CIFC Asset Management

Forward Thinking

2025

New York
+1 212-624-1200

Miami
+1 786-652-3250

Philadelphia
+1 215-972-8900

London
+44 203-841-6195

www.cifc.com

As I write, the presidential baton is passing from Biden to Trump in the U.S.. All we can predict with certainty is that things will not stay the same.

Change is inevitable and always unsettling. The desire to accurately predict the future is both highest in periods of uncertainty as well as most unrealistic. At CIFC, our philosophy is to not predict markets but to construct portfolios that meaningfully insulate our investors from the risks presented by the downside scenarios associated with the uncertainties that lie ahead.

We believe that credit remains both a defensive and performance generating asset class that has a demonstrated track record through multiple uncertain environments. Strong bottom-up credit selection, based on thorough research, builds portfolio resilience, as sectors and companies are not equally impacted by events. Good companies have demonstrated their ability to adapt. It's important to remember that beneath the surface of daily macro concerns, credit remains highly idiosyncratic.

In this overview of 2024 and look-ahead, CIFC's Deputy Chief Investment Officer, Stan Sokolowski, offers a thoughtful summary of our macroeconomic and credit market outlook. He does not shy away from highlighting potential risks ahead including geopolitical events and fiscal policy missteps. However, history shows that strong credit selection and disciplined risk management can significantly mitigate these risks.

While change is uncomfortable, it brings opportunities, and we see plenty of them in the year ahead.

Steve Vaccaro
CEO and CIO, CIFC Asset Management

Credit Where Credit is Due

As 2024 draws to a close, we reflect on another remarkable year for risk returns, driven by above-trend growth, moderating inflation, and supportive monetary policy. Despite facing persistent challenges – escalating geopolitical tensions abroad, elections, consumer worries, technological disruptions, and severe climate events – markets showed extraordinary resilience.

U.S. equities reached all-time highs, thanks in large part to AI enthusiasm, while high yield bonds and leveraged loans delivered 8.63% and 8.95% respectively, as shown below in Fig 1. Those who overweighted equities and credit saw strong performance. However, traditional fixed income investors were disappointed again.

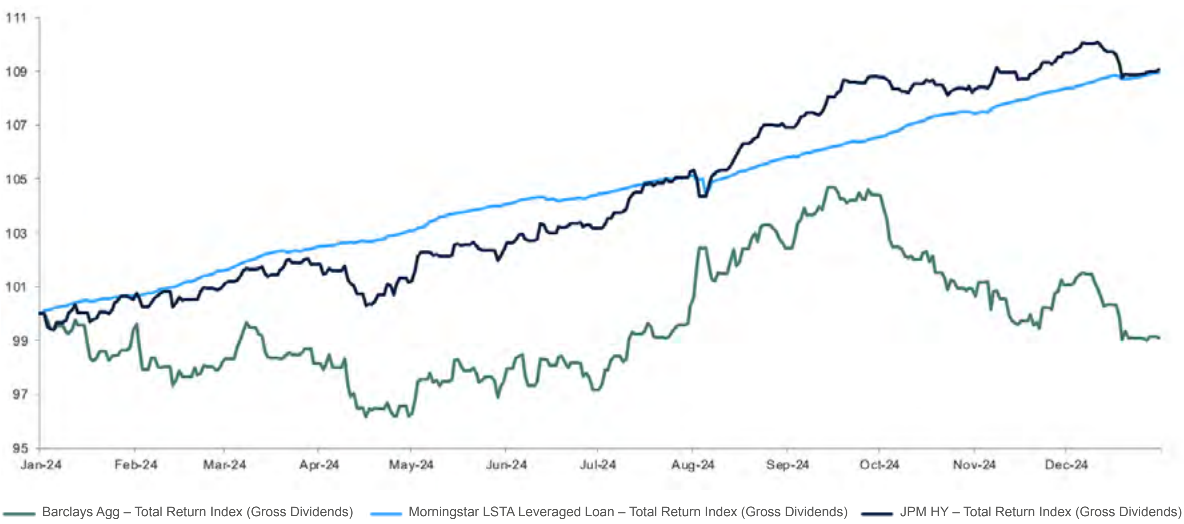
The Bloomberg Barclays Agg fell 1.69%, shown in Fig 1, as persistent rate volatility whipsawed long-term rates in spite of the commencement of the Federal Reserve's easing cycle. This is consistent with the Agg's performance over the past 10 years, which has totaled a meager 1.51% (i.e. 15 bps per annum). Furthermore, as the year concluded, both the rate markets and the Fed were pricing in fewer cuts ahead. We suspect this will continue to generate ongoing headwinds for traditional, duration-exposed fixed income assets.

