ARISTOTLE FUNDS

CORPORATE CREDIT HIGHLIGHTS

JANUARY 31, 2026

	Monthly Return (%)	Year-to-Date Return (%)	Yield (%)	Option-Adjusted Spread (BPS)			
	1/31/26	**1/31/26**	**1/31/26**	**1/31/26**	**12/31/25**	**12/31/24**	**12/31/23**
Investment-Grade Corporate Bonds	0.16	0.16	4.79 [1]	69	73	77	93
Single A Bonds	0.12	0.12	4.71	60	64	68	85
BBB Bonds	0.28	0.28	5.01	91	97	97	121
1-3 Year Credit	0.35	0.35	3.96	39	45	48	58
7-10 Year Credit	-0.06	-0.06	4.94	81	83	89	112
Long Credit	0.05	0.05	5.68	92	95	100	117
Bank Loans [2]	-0.31	-0.31	8.46	462	429	424	490
BB Loans [2]	0.06	0.06	6.63	279	263	254	309
B Loans [2]	-0.39	-0.39	8.36	452	414	425	471
High Yield	0.51	0.51	6.58 [1]	265	266	287	323
BB Bonds	0.54	0.54	5.55	159	165	179	201
CCC Bonds	0.32	0.32	9.73	595	615	558	776
Intermediate High-Yield Bonds	0.50	0.50	6.56	264	266	287	323
Long High-Yield Bonds	0.79	0.79	7.63	310	301	302	341

Source: Bloomberg and Morningstar as of 1/31/26.

Investment-grade corporate bonds represent the Bloomberg US Credit Index and index components. This index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with at least ten years to maturity. **Bank loans** represent the Morningstar LSTA US Leveraged Loan Index and index components. This index is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. **High yield** represents the Bloomberg US Corporate High Yield Index and index components. This index covers performance for U.S. high-yield corporate bonds. An **option-adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return. **Past performance is no guarantee of future results.**

[1] Yield quoted is yield-to-worst. **Yield-to-worst** is a measure of the lowest possible yield from purchasing a bond apart from a company defaulting.
[2] Yields represent four-year effective yields. The **effective yield** is a financial metric that measures the interest rate (or coupon rate) return on a bond.

Highlights

Investment Grade

- Barclays Strategy on BBBs: "BBBs as a percentage of the index have declined by 6pp in the past three years. In the aftermath of the pandemic, BBBs as a percentage of the US corporate index reached the highest on record (52%), given the onslaught of issuance in 2020, as well as single-A downgrades. Since this peak, the portion of BBB debt in the index has dropped 7pp, now comprising 45% of the overall index, the lowest in a decade. Behind this trend have been the following factors: higher yields leading to BBBs being less of a "sweet spot", more upgrades to single As, and A or better rated companies accounting for 58% of issuance in the past four years." [1]

- JP Morgan Research on 2025 trading: "High Grade trading activity grew by 10% YoY in 2025 versus 2024. This follows strong growth in trading in 2024 vs. 2023 such that HG trading in 2025 was 36% more active than in 2023. Note that the market grew by 5% last year and 9% since 2023. As a result, HG turnover increased by 5% YoY to 0.36%, the highest turnover since 2010 (0.37% then). Turnover is defined as the average daily trading volume divided by bonds outstanding. In other words, 0.36% of the HG market turns over every day, it would take 275 days (1.1yrs) for the full market to trade. For comparison, 3.4% of the cash UST market trades every day, USTs are about 9x more liquid by this measure." [2]

- Deutsche Bank Strategy on IG supply: "$IG issuance of $208bn set a record for January activity. Given the earnings calendar, Financials led the way with $143bn. The above average Financial redemptions through the first half of the year means that the net supply picture was more subdued than it would have otherwise been, and so the net supply run rate trails that of 2023 and 2024." [3]

- Morgan Stanley Research on the impact to credit from MBS purchase plan: "$200bn of MBS purchases is similar to the annual Fed run-off, and exceeds our mortgage strategists' full-year net issuance call of $175bn." [4]

Bank Loans

- JP Morgan Strategy Default Monitor: "Including distressed exchanges, the par-weighted US high yield bond and loan default rates increased and decreased +9bp and -9bp m/m to 1.97% and 2.78%, respectively. For context, the 25-year average HY and LL default rates are 3.2% and 2.9%, respectively, and the post-GFC average (2011- present) is 2.3% apiece. Interestingly, the HY default rate has risen to a 20- month high whereas the LL default rate has fallen 174bp yoy to a 21-month low. As such, the gap between leveraged loan and HY par-weighted default rates (81bp) has narrowed 221bp off the historical peak (302bp at YE23) to a low since April 2024. Historically, HY default rates have been 25bp wide of loan default rates. Meanwhile, the HY bond and loan issuer-weighted default rates including distressed exchanges are 3.03% and 3.45%, respectively. And excluding distressed exchanges, the par-weighted high yield bond and loan default rates are 1.12% and 1.41%, respectively. The leveraged credit default rate, which combines bonds and loans, ended the month unchanged at 2.39%, which is down 70bp yoy. Our forecasted 2026 high yield bond and leveraged loan default rates are 1.75% (HY) and 3.00% (LL), respectively." [5]

