Credit Market Themes in 5 Charts

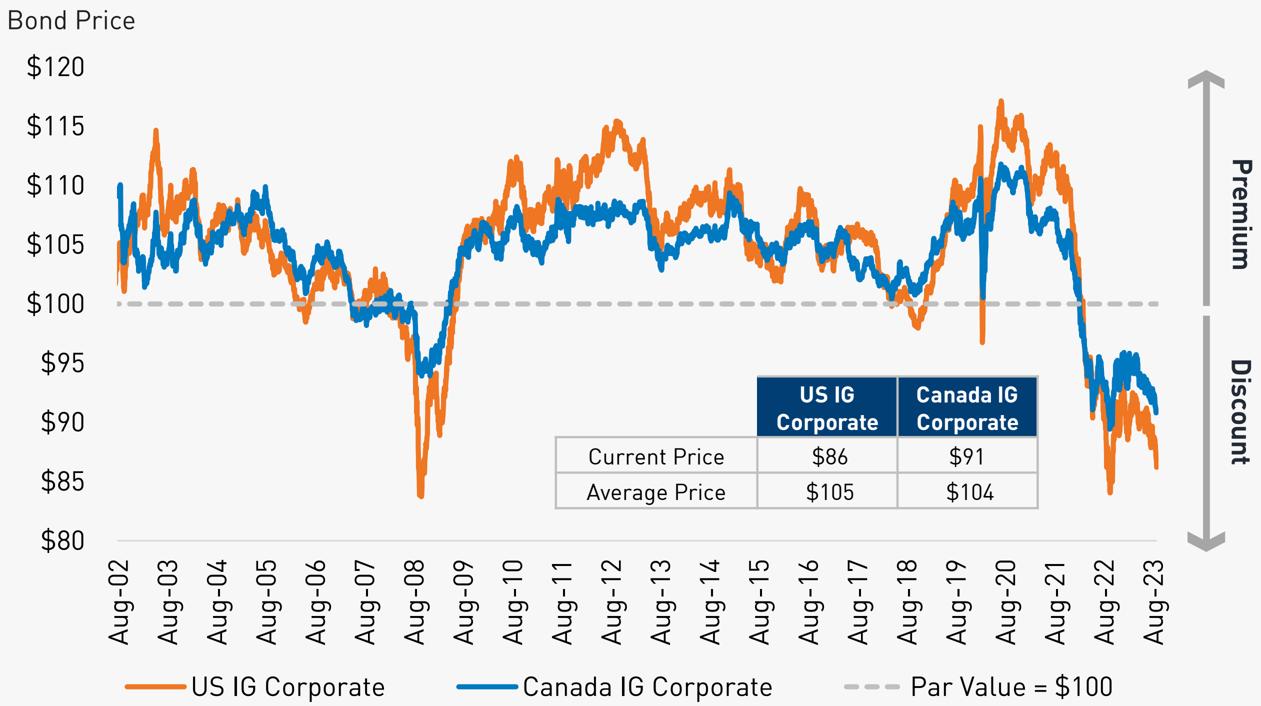
Q3 2023

Challenges and Opportunities in a “Higher for Longer” Interest Rate Environment

1 Investment Grade Bonds are Trading at an Incredible Discount

Investment grade corporate bonds are trading at price discounts representing 20-year lows. This market dynamic allows investors to participate in very attractive tax-efficient returns through capital gains when these resilient bonds pull back to their $100 par value.

