Blackstone

Supply Soars as Issuers Rush to Reprice

CREDIT INSIGHTS
JANUARY 2024 MONTHLY COMMENTARY

Market Outlook

Opportunity Knocks for Credit Markets

January ushered in a myriad of opportunistic transactions across liquid credit markets, including refinancings, repricings, and dividend recaps. Corporate borrowers took advantage of the hospitable supply/demand technical and the rally at the end of 2023 to extend maturities and reduce funding costs.

US loans experienced the strongest repricing wave since February 2021, taking the percentage of outstanding loans repriced since the start of September to 10.4%.[1] High yield issuers also jumped on the opportunity to refinance and extend existing debt at the fastest pace since September 2021.[2]

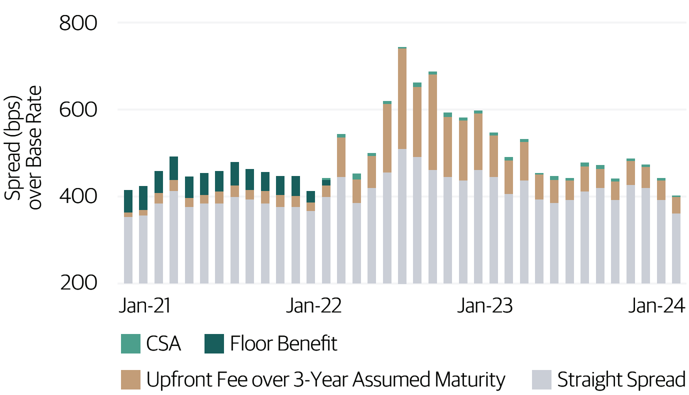
The onslaught was perhaps inevitable after the strong fourth quarter rally pushed the number of loans trading over par above 40%.[3] Lenders generally had little choice but to roll into the repriced loans given the lack of new money supply left them without much of an alternative to redeploy any paydowns.

Lenders did win some small concessions later in the month as fatigue set in, and activity slowed as the percentage of par-plus loans dropped to 13% by month-end, reducing the number of viable refinancing candidates.[4]

All told, US new issue loan spreads dropped 55bps month-on-month in January, reverting to close to 2021 levels, averaging SOFR+250 for BB/BB- rated term loans and SOFR+370 for B/B+ transactions. These levels are about 30% lower than 2022/2023 peak spreads for both cohorts.[5]

Repricing Trend Takes New Issue Spreads Lower[6]

All-in New-Issue Spread of B/B+ Issuers



A similar repricing surge in Europe shaved an average of 73bps from borrowers' cost of financing in January, with some reducing margins by as much as 100bps. That's taken single-B spreads to roughly E+400 with little or no discount from an average of E+475 plus a point of OID at the end of 2023.[7]

Repricing Repercussions

The cost savings are a clear benefit for borrowers, especially given higher base rates. But what about for investors?

Actually, the trend is not as impactful as the headline narrative might suggest. A look at previous periods suggests that even heavy repricing activity doesn't significantly impact loan returns; the month-to-month decrease in interest coupons is only marginal, while price returns tend to be relatively stable as softening in par-plus loans is typically more than offset by the rally in sub-par loans.

Our data shows that during months of heavier repricing activity (31 months), loans generated an annualized price return of 0.6% (5.8% total return). By comparison, during lower volume periods (57 months) loans generated an annualized price return of -1.2% (4.7% total return).

Both US and European loans continue to demonstrate ongoing strength in January despite the repricings, outperforming fixed-rate high yield and investment grade bonds. And, with Chairman Powell downplaying a March pivot, we believe elevated base rates should support the attractiveness of loans from a carry perspective.[8]

Just as issuer-friendly supply/demand technicals often allow companies to chisel down the interest paid to borrowers, the same technical dynamic can also reduce secondary loan volatility. We believe that current market conditions suggest this stable environment will persist; the visible new money loan pipeline remains minimal, while our estimates point to an uptick in CLO warehouse dry powder, which may act as a shock absorber to any broader market weakness. Inflows into loan retail funds turned positive in the final weeks of 2023 and continued into January, as hopes for a soft landing increased, acting as another technical tailwind.[9]

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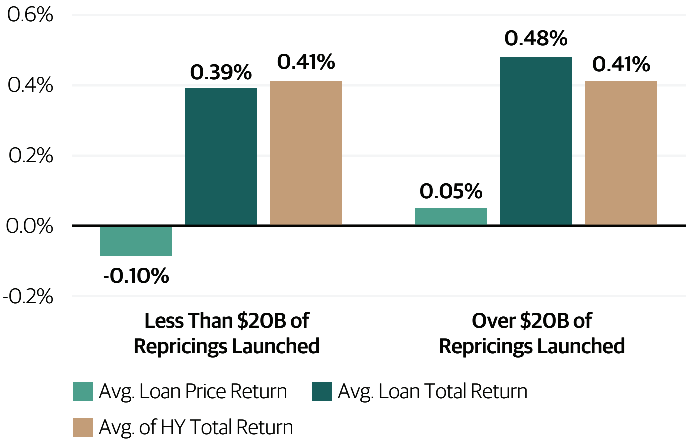
Nonetheless, retail ownership of the loan market of approximately 6.5% remains near its all-time low, down from roughly 11% at the end of April 2022, reducing the risk of loan mark-to-market volatility.

Loan Returns Hold Up during Heavy Repricing Periods

Average Loan, HY Returns in Loan Repricing Environments (since September 2016)



There may be other repercussions. We are focused on the potential for tighter asset spreads to erode CLO equity distributions, a development that we expect may start to become evident as early as the April payment cycle. As well, newer CLOs may experience a greater degree of spread erosion due to the repricing activity—albeit still modest at 2bps—compared to older vintage deals, given these vehicles tended to invest in better-quality loans, which have been more susceptible to repricing.[10]

In private credit, tighter spreads across liquid assets and improved new issue markets could increase the attractiveness of syndicated solutions for private equity sponsors and corporate borrowers. Some have already started to refinance more expensive private credit loans with lower-priced facilities in the syndicated loan market.[11]

It's a trend we believe could continue, as liquid markets vie with private credit lenders for deal flow. However, while private lenders may be willing to reprice existing facilities lower to fend off competition from the syndicated market in some cases, we also believe that attributes including ease and certainty of funding, delayed-draw facilities to finance buy-and-build acquisitions, and the absence of credit ratings may also keep the private credit option attractive.

