

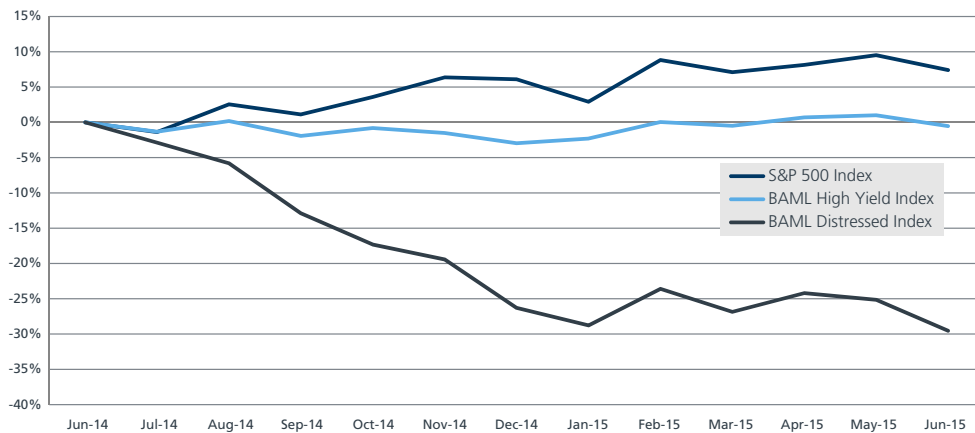
September 2015

Investment Opportunity – Stressed Credit?

Palmer Square Believes a Unique Opportunity Exists in Stressed Credit

The performance of the BAML Distressed High Yield Index has decreased dramatically over the past year while other assets have continued to rise.

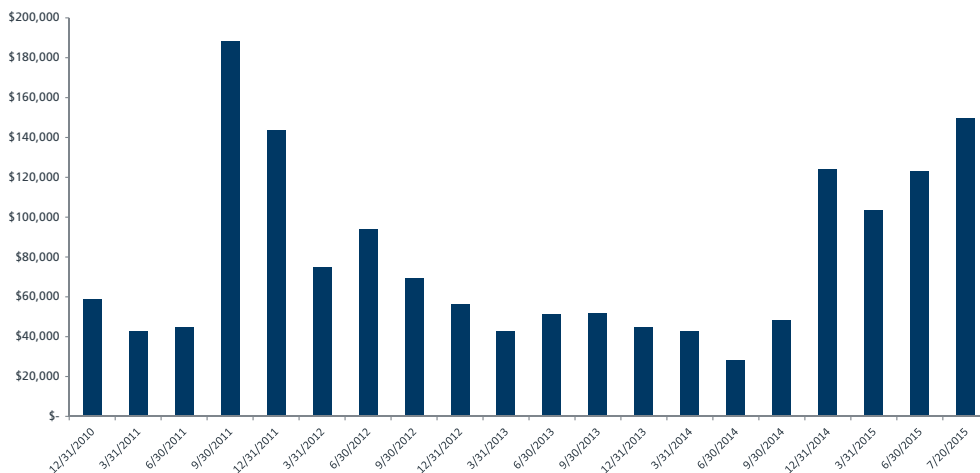
Cumulative Performance – Last Twelve Months



Source: Merrill Lynch, Bloomberg

Consistent with the decline in valuations, the stressed bond niche continues to grow, increasing the opportunity for investors to buy bonds at a discount.

Universe of Corporate Bonds Below \$85 (\$million) — Does not Include Busted Converts or Bank Loans



Source: Merrill Lynch, Bloomberg

Current Stressed Credit Pullback has Been Much Longer than 2008 and 2011

When thinking about downside environments, people most often cite 2008 or possibly 2011. Interestingly, these sell-offs were much shorter in length than the sell-off experienced in the last 12 months. The highlighted boxes below illustrate negative performance months.