Bond Prices are Trading At/Near Their Lowest Levels in Over 20 Years



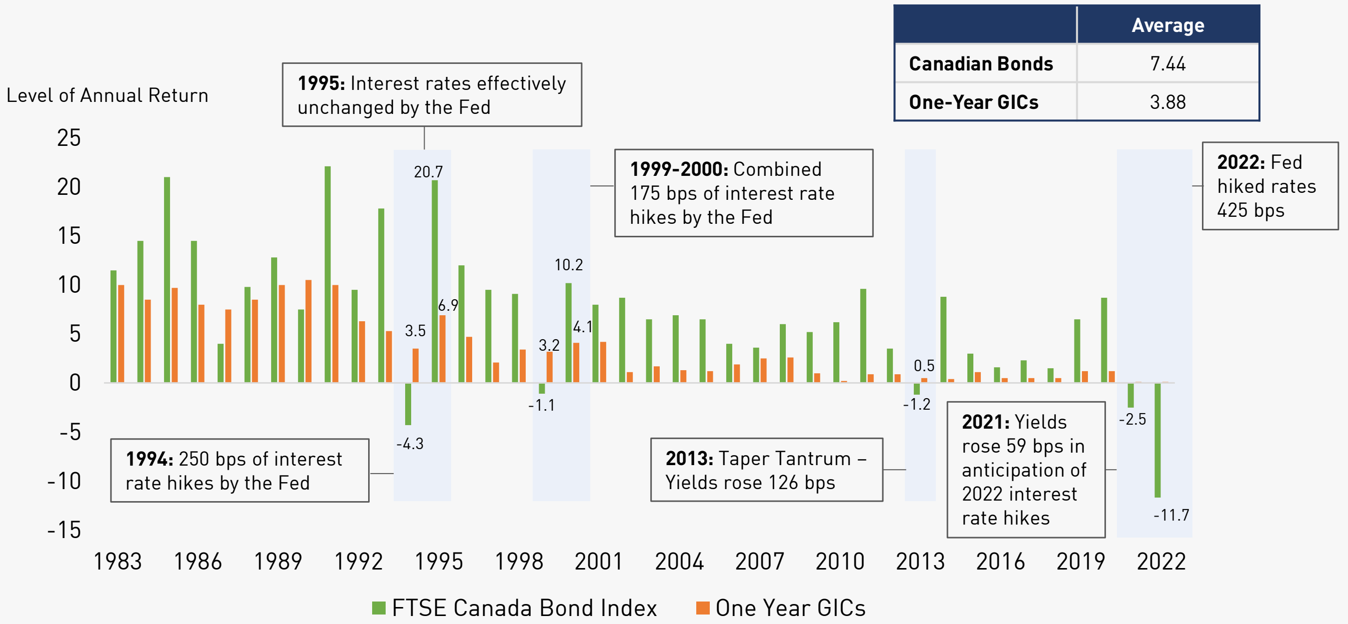
Source: Bloomberg, ICE BofA. Data as of October 3, 2023. Investment Grade Index Yield = ICE BofA US Corporate Master Effective Yield, S&P Earnings Yield = S&P 500 Forward Earnings Yield.

2 The End of a Hiking Cycle May Be the Worst Time to Choose a GIC Over Bonds

Over the past 40 years, bond returns have exceeded those of one-year GICs in 33 out of 40 years; in other words, 83% of the time.

Historical data demonstrates that following periods of interest rate hikes that led to losses, bond returns have experienced a significant recovery in subsequent years – most notably in 1995, 2000, and 2014, when the FTSE Canada Universe Bond Index generated more than twice the return as one-year GICs.

Corporate/Government Bonds Have Led GICs in Performance During Most of the Past 40 Years



Source: FTSE, Fidelity. Data as of December 31, 2022. One-year GICs performance is estimated using the GIC rate offered by major banks in the previous year-end.

3 Bonds Provided Significant Protection During Previous Market Downturns

Bonds have acted as an important ballast for portfolios during periods of market stress. A weak economy often leads to a "flight to safety" response and a sudden decline in bond yields, which leads to significant bond returns.

At current yield levels of ~6%, we believe bonds offer an exceedingly attractive opportunity and can be a material return diversifier and enhancer if equity markets deteriorate faster than expected.