Increased Dispersion Drives Increased Alpha

As the macro conversation shifts again—with falling inflation and ongoing economic resilience strengthening the case for a soft landing—index spreads across credit markets have compressed. Despite idiosyncratic volatility among some individual borrowers, high yield index spreads are more than 100bps tighter since November and remain well below their non-recessionary long-term average.[12] Loan spreads, meanwhile, sit just above their long-term average.[13]

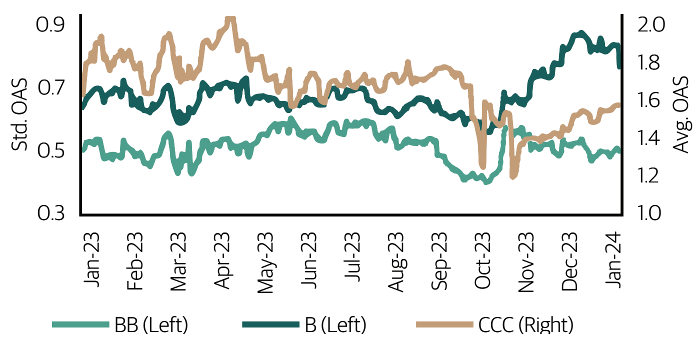
Macroeconomic and geopolitical headwinds, as well as market-specific factors, including heavy primary issuance, have the potential to cause weakness, although as before, an ongoing supportive technical dynamic may serve as a buffer to significant widening over the near term.

As base rates and spreads decrease, we expect an improvement in the cost of capital, which in turn should support an expected uptick in M&A and LBO activity.

Another change since the November rally has been an increase in credit dispersion; within high yield, for example, dispersion is at the highs of the past 12 months, creating a wider distribution of under- and outperforming names. By ratings, single-Bs have driven the majority of the increase, with dispersion within the BB bucket remaining minimal.[14]

Single-Bs Drive Increased Dispersion[15]

HY Ratings Dispersion



Strong credit selection skills remain important in this credit pickers market, given the likelihood that weaker companies will continue to face the pressure of higher rates on corporate margins and interest coverage. That keeps active managers highly focused on credit selection while continuing to add to positions that exhibit strong fundamentals and upside potential.

As always, we welcome the opportunity to engage with you on any themes discussed in this piece.

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Performance Overview

Strong prices trigger repricing onslaught

Loans outperform in credit as markets reassess rate trajectory

Central banks hold again, signal 2024 pivot

January defaults fall to lowest level since July 2023

If robust demand sent primary markets into overdrive in January, it was a different story from a credit performance perspective. After 2023's strong gains, the buoyant year-end mood gave way to renewed rates volatility as markets digested the prospect of the Fed maintaining a more restrictive stance "for some time."[16]

Fixed-rate credit was particularly impacted by the ensuing upward shift in the yield curve, leaving floating rate loans and CLOs to outperform. The 10-year Treasury returned negative 0.3% over the month to close at 3.97%, having touched 4.20% earlier in the month.[17]

A late-month rally enabled high yield bonds to nearly erase losses incurred earlier in the month, although investment grade bond returns ended in negative territory. Equity markets were the clear winner, rallying to record highs as hopes increased for a soft landing.

The Fed, ECB, and BoE all held steady on rates for a third consecutive session, despite inflation trending lower in both the US and Europe. The Fed's preferred gauge of underlying inflation (core PCE) slipped below 3%, its slowest annual pace in nearly three years.[18] Data, including Q4 GDP, continues to imply ongoing economic resilience and labor market strength in the US.[19]

Fed Chairman Powell echoed the sentiment of his European and UK counterparts when he downplayed the potential for a near-term cut. Officials from all three central banks have now signaled the potential for easing later in the year, and have also reiterated their desire to see sustainable signs of cooling back to their respective 2% targets before lowering borrowing costs.[20]

The market subsequently pushed back the first Fed rate cut to May, although expectations currently remain for six cuts through the year. We expect markets to continue to debate the pace and timing of rate cuts in 2024 in response to macro data releases and central bank speak.

Primary market activity dominated credit headlines over the month, as corporate borrowers jumped on the run-up in trading levels to reprice, refinance, and extract dividends from existing loan and high yield deals. In investment grade, issuers priced the most new bonds in a calendar month on record.[21]

Technicals remained supportive, with new money deals staying scarce and inflows into high yield and loan funds over the month.[22]

After some initial widening credit spreads tightened, and yields fell once again. Loan prices softened with the repricing wave, although they remain at a 20-month high on average.[23] Compression was a key theme early month, as managers picked from among the relatively few opportunities to deploy cash at discounted levels.

Macroeconomic and geopolitical headwinds, as well as market-specific factors, including heavy primary issuance, have the potential to cause weakness, although as before, an ongoing supportive technical dynamic may serve as a buffer to significant widening over the near term.

January registered the lowest default/distressed exchange volume since July with just three defaults. The par-weighted US high-yield bond and loan default rate reduced to 2.77% and 3.22% in January (on a last-twelve-month basis and including distressed exchanges).[24]

The distressed universe of bonds and loans is also at a low since August 2022, totaling $171 billion, or 6.2% of leveraged credit.[25]

High yield bond and leveraged loan default rates are forecast to decline modestly in 2024 to 2.75% and 3.25%, respectively, before rising again in 2025 to 3.00% and 3.75%. For context, the 25-year average HY and LL default rates are 3.4% and 3.0%, respectively.[26]

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Market Stats

(as of January 31, 2024)[27]

	January	QTD	YTD
Morningstar LSTA US Leveraged Loan Index	0.68%	0.68%	0.68%
Bloomberg US Corporate Investment Grade Index	0.00%	0.00%	0.00%
Bloomberg US High Yield Index	-0.17%	-0.17%	-0.17%
Credit Suisse Western European Leveraged Loan Index	1.32%	1.32%	1.32%
Credit Suisse Western European High Yield Index	0.59%	0.59%	0.59%
S&P 500	1.68%	1.68%	1.68%
Euro Stoxx 50	2.97%	2.97%	2.97%