U.S. consumer health was a key pillar of economic stability, underpinned by strong labor income, wealth gains, and healthy balance sheets. Spending endured, and the wealth effect was evident across the economy. While they never fully dissipated, risks subsided significantly as the year progressed. The art of investing often lies in knowing which warning signs to heed and which to overlook. This is a skill that paid dividends – and interest (pardon the pun) – in 2024. As the year concluded, there appeared to be no significant signs of a recessionary slowdown, leaving the economy on a solid footing.

Stan Sokolowski
Managing Director
Senior Portfolio Manager
Deputy Chief Investment Officer

"The art of investing often lies in knowing which warning signs to heed and which to overlook. This is a skill that paid dividends... in 2024"

Fig 1. Barclay's Agg, Loans & HY Bonds: 2024 Performance



Source: Bloomberg data as of 12/31/2024

Credit market review

Corporate issuers navigated the year's challenges with resilience, adjusting effectively to evolving economic and capital market conditions. Credit absorbed downgrades, liability management exercises (LMEs), and defaults as spreads tightened and financing costs declined.

Key themes

Fundamentals: Credit fundamentals troughed and began to trend better, while maturity walls were once again extended. The distressed universe shrank as weaker issuers exited.

Defaults: Challenges were largely focused on smaller, overleveraged issuers, and situations that were often idiosyncratic in nature. Non-LME defaults peaked and slowly declined during the year. However, distressed exchanges played a growing role in managing liabilities. The offset to these exercises was higher recoveries. The JPMorgan index showed a 26% improvement in LME recoveries vs. non-LME recoveries[1].

Refinancing: Record-breaking refinance activity in the year allowed loan issuers to reduce borrowing spreads by an average of 57 bps, leading to approximately $3.1bn of interest savings.

Supply and demand: Supply remained muted as buyer / seller valuation gaps and elevated rates curbed new money activity. Meanwhile, demand for loans was bolstered by record CLO issuance and strong institutional and retail inflows.

Performance: Credit performed well, with returns besting long-term averages, reflecting easing funding costs and a healthy macro backdrop.

In summary, the credit markets delivered solid returns, absorbing disruptions with surprising durability, likely setting a stable foundation for 2025.

"The credit markets delivered solid returns, absorbing disruptions with surprising durability, setting a stable foundation for 2025."

1. Source: JPMorgan 2024-25 High Yield Leverage Loan Outlook, November 26, 2024

Outlook

As we look to 2025, handicapping fiscal, monetary, regulatory, tariff / trade and immigration policies of the incoming Trump administration will be a key challenge. Markets like clarity, but it will take time – and policy sequencing will matter.

Our current macro assessment

- **Macro environment:** Likely above-trend growth, deregulation, and fiscal support from the incoming U.S. administration will create tailwinds. However, risk associated with geopolitical tensions, immigration policy, and potential tariff changes introduce offsetting uncertainties. This is a good environment for credit, in our opinion.
- **Interest rates:** Both the pace and number of rate cuts are expected to slow, consistent with a still-strong economy. This has important implications for how investors should think about investing going forward. This probable, gradual (and shallower) decline in rates is supportive of floating-rate assets like loans, private credit, and structured credit, in our view.
- **Valuations and returns:** We believe many markets, equities in particular, are pricing in substantial optimism, leaving little room for disappointment. While credit spreads are tight, reflecting robust fundamentals, we believe the return stream is more certain and less volatile in credit than for many alternatives available today.

The credit markets are entering the new year on a stronger footing, characterized by troughing fundamentals, peaking defaults, lower interest rates, and a smaller distressed universe as most weaker issuers have already defaulted or restructured. Consumers and corporates, overall, are in good shape (yes, there is always the exception, in particular for lower cohorts). Also, if you are price-sensitive, you will probably need more compensation to add traditional fixed income exposure. Overall, we are constructive but, once again, selective.

"If you are price-sensitive, you will probably need more compensation to add traditional fixed income exposure."

Our current credit market assessment

- **Spreads:** Likely to remain tight and rangebound. History shows that spreads can stay in low ranges for extended periods, as the years of 2004-2007 and 2016-2019 demonstrated. As such, carry will be a larger driver of returns versus price.
- **Defaults:** Credit losses will likely be contained as defaults stay manageable and idiosyncratic (again). Trouble spots are small, known, and controllable. As always, those with outsized interest burdens and / or over-levered balance sheets and / or mismanaged businesses will probably not be able to outrun the path of rates. Nevertheless, the vast majority of the credit market will persevere (again).
- **Demand:** Demand for income products will continue to grow, given (among other secular trends) demographics. Shorter-duration investments provide an attractive carry profile that many investors crave. For non-U.S. investors, U.S. credit is still one of the most attractive investments, despite hedging costs, as many face limited domestic alternatives.