Bonds Historically Acted as a Ballast During Equity Drawdowns

Market Event	Period	MSCI World Return	Aggregate Bond Returns
LTCM	July 1998 - Sept 1998	-21%	5%
Dot-com Bubble	April 2000 - Oct 2022	-49%	28%
Great Financial Crisis	Nov 2008 - Feb 2009	-57%	6%
Euro Debt Crisis	May 2011 - Sept 2011	-22%	5%
COVID-19 Crisis	Feb 2020 - Mar 2020	-34%	-1%
	Average	**-36%**	**9%**

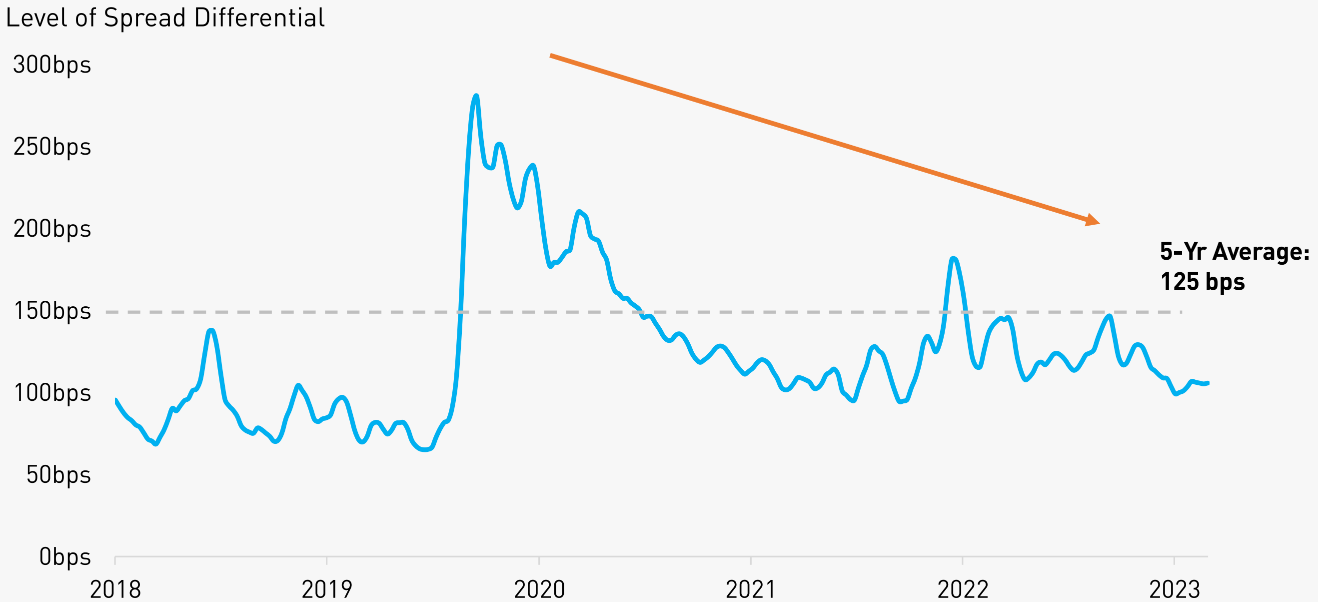
Source: Bloomberg, MSCI, GMO. Data as of October 2, 2023. MSCI World Return = Total Return of the MSCI World (USD), Aggregate Bond Returns = Bloomberg US Aggregate. LTCM = 07/20/98 – 10/05/98, Dot-com Bubble = 03/27/00 – 10/09/02, GFC = 10/31/07 – 03/09/09, Euro Crisis = 05/02/11 – 10/04/11, Covid-19 Crisis = 02/19/20 – 03/23/20.

4 On Average, Investment Grade Credit Spreads Look Attractive Relative to High Yield Spreads

The additional credit spread earned from investing in BB-rated credits (versus BBB- rated credits) has declined from 270 bps to around just ~100bps since the COVID-19 crisis. Given the uncertain economic outlook, we believe it is prudent to invest higher in the ratings spectrum and focus on credits with stronger balance sheets.