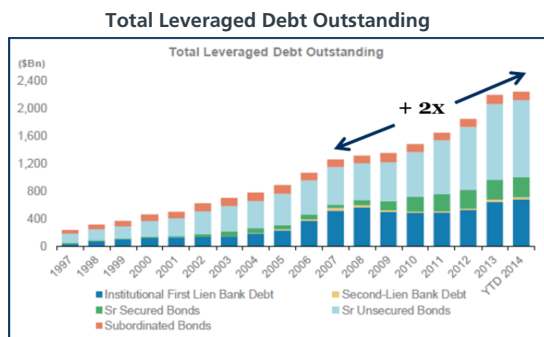
BAML Distressed High Yield Index — Monthly & Annual Returns

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Year	-4.4%	-20.2%	11.7%	24.1%	-6.6%	25.5%	116.7%	-44.9%	-12.1%	42.8%
Jan	-3.4%	2.4%	4.5%	5.0%	5.3%	4.3%	5.2%	-6.3%	8.9%	3.6%
Feb	7.3%	0.7%	-0.6%	4.0%	2.5%	0.3%	-6.0%	-2.6%	3.5%	1.0%
Mar	-4.3%	-0.6%	2.2%	0.7%	1.8%	5.8%	5.5%	-1.9%	-1.2%	3.5%
Apr	3.6%	2.3%	2.0%	0.5%	4.3%	6.3%	16.8%	6.9%	0.8%	8.3%
May	-1.3%	1.6%	1.5%	-3.6%	-1.0%	-8.0%	14.4%	3.0%	2.3%	2.7%
Jun	-5.9%	1.6%	-3.8%	2.5%	-3.4%	-0.1%	6.2%	-6.8%	0.7%	-0.9%
Jul	-6.2%	-2.9%	1.7%	2.0%	-0.6%	3.8%	8.8%	-5.7%	-14.5%	4.0%
Aug		-3.0%	0.4%	2.7%	-11.1%	-2.7%	6.2%	-1.2%	-0.5%	1.0%
Sep		-7.5%	-0.4%	3.3%	-9.7%	4.8%	12.2%	-15.8%	2.1%	0.0%
Oct		-5.1%	2.0%	0.6%	10.3%	4.7%	3.2%	-20.6%	-0.9%	4.8%
Nov		-2.6%	0.6%	0.3%	-6.0%	-0.3%	2.0%	-10.9%	-10.4%	3.8%
Dec		-8.5%	1.3%	4.2%	2.9%	5.1%	7.2%	8.1%	-1.4%	4.9%

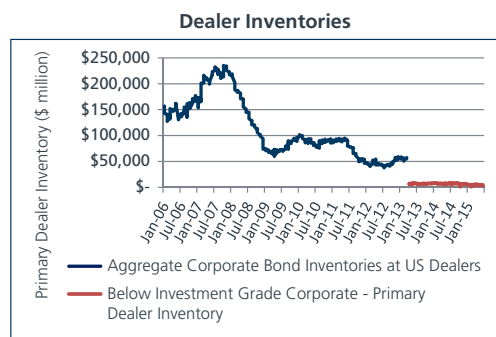
Source: Merrill Lynch

High Yield Market Technicals — Key Driver in Drawdown?

What has driven this drawdown in stressed credit? We believe shrinking dealer inventory and Wall Street proprietary desk closure have been factors which have increased market volatility and contributed to a lack of liquidity and drawdown. Dealer inventories have shrunk due to Dodd-Frank legislation. Dealers have reduced trading staffs. In addition, in risk-off environments, many investors often sell their lowest rated bonds in a flight to quality paper and focus heavily on the on-the-run more liquid high yield issues. Wall Street proprietary desks, the traditional buyers in a risk-off environment, have curtailed their activity due to the Volker Rule. Given all of the reasons highlighted above, market observers (including Palmer Square) believe resulting lack of liquidity has increased mark-to-market volatility. All of this contraction has occurred in an environment where total leveraged debt has increased 2x since 2007.



Source: Morgan Stanley



Source: New York Federal Reserve

Ultimately, opportunities to invest in stressed credit have undoubtedly increased. That said, opportunities are very company-specific in nature. As such, performing rigorous industry and company analysis is vital to generating strong risk-adjusted performance. Further, investors also need to be disciplined as to what security or securities to focus on within a company's capital structure and how to trade less liquid securities.

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