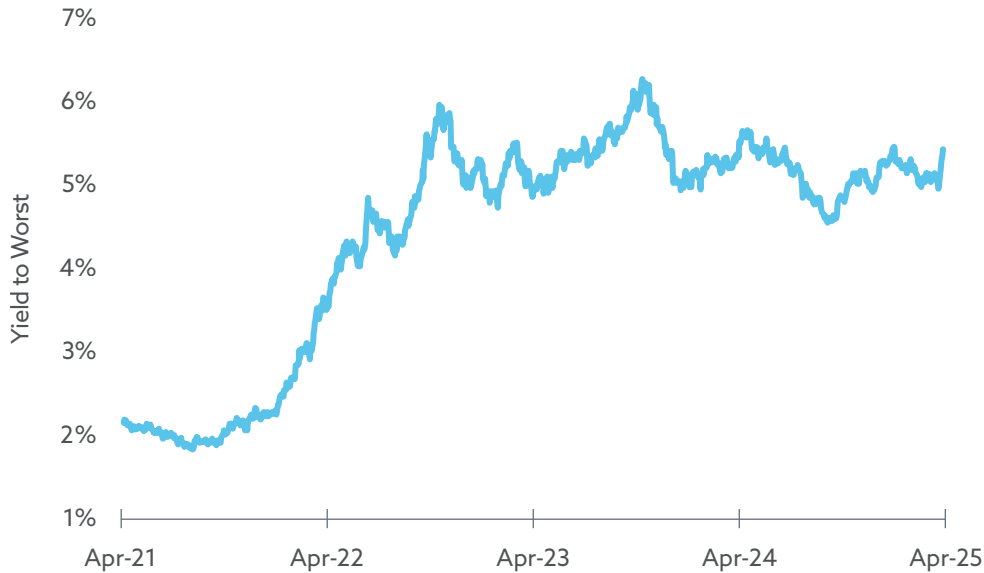
In our view, wider spreads have led to improved valuations and, in turn, potential investment opportunities on behalf of our clients. As the market advances through stages of uncertainty, we rely on our deep, experienced research team to identify undervalued securities in the credit markets in order to reposition portfolios tactically. As an example, we utilized new issuance and the secondary market to selectively add holdings in Utilities during the quarter, which we view as being insulated from tariffs. We can also use a variety of tools, including portfolio trades, if we want to more quickly change the risk in a strategy.

ELEVATED RISK TO NAVIGATE

While recession is not our base case scenario, our expectation is for economic growth to slow in the coming quarters. Additionally, we anticipate that the Fed's ability to deliver robust accommodation may be hampered by stubborn inflation. It is important to acknowledge that investors are entering into a period of elevated and idiosyncratic risk in the IG market.

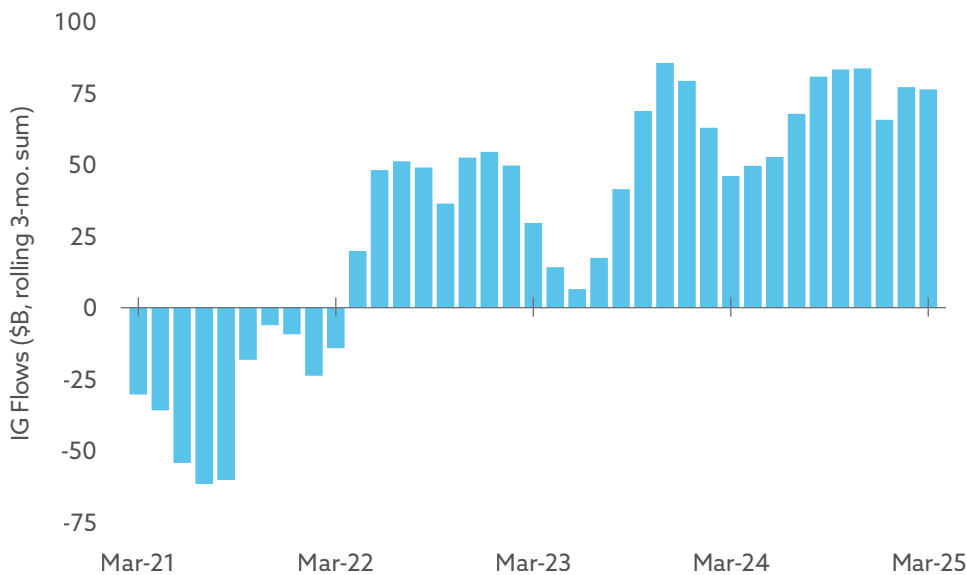
As a result, we expect security selection to be the primary source of alpha generation, especially as dispersion increases across our investment universe. We will continue to lean into our bottom-up, credit-research focused investment process that has generated alpha for clients in both risk-on and risk-off market environments.

INVESTMENT GRADE YIELDS REMAIN ELEVATED⁴



One result of the Fed hiking interest rates at a quick pace in 2022 and 2023 was a reset of IG credit yields to historically high levels. These yields have remained elevated through April, and position the asset class well in terms of interest income and investor appetite.