If you combine the current level of BBB credit spreads with the elevated level of interest rates, the expected return converges on the long-term expected return of equities but with considerably less risk.

The Additional Credit Spread Captured by Investing in BB Bonds vs. BBB Bonds Has Been Shrinking

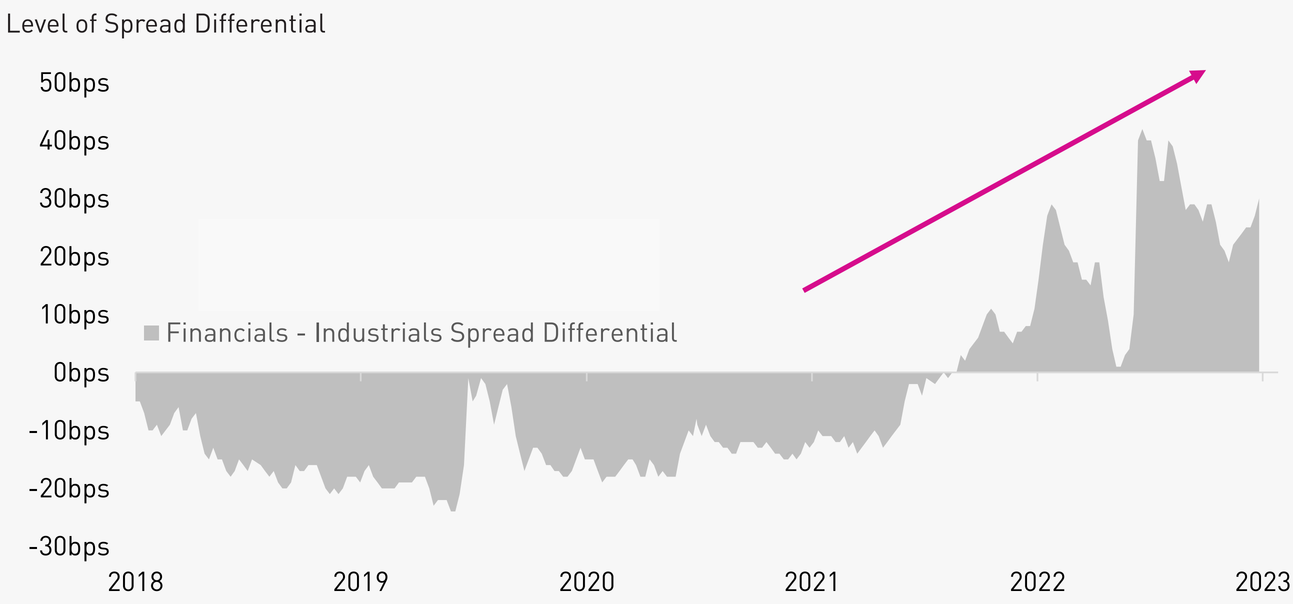


Source: Bloomberg. Data as of September 22, 2023. Index = ICE BofA BB/BBB US Corporate Index Option-Adjusted Spread.

5 We Still See Good Value in Financial Issuers Compared to Corporate Issuers - Especially "GSIBs"

Banks and other financial issuers experienced more credit spread widening than non-financial issuers following the failure of Silicon Valley Bank and the takeover of Credit Suisse. We continue to see value in financial issuers, particularly in Global Systemically Important Banks ("GSIBs").

OAS Differential Between U.S. IG Financials vs. Industrials - Past 5 Years



Source: Bloomberg, ICE BofA. Data as of September 25, 2023.
Financials Index Spread = Bloomberg US Aggregate Finance Avg OAS (LUAFOAS), Industrials Index Spread = Bloomberg US Aggregate Industrials Avg OAS (LUAIOAS).

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