- JP Morgan Research on 2025 trading: "Leveraged Loans : Trading rose 19% y/y, the largest increase since 2014 to $3.9bn/ day, partly driven by an increase in market size (5% y/y) (Corporate Bond and Leveraged Loan Market Trading trends). Active CLO issuance also contributed to the jump in trading, however, CLO new issuance pace moderated. Turnover increased by 13% y/y to 0.26%, to the highest level since 2018. Trading Leveraged Loan exposure via macro products (ETF/TRS) has surged with volumes up 50% y/y and roughly 3x of the volumes in 2023 (Macro leveraged loan products)." [6]

High Yield

- JP Morgan Research on 2025 trading: "High yield trading rose 18% y/y, the largest yearly increase since 2020. This growth was driven, in part, by a 4% growth in bonds outstanding, the first year of growth following three years of market size declines. Turnover increased by 13% y/y to 0.66%, the highest level since 2006. HY bonds trade 1.8x more frequently than HG bonds, adjusted for market size. This ratio is up YoY from 1.6x in 2024. The lower turnover in HG is explained by a bias toward buy-and-hold strategies for some segments of the HG bond market ownership base such as Insurance and pension buyers. Also, the volatility of fund flows in HY is higher than in HG, which leads HY fund managers needing to trade more actively. Finally, credit profiles and ratings of HY companies change more actively – both positively and negatively – contributing to more active turnover." [7]

Sources

[1] Barclays Strategy, Jan. 22, 2026
[2] JP Morgan Research, Feb. 9, 2025
[3] Deutsche Bank Strategy, Feb. 4, 2026
[4] Morgan Stanley Research, Jan. 21, 2026
[5] JP Morgan Strategy, Feb. 4, 2026
[6] JP Morgan Research, Feb. 9, 2026
[7] JP Morgan Research, Feb. 9, 2026

Definitions

- **Assets under management (AUM)** is the total market value of the investments managed by a person or entity on behalf of investors.
- **Bank loans** (also known as **floating-rate loans** or **leveraged loans**) invest in bonds and other fixed-income securities that have variable, as opposed to fixed, interest rates.
- A **basis point** is one hundredth of a percent, so 100 basis points is equivalent to 1%.
- A **bond** is a fixed-income instrument and investment product where individuals lend money to a government or company at a certain interest rate for an amount of time. The entity repays individuals with interest in addition to the original face value of the bond.
- **Broadly syndicated loans (BSL)** are a type of loan that will typically be arranged by an investment bank and then syndicated to a large group of commercial banks and specialist loan investors.
- **Capital Expenditure** is the money spent on acquiring or maintaining fixed assets, such as land, buildings, and equipment.
- **Collateralized loan obligation (CLO)** is a structured financial product that bundles a pool of lower-rated corporate loans and sells them to investors in tranches with different risk/return profiles.
- A **corporate bond** is a debt security that is issued by a company to raise capital.
- A **coupon** or **coupon payment** is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.
- The **credit market** refers to the marketplace through which companies and governments issue debt to investors in exchange for regular interest payments.
- **Credit spread** is the difference in yield between two debt securities with the same maturity but different credit quality.
- **Credit rating** is when bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from `AAA', which is the highest grade, to `D', which is the lowest grade.
- **Distressed Exchange** is a negotiation process between a financially troubled company and its creditors where the company seeks to restructure its debt without filing for bankruptcy.
- A **Fallen Angel** is a bond that was initially given an investment-grade rating but has since been reduced to a junk bond status.
- **High-yield bonds** (or **junk bonds**) are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds.
- The **ICE BofA US Corporate Index** is a benchmark index that tracks the performance of investment grade corporate debt in the United States.
- **Investment grade** refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's.
- **Investment Grade (IG) Index** refers to the ICE BofA US Corporate Index.
- An **issue** or **issuance** is a process of offering securities in order to raise funds from investors. Companies may issue bonds or stocks to investors as a method of financing the business.
- **Leverage** refers to using debt (borrowed funds) to amplify returns from an investment. A **leveraged loan** is a type of loan made to borrowers who already have high levels of debt and/or a low credit rating. Lenders consider leveraged loans to have an above-average risk that the borrower will be unable to pay back the loan (also known as the risk of default).
- **Leveraged Buyout** is the acquisition of a company primarily using borrowed funds, often secured by the assets and cash flows of the acquired company.
- **Maturity** (or **maturity wall**) is the date on which the life of a transaction or financial instrument ends, after which it must either be renewed, or it will cease to exist.
- **Mergers and Acquisitions (M&A)** are business transactions in which the ownership of a company, business organization, or one of their operating units is transferred to or consolidated with another entity. They may happen through direct absorption, a merger, a tender offer or a hostile takeover.
- **Morningstar LSTA US Leveraged Loan Index** is a market-value weighted index designed to measure the performance of the US leveraged loan market.
- **Option adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.
- **Par-weighted** refers to a method of calculating averages where the individual values are weighted by their par (face) value. This means that larger holdings or transactions have a greater influence on the final average.
- **Spread** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by Treasury bonds. Spread income refers to the additional income from this difference.
- The **10-year treasury** bond yield is the interest rate the U.S. government pays to borrow money for a decade, serving as a benchmark for other interest rates and a key indicator of investor sentiment about economic conditions.
- **Total return**, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given evaluation period.
- **Weighted Average Coupon** is the average gross interest rate of the underlying mortgages in a mortgage-backed security at the time it was issued.
- **Weighted-Average Rating Factor (WARF)** is a numerical representation of the credit risk of a portfolio calculated by Moody's.
- **Yield** is a measure of the profit that an investor will be paid for investing in a stock or a bond. It is usually computed on an annual basis.
- **Yield to worst (YTW)** estimates the lowest possible return on a bond without the issuer defaulting.

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