INVESTMENT GRADE INFLOWS EXPECTED TO CONTINUE⁵



Investors who had ignored IG credit during the zero-interest rate policy period amid COVID began to pile into the market when yields became attractive. Given that yields are still high and the relative safety of the asset class, we anticipate inflows to remain in place but could be less than previously seen.

(4) Factset. Bloomberg US Credit Index yield to worst as of 11 April 2025. (5) As of 31 March 2025. Morningstar. Aggregated flows for the US OE Corporate Bond, Intermediate Core Bond, Intermediate Core-Plus Bond, Long-Term Bond, Short-Term Bond and Ultrashort Bond categories (including ETFs). Rolling three-month sums calculated by PPM.

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KEY TAKEAWAYS

- > Tariff risks have taken center stage with the first-order impacts of economic growth concerns and heightened volatility
- > The high yield market entered this period from a supportive fundamental starting point, considering positive rating trends, a low distress ratio and a below average default rate
- > We view elevated price volatility as an opportunity to position into favored sectors and credits at more attractive valuations

A positive quarterly return took a back seat to tariff-driven macro concerns and a risk-off environment in March, which has accelerated in April. Rapidly-changing tariff headlines have fueled uncertainty and volatile markets. US Treasuries initially rallied, with the 5-year closing the quarter at a yield of 3.96% (42 bps lower QoQ) and then trading as low as 3.72% in early April. Yields then backed up, with the 5-year at 3.95% on April 17th.¹

Dispersion has moved higher. After returning 2.04% through February, the ICE BofA US High Yield Constrained Index (Index) saw underperformance in lower-rated categories and decompression in spreads across all rating categories in March, resulting in a -1.07% monthly return.² It is down further in April (-1.13% through the 17th).

CCC & Lower bonds have been notable, with a return of -2.72% in March, taking the quarterly return to -0.67%. This category has returned -2.61% through April 17th. It had performed exceptionally well in 2024 (18.18%) and 2023 (20.36%) and had not seen a negative monthly return since April 2024.

March price action pushed yields and spreads to new local highs at 7.73% and 355 bps, respectively. Those figures stood at 8.13% and 402 bps as of April 17th.

SUPPORTIVE STARTING POINT

The high yield market entered this period from a supportive fundamental starting point, considering positive rating trends, a low distress ratio and a below average default rate. The asset class saw more bonds upgraded (\$66B) than downgraded (-\$44B) during Q1 2025.³ The distress ratio, a predictor of future defaults, increased 182 bps to 5.86%. It has increased even further in April, but remains below the average of 10.79% since 2006. Finally, the default rate decreased 92 bps during the quarter to 2.20%, its lowest level in two years and below the average since 2006 of 3.99%.⁴

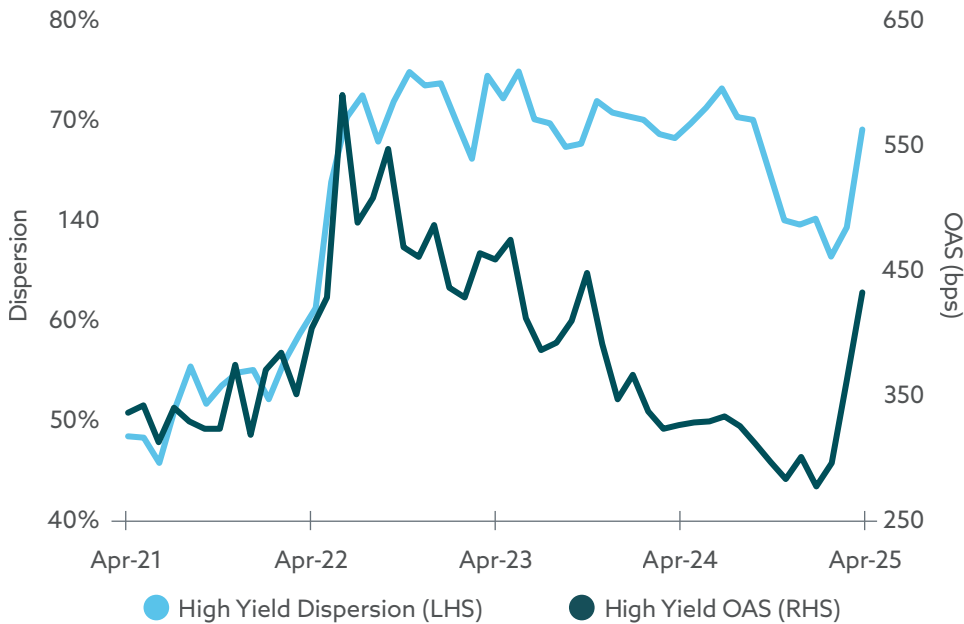
CAPITALIZING ON VOLATILITY

The strategy ended Q1 2025 with a moderate spread advantage to the Index, similar risk positioning to year-end. During the first quarter, the strategy increased exposure to the Financial Services and Basic Industry sectors and reduced exposure to Telecommunications and Healthcare.