Investment implications

- **Opportunities:** We believe yields are at levels that can absorb various disruptions, while spreads are likely to be rangebound. Front-end, higher-yielding, income-focused strategies, and floating-rate assets offer attractive risk-adjusted returns, in our opinion.
- **Risk management:** While risks such as geopolitical events, fiscal policy missteps, and inflation shocks lurk, effective and disciplined risk management to avoid defaults and losses will remain at the forefront.
- **Upside potential:** Credit markets are well-positioned to deliver strong positive returns, with opportunities outweighing downside risks, in our view.

Conclusion

As we enter a new year, the environment certainly presents challenges. It also offers opportunities for informed investors who embrace risk where they understand what they are being compensated for. Credit has consistently shown its resilience and positive performance both in recent years and in past decades, especially during periods of growth and accommodative monetary policy. We maintain a constructive outlook and favor strategies focused on yield, income, and floating-rate carry. We believe the current backdrop of above-trend growth and moderating rates bodes well for credit investments. With effective risk management and selective risk-taking, investors can navigate the complex landscape in front of them and capitalize on the opportunities that the new year has to offer.

Confidentiality and disclaimer

This newsletter has been prepared by and contains selected information about CIFC Asset Management LLC (collectively, and with each of its affiliates "CIFC") and about the assets that CIFC manages. This newsletter has been prepared and is being furnished solely for informational purposes solely for use by you in discussions with CIFC. In particular, this newsletter is not, and is not intended to be, an offer to sell, or a solicitation of an offer to purchase any securities or any other interest in CIFC, or in any fund, account or other investment product or assets managed by CIFC or to offer any services. Any such offering and sale would be made only on the basis of certain transaction documents and, as the case may be, a final offering circular and related governing and subscription documents (together, "Transaction Documents") pertaining to such offering and sale and is qualified in all respects and in its entirety by any such final Transaction Documents. For further disclosures, please refer to https://adviserinfo.sec.gov/

This newsletter has been prepared and is being furnished solely for informational purposes for use by you in discussions with authorised parties representing CIFC strategies in respective jurisdiction.

In the United Kingdom, this newsletter is issued by CIFC Asset Management Europe Ltd, which is authorised and regulated by the Financial Conduct Authority.

Any investment discussed herein is subject to risk. Past performance is not indicative of future results and there can be no assurances that an investment will achieve comparable results or that the entire principal investment will not be lost.

The views and statements expressed herein are those solely of CIFC. This newsletter contains preliminary information only, is not intended to form the basis of an investment decision, is subject to change at any time and is not, and should not be assumed to be, complete or to constitute all the information necessary to adequately make an investment decision. No representation is made as to the accuracy or completeness of the information set forth herein.

The information contained in this newsletter is based in part on past performance and certain assumptions, particularly about future performance. These assumptions have certain inherent limitations and will be affected by any changes in the structure, criteria or assets involved in particular transactions. Some assumptions are not identified in this newsletter. Actual performance may differ, and may differ substantially, from that set forth in this newsletter. No representation is made that the scenarios described herein are accurate or complete or do not contain errors, or that alternative assumptions would not be more appropriate or produce significantly different results. The terms and characteristics of any investment with CIFC, or in any fund, account or other investment product managed by CIFC may change based on economic and market conditions. CIFC assumes no obligation to update or otherwise revise any projections, forecasts or estimates contained in this newsletter, including any revisions to reflect changes in economic or market conditions or other circumstances arising after the date of this newsletter or to reflect the occurrence of unanticipated events. The investments identified do not represent all of the investments purchased, sold, or recommended for clients.

Even if the target return is met, actual returns to investors may be lower due to expenses, taxes, structuring considerations and other factors. In addition, the target return may be adjusted at the discretion of CIFC without notice to investors in light of available investment opportunities and/or changing market conditions. There are numerous assumptions that factor into the target return that may not be consistent with current or future market conditions and that may significantly affect actual investment results, including the availability of suitable investment opportunities and the expected outlook for certain global and local economies, markets and asset classes. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in calculating the target return have been disclosed or fully considered. Prospective investors reviewing the target return contained herein must make their own determination as to the reasonableness of the assumptions and the reliability of the target return. Actual results and events may differ significantly.