	Spread (in bps)			Yield			Price		
	Level	MTD	YTD	Level	MTD	YTD	Level	MTD	YTD
US Loans	458	(1)	(1)	10.10%	-0.03%	-0.03%	$96.27	$0.04	$0.04
US HY	365	19	19	7.80%	0.21%	0.21%	$92.73	($0.34)	($0.34)
EU Loans	480	(25)	(25)	8.52%	-0.05%	-0.05%	€97.23	€0.61	€0.61
EU HY	425	(11)	(11)	7.13%	0.06%	0.06%	€93.24	€0.53	€0.53

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US Investment Grade Market

Investment grade bonds got off to a sluggish start to the year performance-wise, posting a negative return for January as rates volatility returned. The strong end to 2023 may also have pulled forward some of the potential new year performance. Investment grade bonds lost 0.17% in January, although were able to recover from losses of 1% earlier in the month. That compares to December's 4.24% gain and an annual gain of 8.5% for 2023.[28]

Rate volatility calmed over the month, per the MOVE index, which dropped to 101 from average levels of 121 in 2023 and 127 at the start of the month. This, together with strong investor appetite, acted as a tailwind for spreads which recovered from initial widening to touch 2-year annual tights at 92bps and offsetting some of the price pressure due to weaker Treasuries. The Index YTW closed at 5.18% vs. 5.15% at the start of the year.[29]

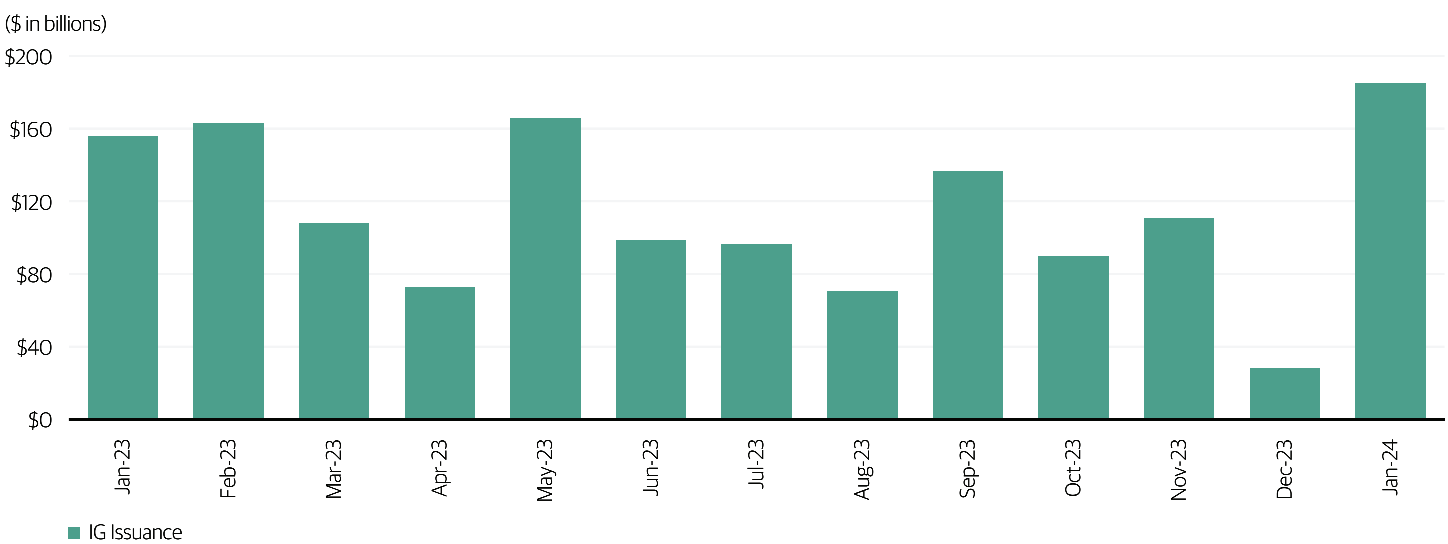
By contrast, supply was far from sluggish, as borrowers jumped on the lower rates available vs. the previous quarter. They priced $187 billion of new deals to set a new record for the month of January vs. the previous all-time record of $175 billion. Borrowers from the financial sector were particularly active over the month.

The best-performing sectors in January were home construction, P&C insurance, and life insurance. The worst-performing were construction machinery, aerospace/defense, and consumer products. BBB rated bonds fared the best across the investment grade quality spectrum, while Crossovers fared the worst.

Despite the supply glut, investor demand remained robust, particularly at the long end, allowing borrowers to set record tights from 10-year to 40-year deals. Inflows into US investment grade funds have been strong so far this year, adding up to $12 billion, of which $9.2 billion has been driven by ETFs.

Some IG traders are also predicting a pick-up in demand from Asian accounts after Japanese investors' USD hedging costs decreased to the lowest level since April 2023, having increased following September's BoJ meeting.[30] Increased demand should help support what is expected to be another busy month of primary supply in February.

Record January Supply As Issuers Hit the Market[31]



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US Loan and High Yield Markets

Loans outperformed high yield in January, gaining 0.68%, and proving more immune to the rate and duration headwinds that buffeted fixed-rate performance.[32] A late-month rally enabled high yield to claw back the initial losses incurred to end the month flat.

While rates, equities, and high yield backed up early month, loan prices continued to climb, supported by ongoing technical demand amid ongoing limited new money supply. From $94.73 in early November, average prices peaked at $96.38 mid-January, the highest since May 2022. The strength prompted an influx of loan BWICs from called CLOs, which were easily absorbed by accounts looking to deploy cash.