We view elevated price volatility as an opportunity to position into favored sectors and credits at more attractive valuations. In the early days of the second quarter, the strategy focused on adding exposure to sectors and names that have stable cash flows and are relatively insulated from tariff concerns. We specifically added to several credits in the Technology, Healthcare and Energy sectors. Within Energy, we targeted credits less impacted by oil prices, with adequate liquidity and specific bonds with earlier maturities. We believe these names have conservative credit profiles and are trading at more attractive valuations given the market sell-off.

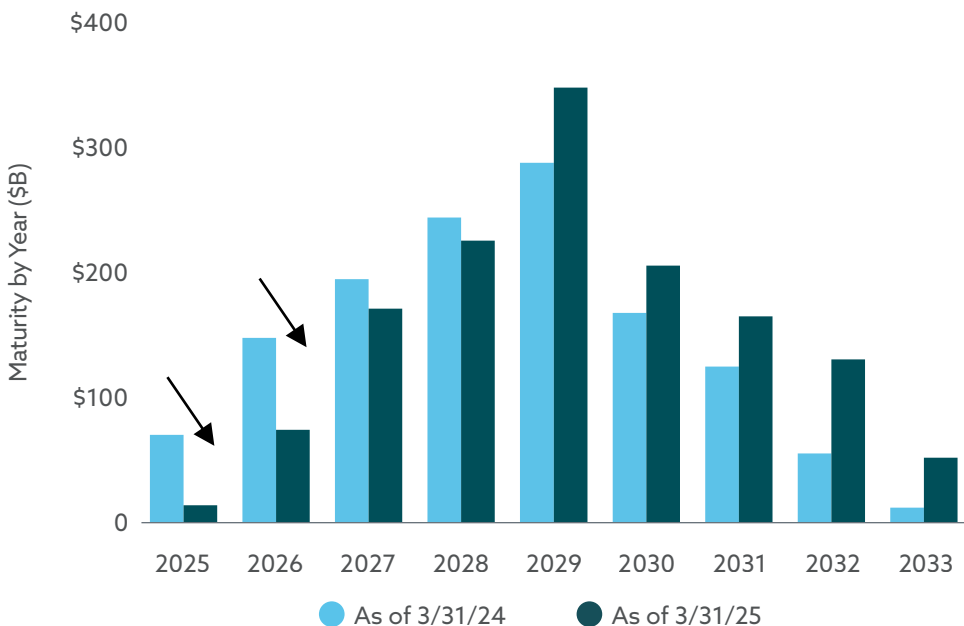
(1) Treasury.gov. 22 April 2025. (2) Unless indicated, data sourced from ICE Data Services. 1 and 22 April 2025. (3) Data in this paragraph sourced from BofA Global Research. 1 April 2025. (4) Default rate calculated at the issuer level for the last 12 months. Distress defined as bonds with spreads above 1,000 bps on a par basis.

DISPERSION INCREASING WITH SPREADS⁵



After declining in 2024, high yield dispersion increased from 64% to 71% in the first quarter. High yield spreads also widened 63 bps during the quarter. Dispersion remains high relative to spreads, providing fertile ground for credit-picking.

HIGH YIELD ISSUERS HAVE TERMED OUT DEBT MATURITIES⁶



High yield companies have issued \$276B in bonds over the last 12 months, enhancing liquidity and maturity schedules. They have already termed out most of their debt due in 2025, which has gone from \$70B a year ago to just \$13B at March-end. 2026 maturities have also been cut in half.

(5) BofA Global Research. 1 April 2025. ICE Data Services. 14 April 2025. Dispersion defined as the proportion on a face value basis of the developed market USD HY index marked +/- 100 bps outside of the overall index level. (6) BofA Global Research. 1 April 2024 and 1 April 2025.

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PPM is a US-based institutional asset manager with \$74.42 billion in assets under management as of 31 December 2024.¹ Established in Chicago in 1990, PPM exists to consistently support institutional clients in achieving their long-term value goals. We offer our

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(1) AUM includes committed but unfunded capital for PPM's private equity and commercial real estate businesses. AUM includes both securities issued by PPM CLO vehicles held by PPM separately managed account clients and the underlying collateral assets of the CLO vehicles managed by PPM.

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The **Bloomberg US Credit Index** provides a broad measure of investment grade, USD-denominated credit securities. It includes publicly-issued US and SEC-registered global corporate securities, foreign debt and secured notes.

The **ICE BofA US High Yield Constrained Index** provides a measure of below investment grade bonds, is constructed based on the ICE BofA US High Yield Index and imposes a 2% issuer cap. The **ICE BofA US High Yield Index** provides a broad measure of below investment grade, USD-denominated fixed rate corporate debt. It includes corporate bonds with risk exposures to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe.

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The **S&P 500 Index** provides a broad, market capitalization-weighted measure of US large cap stocks. It includes approximately 500 publicly-traded stocks of the largest US companies.