This Information includes details of past investment performance in respect of assets included in the Transaction. Past performance is not indicative of future returns and there can be no assurance that the same or comparable returns will be achieved. The value of investments may fall as well as rise. Unless otherwise indicated, all returns presented are gross returns and do not reflect deduction of fees and expenses. The returns would have been lower if shown net of fees and expenses. Details of investment performance represent the current expectations, estimates, projections, opinions, and/or beliefs of CIFC which may change substantially and may not reflect the actual return and may not reflect the actual return realized with respect to any asset. Actual events may differ from those assumed. Any projections, statements or other estimates in the Information, including statements of intent, estimates of returns or performance are forward-looking statements. There can be no assurance that statements, estimated returns or projections can be realized or achieved, that forward-looking statements will materialize or that actual events will not be martially less advantageous than those presented. Other events which are not take into account in the Information may occur and may differ significantly from those presented. Due to various risks and uncertainties, actual events or results or the actual performance of the investments described in the Transaction may differ materially from those reflected or contemplated in such forward-looking statements.

Certain information contained herein constitutes "forward-looking statements," which can be identified by use of forward-looking terminology such as "may," "will," "should," "expect," "attempt," "anticipate," "project," "estimate," "intend," "seek," "target," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to the various risks and uncertainties, actual events or results in the actual performance of investments may differ materially from those reflected or contemplated in such forward-looking statements.

Morningstar LSTA Leverage Loan Index – The Morningstar LSTA Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads and interest payments. The index is reviewed weekly to reflect pay-downs and ensure that the index maintains its characteristics. The index returns are calculated daily as described in Morningstar.

Bloomberg Barclays Aggregate Bond Index – The Bloomberg Barclays Aggregate Bond Index, or "Agg" (for aggregate), is a broad-based fixed-income index used by bond traders, mutual funds, and ETFs as a benchmark to measure their relative performance.

JP Morgan Leveraged Loan Index – The JP Morgan Leveraged Loan Index is designed to mirror the investable universe of USD institutional leveraged loans, including US and international borrowers.

The distribution of this newsletter in certain jurisdictions may be restricted by law. This newsletter is being communicated only to and directed only at persons where it is permitted by applicable law in the jurisdiction in which those persons reside or conduct business. Accordingly, recipients of this newsletter represent that they are able to receive this newsletter without contravention of any applicable legal or regulatory restrictions in their jurisdiction.

In Switzerland, CIFC Asset Management Europe Ltd is registered with Ombudsstelle Finanzdienstleister (OFD) in accordance with Article 74 et seq. of FinSA.

CIFC is not making any representation with respect to the eligibility of any recipients of these materials to acquire the interest in any products described herein under the laws of Korea, including, but without limitation, the Foreign Exchange Transaction Act and regulations thereunder. None of the products described herein have been and will not be registered under the Financial Investment Services and Capital Market Act of Korea for public offering in Korea and none of the interests may be offered or sold directly or indirectly, in Korea or to any resident of Korea or to any persons for re-offering or resale, directly or indirectly in Korea or to any resident of Korea (as defined under the Foreign Exchange Transaction act of Korea and its Enforcement Decree), except as permitted under the applicable laws and regulations of Korea.

This newsletter is provided to you on the understanding that, as a sophisticated institutional investor, you will understand and accept its inherent limitations, will not rely on it in making any decision to invest with CIFC or in any fund, account or other investment product managed by CIFC, and will use it only for the purpose of preliminary discussions with authorised parties representing CIFC strategies in respective jurisdiction.

By retaining the newsletter , you acknowledge and represent to CIFC that you have read, understood and accept the terms of this newsletter and acknowledge and agree that the newsletter is confidential, non-public and/or proprietary information. You hereby agree to return to CIFC or destroy this newsletter promptly upon request.

Benchmarks and indices are presented herein for illustrative and comparative purposes only. Such benchmarks and indices may not be available for direct investment, may be unmanaged, assume reinvestment of income, do not reflect the impact of any trading commissions and costs, management or performance fees, and have limitations when used for comparison or other purposes because they, among other things, may have different strategies, volatility, credit, or other material characteristics (such as limitations on the number and types of securities or instruments) than any investment discussion herein. It should not be assumed that performance or the volatility of any securities held in the portfolio will correspond directly to any comparative benchmark index. We make no representations that any benchmark or index is an appropriate measure for comparison.

For information regarding our privacy policy and procedures, please visit https://cifc.com/us-privacy-notice.