Ultimately pressure from the repricing wave and from accounts selling to make way for new allocations, caused prices to ease to close at $96.27. From over 40% at the start of the month, the par-plus amount of loans slipped to 19% by month-end. Secondary loan spreads stayed relatively flat on the month, while the yield-to-maturity declined to 10.10% for the overall index at month-end, roughly 70bps inside the 2023 peak in early June.[33]

The initial secondary strength sparked a deluge of primary activity, particularly opportunistic transactions, including repricings and dividend recaps. Total gross volume for the month soared to a seven-year high of $171 billion, of which just 10.6% was net supply. The lack of new money supply helped cause further retraction in the par amount outstanding tracked by the index to $1.39 trillion in January, down $9.2 billion at the end of 2023.[34]

Demand stayed strong with CLO issuers printing a record $12.5 billion of new deals in January, while $215 million flowed into loan retail funds, marking a third month of inflows after October's withdrawals.[35]

High yield greeted the new year with its first weekly loss since mid-October. The firmer tone over the second half drove a recovery, with the market gaining 1.3% in three weeks, before rate volatility picked up again into month-end as Powell pushed back against a March rate cut.[36]

Yields breached 8% initially before decreasing to close at 7.80%. Similarly, having fallen from wides of 360bps through the month, option adjusted spreads widened 17bps to a two-week high of 344bps at month end.[37]

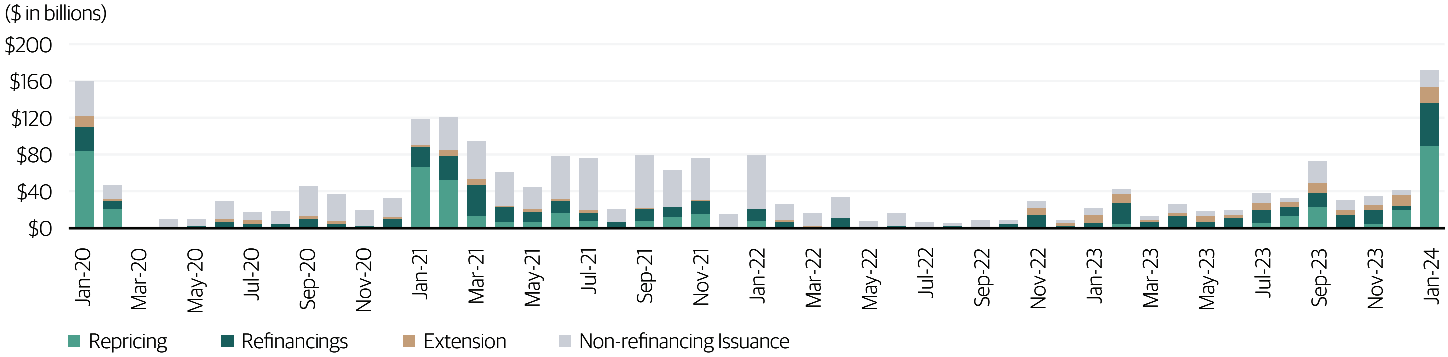
The recovery from early month losses spanned across rating cohorts, although in high yield the lowest-rated CCC assets underperformed higher-rated assets in January. That contrasts with the loan market where CCC-rated assets outperformed higher-rated assets in the first month of 2024, as investors reached for yield.[38,39]

After a slower start, the rebound in spreads and yields triggered an influx of supply. Issuers priced $31 billion of deals, a 26-month high, once again dominated by refis and maturity extensions.[40]

Strong demand allowed deals to generally price tight to initial talk and trade up post break despite the volumes. Heavy flows into high yield funds of over $3 billion over the month supported demand for primary and secondary prices.[41]

Repricings Dominate As Loan Issuance Soars in January[42]

($ in billions)



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European Loan and High Yield Markets

In a similar dynamic to the US, loans outperformed high yield in Europe, gaining 1.32% for the month vs. 0.59% for high yield.[43]

Inflation is generally trending lower, but the path down continues to be bumpy with Eurozone and UK inflation picking up again in December as governments removed support for energy costs. Both the ECB and BoE held rates steady but opened the door to loosening policy this year, with the ECB pointing to a more likely first reduction in the summer, and the BoE dropping guidance around the potential need for further tightening.[44] Meanwhile, the Eurozone avoided a recession in the latter half of 2023, as firmer growth in Italy and Spain offset weakness in Germany.[45]

We believe elevated rates should act as a tailwind for loans from a carry perspective, while ongoing hopes for a soft landing and resilient consumer balance sheets should support the fundamental outlook.

Loan prices rallied a point through the month to touch €97 for the first time since April 2022, as limited primary supply continues to support the technical dynamic. CLO managers took advantage of the knock-on impact of higher asset prices on CLO NAVs to call transactions, prompting a round of loan BWICs during the month.[46]

At 480bps, spreads closed in on their post-COVID-19 tight of 456bps. Ongoing CLO AAA compression could draw asset spreads tighter, but we remain cognizant of the potential broader macro, and geopolitical risks to push spreads wider. Lower-rated assets significantly outperformed higher-rated assets in both loans and high yield in January.[47]

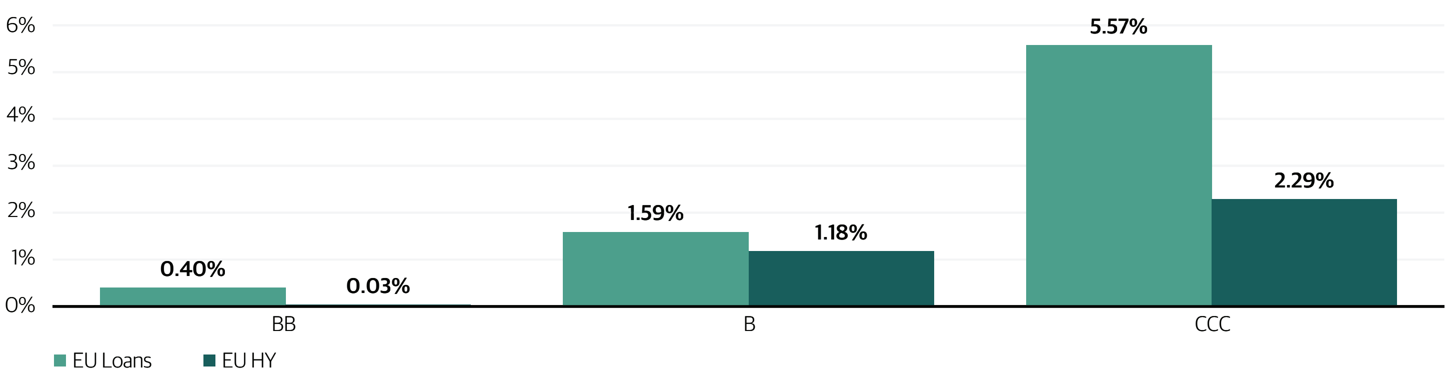
Repricings inevitably followed the secondary strength and issuers reduced margins across €13 billion over the month, alongside another €6.5 billion of loans priced in January. All told issuance ran 110% ahead of January 2023 although new money deals remained scarce.[48]

In high yield, a dovish ECB meeting mid-month and strong US Q4 GDP print helped fuel an ongoing rally that drove spreads to two-year tights at 425bps in January. The iTraxx Crossover, a gauge of sentiment in the European credit market, fluctuated through the month but remained well inside 350bps relative to an average of 408bps over the past year.[49]

Technicals also supported performance following strong inflows of €1.8 billion over the month, the second largest inflow in the past year, and compared with €541 million in December. ETFs received €1 billion of January's inflow.[50]

Despite a slower start, primary high yield supply ramped up as the month progressed. Borrowers priced €8.2 billion of new deals, 46% ahead of the same period in 2023. Average new issue single-B yields fell to 9.05% for fixed-rate bonds from 9.88% in December, while average spreads in the same rating category fell from 745bps in December to 667bps.[51]

CCC-rated Loans, Bonds Outperform at Start of 2024[52]



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US and European CLO Markets

The CLOIE index returned 0.95%, outperforming US investment grade, loans, and high yield in January. Performance was driven by carry (0.63%) and price return (0.31%), and was up across the capital stack, with lower-rated mezz tranches outperforming investment grade tranches.[53]

Rallying spreads and record supply were the main CLO themes in January. After a nearly four-week break in supply, CLO issuers returned to a significantly tighter secondary market. This sparked compression across new issue liability spreads as accounts solidified budgets and allocations. Increased demand from US banks including Citi, JP Morgan, and BofA also helped drive US CLO AAA spreads lower to as low as 148bps, the lowest spread for a two-year non-call, five-year reinvestment period transaction since April 2022.[54,55]

That result was an overall reduction in funding costs to 220bps for US CLOs and an improving CLO equity arbitrage dynamic. In Europe, new-issue triple-As fell to 150bps, the tightest since July 2022, with CLO funding costs reducing to 275bps.[56,57] However, the repricing wave in both regions could scupper the arbitrage dynamics, depending on the extent of spread reduction across loan assets. Managers took advantage of the increased demand to claw back documentation clauses they had lost in 2022/2023.[58]

Issuers stepped into the improved conditions, taking advantage of the lower funding costs to price a record $10.33 billion of new deals in the US, almost double the volume in January 2023.[59] Our estimates put the warehouse pipeline at roughly 30 separate facilities, which should translate to strong demand for loans over the coming weeks.[60] Resets and refinancings also re-emerged amid the spread reduction with total refinancing volume of $3.66 billion in January.[61]

Europe was slower to get going, but issuers still upped the pace from a year ago, pricing €1.37 billion of new deals over the month, marking the busiest January since the GFC.[62]

The strength in loan prices lifted the median equity NAV to their highest points across US and European CLOs since May and March 2022, respectively. Stronger prices also reduced the amount of distressed collateral held across portfolios. This should provide a constructive knock-on effect for quarterly equity distributions and OC ratios, while also serving as a buffer to marginal credit softening across CLO portfolios.[63]

US CLO Arbitrage Returning to Attractive Levels[64]

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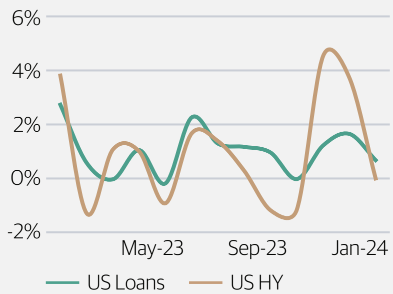
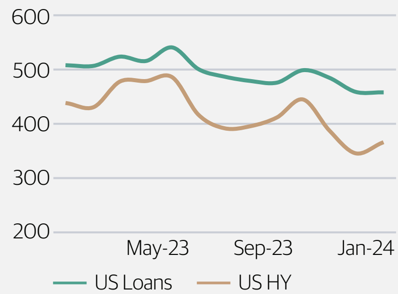
Market Snapshot

(As of January 31, 2023)[65]

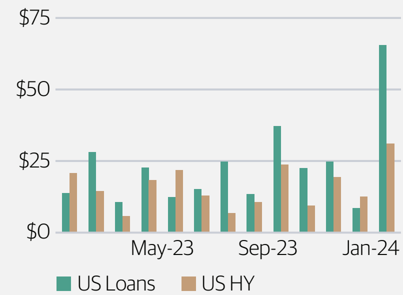
US Credit Monthly Returns



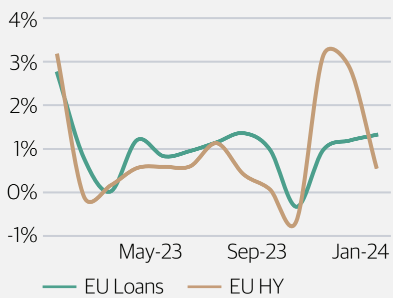
US Credit Spreads (in bps)



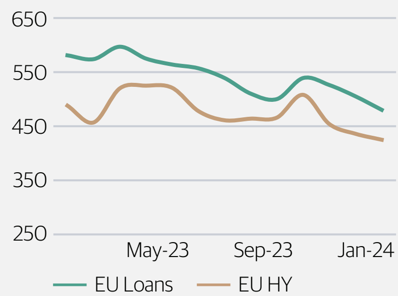
US Credit Issuance (in billions)



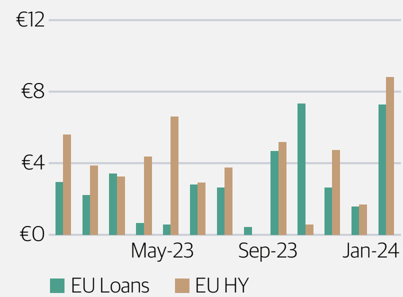
EU Credit Monthly Returns



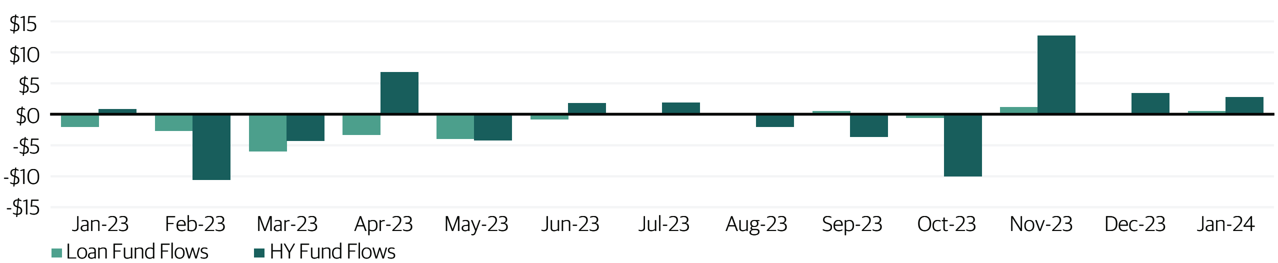
EU Credit Spreads (in bps)



EU Credit Issuance (in billions)

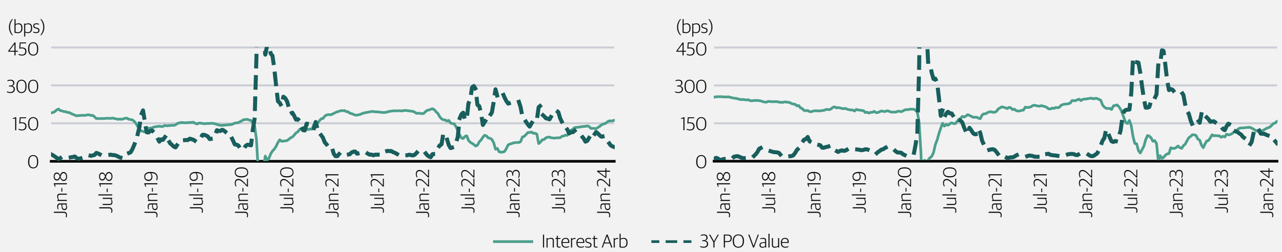


US Loan, HY Retail Fund Flows (in billions)[66]



US CLO Interest Arb & 3Y PO Value[67]

EU CLO Interest Arb & 3Y PO Value[67]



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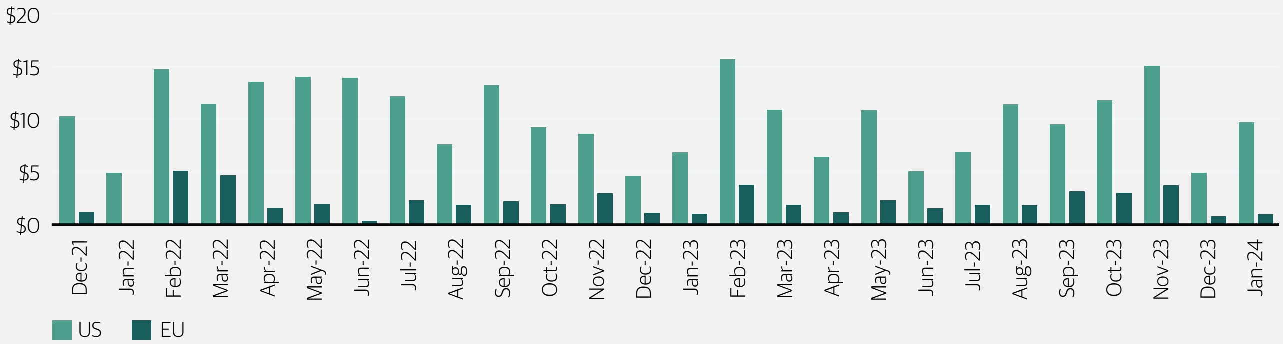
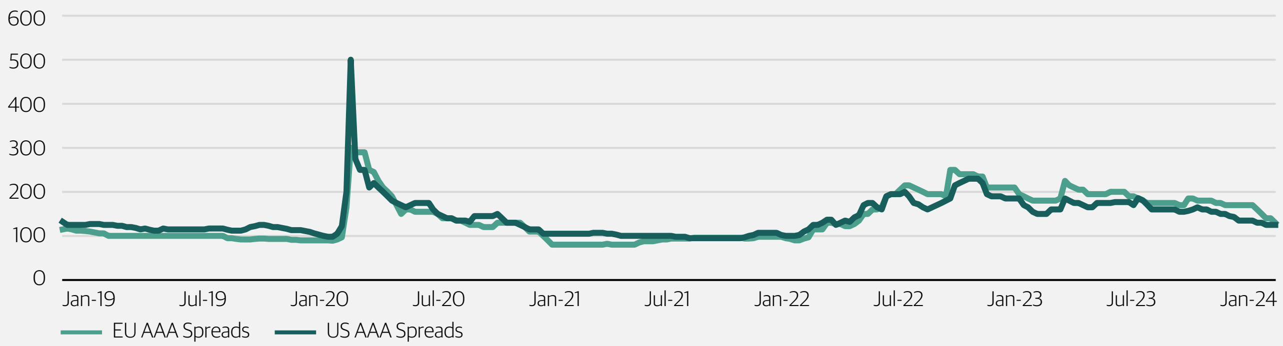
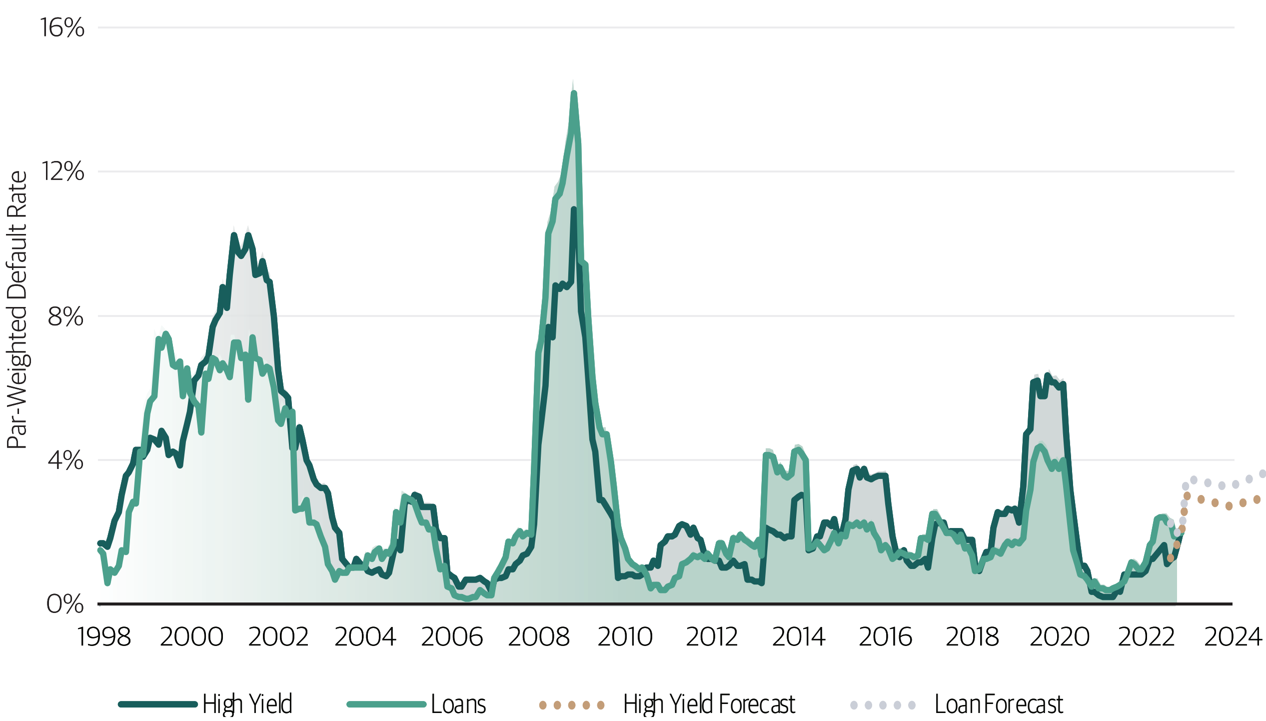
CLO Issuance (in billions)[68]



CLO AAA Spreads (in bps)[69]



US Default Rates (LTM)[70]



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Endnotes

1. Pitchbook LCD, January Wrap: Loans return 0.68% as momentum slows; net supply remains elusive, as of February 1, 2024.
2. Pitchbook LCD, US Credit Weekly Wrap, as of February 2, 2024.
3. Pitchbook LCD, January Wrap: Loans return 0.68% as momentum slows; net supply remains elusive, as of February 1, 2024.
4. Pitchbook LCD, January Wrap: Loans return 0.68% as momentum slows; net supply remains elusive, as of February 1, 2024.
5. Barclays US Credit Alpha, as of January 26, 2024. Pitchbook LCD, US Loan Market Monthly Wrap, as of February 1, 2024.
6. Pitchbook LCD, US loan repricing surge continues as spreads tighten to multiyear lows, as of January 11, 2024.
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8. Chairman Powell speaking on 60 Minutes, reported via Bloomberg News, Powell Tells '60 Minutes' Fed Is Wary of Cutting Rates Too Soon, as of February 2, 2024.
9. JP Morgan Fund Flows, as of January 31, 2024.
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11. Pitchbook LCD, Wood Mackenzie completes $1.315B TLB for refinancing; terms, as of February 2, 2024.
12. JP Morgan High-Yield and Leveraged Loan Morning Intelligence, as of February 14, 2024.
13. JP Morgan, as of February 2, 2024.
14. Barclays US Credit Alpha, as of January 26, 2024.
15. Barclays US Credit Alpha, as of January 26, 2024.
16. Bloomberg News, Fed Sees Rates Staying High for Some Time With Cuts Eyed in '24, as of January 3, 2024.
17. Bloomberg, USGG10-Year Index, as of January 31, 2024.
18. Bloomberg News, Fed's Preferred Core Price Gauge Cools Amid Robust Spending, as of January 26, 2024.
19. FT, US Treasuries Surge After Weak Jobs Data, as of February 1, 2024.
20. JP Morgan 2024 High Yield Bond and Leveraged Loan Outlook, as of February 1, 2024.
21. Pitchbook LCD, new issue data, as of January 31, 2024.
22. JP Morgan 2024 High Yield Bond and Leveraged Loan Outlook, as of February 1, 2024.
23. Morningstar LSTA US Leveraged Loan Index, as of February 1, 2024.
24. JP Morgan Default Monitor, as of February 2, 2024.
25. JP Morgan Default Monitor, as of February 2, 2024.
26. JP Morgan Default Monitor, as of February 2, 2024.
27. The volatility and risk profile of the indices presented is likely to be materially different from that of a Fund. In addition, the indices employ different investment guidelines and criteria than a Fund and do not employ leverage; as a result, the holdings in a Fund and the liquidity of such holdings may differ significantly from the securities that comprise the indices. Loan YTM (Forward Libor/SOFR) reflects spread to maturity (S&P/LCD) plus 3-year swap to 3-month USD Libor/SOFR (Bloomberg).
28. Bloomberg US Corporate Bond Index, as of January 31, 2024.
29. Bloomberg US Corporate Bond Index, as of January 31, 2024.
30. Credit Sights FX/Credit Monitor January 2024, as of January 30, 2024.
31. Pitchbook LCD, as of January 31, 2024.
32. Morningstar LSTA US Leveraged Loan Index, as of February 1, 2024.
33. Morningstar LSTA US Leveraged Loan Index, as of February 1, 2024.
34. Pitchbook LCD January Wrap: Loans return 0.68% as momentum slows; net supply remains elusive, as of February 1, 2024.
35. Pitchbook LCD January Wrap: Loans return 0.68% as momentum slows; net supply remains elusive, as of February 1, 2024.

36. Bloomberg US High Yield Index, as of January 31, 2024.
37. Bloomberg US High Yield Index, as of January 31, 2024.
38. Bloomberg US High Yield Index, as of January 31, 2024.
39. Morningstar LSTA US Leveraged Loan Index, as of February 1, 2024.
40. Pitchbook LCD, US Weekly Wrap, as of February 2, 2024.
41. JP Morgan High Yield and Leveraged Loan Morning Intelligence, as of January 31, 2024.
42. Pitchbook LCD, as of January 31, 2024. JP Morgan 2024 High Yield Bond and Leveraged Loan Outlook, as of February 1, 2024.
43. CS WELLI, CS Western European High Yield Index, as of January 31, 2024.
44. Bloomberg News, Euro Zone Unexpectedly Avoids Downturn But Struggles Persist, as of January 30, 2024.
45. Bloomberg News, Germany Narrowly Escapes Recession But Outlook Remains Tough, as of January 15, 2024.
46. BXCI Trading Commentary, as of January 2024.
47. CS WELLI, as of January 31, 2024.
48. Pitchbook LCD, as of January 31, 2024.
49. Bloomberg ITraxx Crossover Index, as of January 31, 2024.
50. Bloomberg Finance, JP Morgan, European Weekly Credit, as of February 2, 2024.
51. Pitchbook LCD, as of January 31, 2024.
52. CS WELLI, CS Western European High Yield Index, as of January 31, 2024.
53. JP Morgan CLOIE Monitor, as of February 2, 2024.
54. Pitchbook LCD, CLO Global Roundup, as of January 30, 2024.
55. Bloomberg News, JPMorgan and Citigroup Are Ramping Up Their Investment in CLOs, as of January 31, 2024.
56. Pitchbook LCD, CLO Global Roundup, as of January 30, 2024.
57. Morgan Stanley CLO Research, as of January 29, 2024.
58. BXCI CLO Investment team, as of January 21, 2024.
59. Pitchbook LCD, CLO data, as of January 31, 2024.
60. BXCI CLO Investment Team, as of January 27, 2024.
61. Pitchbook LCD, CLO data, as of January 31, 2024.
62. Pitchbook LCD, CLO data, as of January 31, 2024.
63. DB CLO Research, as of January 19 and 22, 2024.
64. Bank of America, as of January 31, 2024.
65. Morningstar LSTA Leveraged Loan Index (represented by spread to maturity and yield to maturity), Bloomberg US High Yield Index (represented by OAS and yield to maturity), Credit Suisse Western European Leveraged Loan Index (represented by 3-year discount margin and current yield), and Credit Suisse Western European High Yield Index (represented by spread to worst and yield to worst), as of January 31, 2024. See “Important Disclosure Information”, including “Trends”.
66. JPM Research, Lipper, as of January 31, 2024.
67. Barclays Research, CLO, and Leveraged Loan Monthly Update, (Kanerai, Intex, Barclays Research), as of January 31, 2024.
68. Pitchbook LCD data, as of January 31, 2024.
69. BofA Global Research, Markit, ICE Data Indices, LLC, S&P LCD, as of January 31, 2024.
70. JPM Default Monitor (chart does not include distressed exchanges), as of January 31, 2024.

Key Risk Factors

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Highly Competitive Market for Investment Opportunities. The activity of identifying, completing, and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that a Fund will be able to locate, consummate and exit investments that satisfy its objectives or realize upon their values or that a Fund will be able to fully invest its committed capital. There is no guarantee that investment opportunities will be allocated to a Fund and/or that the activities of Blackstone's other funds will not adversely affect the interests of such Fund.

Illiquidity and Variable Valuation. There is no organized secondary market for investors' interests in any Fund nor is there an organized market for which to sell a Fund's underlying investments, and none is expected to develop. Withdrawal and transfer of interests in a Fund are subject to various restrictions, and similar restrictions will apply in respect of the Fund's underlying investments. Further, the valuation of a Fund's investments will be difficult, may be based on imperfect information and is subject to inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for such investments, from values placed on such investments by other investors and from prices at which such investments may ultimately be sold.

Leverage; Borrowings Under a Subscription Facility. A Fund may use leverage, and a Fund may utilize borrowings from Blackstone Inc. or under its subscription-based credit facility in advance of or in lieu of receiving investors' capital contributions. The use of leverage or borrowings magnifies investment, market and certain other risks and may be significant. A Fund's performance will be affected by the availability and terms of any leverage as such leverage will enhance returns from investments to the extent such returns exceed the costs of borrowings by such Fund. The leveraged capital structure of such assets will increase their exposure to certain factors such as rising interest rates, downturns in the economy, or deterioration in the financial condition of such assets or industry. In the event an investment cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in the investment, which may adversely affect the returns of such Fund.

Material, Non-Public Information. In connection with other activities of Blackstone, certain Blackstone personnel may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities, including on a Fund's

Key Risk Factors (cont'd)

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Recent Market Events Risk. Local, regional, or global events such as war (e.g., Russia/Ukraine), acts of terrorism, public health issues like pandemics or epidemics (e.g., COVID-19), recessions, or other economic, political and global macro factors and events could lead to a substantial economic downturn or recession in the U.S. and global economies and have a significant impact on the Fund and its investments. The recovery from such downturns is uncertain and may last for an extended period of time or result in significant volatility, and many of the risks discussed herein associated with an investment in the Fund may be increased.

Reliance on Key Management Personnel. The success of a Fund will depend, in large part, upon the skill and expertise of certain Blackstone professionals. In the event of the death, disability or departure of any key Blackstone professionals, the business and the performance of a Fund may be adversely affected. Some Blackstone professionals may have other responsibilities, including senior management responsibilities, throughout Blackstone and, therefore, conflicts are expected to arise in the allocation of such personnel's time (including as a result of such personnel deriving financial benefit from these other activities, including fees and performance-based compensation).

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