ARISTOTLE FUNDS

CORPORATE CREDIT HIGHLIGHTS

July 31, 2026

	Monthly Return (%)	Year-to-Date Return (%)	Yield (%)	Option-Adjusted Spread (BPS)			
	7/31/26	7/31/26	7/31/26	7/31/26	12/31/25	12/31/24	12/31/23
Investment-Grade Corporate Bonds	-1.60	-0.76	5.40 [1]	73	73	77	93
Single A Bonds	-1.59	-0.88	5.33	66	64	68	85
BBB Bonds	-1.57	-0.47	5.62	96	97	97	121
1-3 Year Credit	0.14	1.25	4.68	39	45	48	58
7-10 Year Credit	-1.53	-0.97	5.53	88	83	89	112
Long Credit	-3.88	-2.80	6.17	99	95	100	117
Bank Loans [2]	0.79	2.12	8.46	483	429	424	490
BB Loans [2]	0.64	3.20	6.20	258	263	254	309
B Loans [2]	0.95	2.03	8.38	476	414	425	471
High Yield	-0.25	1.71	7.41 [1]	279	266	287	323
BB Bonds	-0.37	1.60	6.29	165	165	179	201
CCC Bonds	-0.52	1.16	12.69	826	615	558	776
Intermediate High-Yield Bonds	-0.21	1.71	7.40	279	266	287	323
Long High-Yield Bonds	-2.39	0.93	8.08	303	301	302	341

Source: Bloomberg and Morningstar as of 7/31/26.

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

- JP Morgan Strategy on IG ratings in 2Q: "In 2Q26, $227bn of debt was upgraded while just $49bn of debt was downgraded, leading to net upgrades of $179bn, the most since 1Q24. The upgrade/downgrade ratio rose sharply to 4.60x in 2Q26, the highest since 2Q24. This brought the 1H26 upgrade/downgrade ratio from the edge of parity in 1Q to 2.2x now, modestly above the fiscal year (FY) 25 ratio of 1.9x. The investment grade (IG) index ratings composition is still very healthy given that issuance was skewed towards higher quality along with some moderate upward rating bucket migration from the upgrades. BBB debt is just 43.1% of the index, the lowest since 2011, with BBB- debt specifically at a record-low share of just 7.1%. The A rated share of the index at 46.1% is close to the highest since 2011, though it has come down slightly from 46.4% as of year end (YE) 25. AA rated or higher share has also grown to 10.8% of the index, the highest since 2018. Rising Stars totalled $7bn of index eligible debt last quarter (equates to $15.4bn total debt), a slight uptick. On the other hand, Fallen Angel volume fell by half quarter over quarter (QoQ) but still totalled $8bn of index debt migrating from high grade (HG) to high yield (HY) (equates to $15.5bn total debt). Looking ahead, we anticipate an additional $28bn of index eligible Rising Stars ($73bn total) in 2026/27 versus $88bn of index eligible Fallen Angels ($146bn total) that could be downgraded from HG to HY. We note that these are potential candidates from our analyst team and not certain outcomes. Our main takeaway is that ratings momentum shifted materially more positively in 2Q26. While we do anticipate potentially more Fallen Angels than Rising Stars going forward, this isn't a function of a broader downgrade wave within HG but rather a much smaller HY pool of BBs to become potential Rising Stars. Furthermore, the index-level upgrade buffer built over 2021-25 (25% of IG debt net upgraded) and which is continuing in 2026 via higher-quality issuance along with more ratings upgrades, should provide meaningful shock absorption were the macro backdrop to get worse. "[1]

- Citi IG Strategy on hyperscaler supply: "We've seen a record amount of supply from the hyperscalers, over $60bn above last year and well above prior years, with several more months left for issuers to borrow further. As a result of this record issuance, net supply now sits at $569bn for the first half of the year, $48bn above last year's full year net supply. The pressure has shown up clearly in hyperscaler spreads, which now sit at their widest levels on a 1- and 3-year lookback at 128bps. Issuance concentration among a handful of large issuers is a familiar feature of the IG market; what's new is the rising concentration in Technology. This year, the top 10 largest IG issuers account for 25.6% of total YTD supply, elevated versus 18.7% at the same point last year. Despite this uptick, the concentration is not unprecedented: the ten largest issuers exceeded a quarter of total issuance (through 7/20) in 2016 (26%), 2018 (26.8%), 2021 (26.7%), and 2022 (27.8%). Technology, however, has broken from its historical range. Tech issuers make up 22.5% of YTD supply in 2026, up sharply from 9.6% at this point last year and well above the next-highest level of 12.6% through this point in 2021." [2]

- Barclays Strategy updated issuance forecasts across credit: "Investment grade: We have raised our 2026 gross supply forecast to $1.90trn from $1.60trn, 32% above 2025 and above the previous $1.66trn record in 2020. Net issuance should reach about $970bn, nearly double last year's level and broadly matching the 2020 record. The revision primarily reflects the funding needs of the AI ecosystem, although stronger bank issuance and increased mergers and acquisitions (M&A) activity have also contributed. Tech and AI-related borrowers account for about 19% of year-to-date issuance and 38% of 10y+ supply. As a consequence, the average new issue duration has increased materially year over year (y/y) and is back to levels not seen since the Fed lift-off in 2022. The maturity and coupon redemption remains supportive, but issuance net of maturities and coupons is running at roughly four times the 2025 pace, making supply a larger technical headwind than we expected in January." [3]

Bank Loans

- Barclays Strategy updated issuance forecasts across credit: "Leveraged loans: In contrast, we have lowered our 2026 supply forecast to $425-445bn from $480-520bn, reflecting a weaker first half and a less accommodating rates backdrop. Refinancing remains the largest component, but we have cut our forecast to $190-210bn from $220-240bn. We have also lowered M&A issuance to $80-100bn, while leaving leveraged buyouts (LBO) supply unchanged at $70-90bn. GCP/capex is the exception, rising to $10-20bn, as some AI infrastructure financing will likely begin to tap the loan market. Overall, the mix is shifting away from opportunistic issuance and toward refinancing and genuine new-money supply." [4]

Highlights

High Yield

- BAML Strategy on relative value across credit: "Despite a string of unfavorable economic and geopolitical events, leveraged finance (LevFin) credit remains firm, with spreads near tights and yields below 7%, supported by strong supply-demand dynamics. In contrast, IG technicals have deteriorated as issuance has surged and demand softened, contributing to pressure on IG spreads and signs of investor fatigue. Given this diverging technical picture, we think the market is set up for short-term compression driven by wabbling IG spreads but steady HY spreads. Our base case assumes Iran tensions ease, but sticky inflation keeps the Fed on a slight tightening path. HY is expected to outperform, supported by resilient spreads and lower AI exposure. In contrast, Loans and Private Credit face rising defaults, spread widening, and ongoing AI-disintermediation concerns. In our optimistic scenario, falling inflation and AI-driven productivity gains support stronger growth, higher real rates, and improved corporate fundamentals, allowing the Fed to hike more while default risk declines. HY benefits from tighter spreads and lower defaults, lifting. Loans and Private Credit see a more meaningful boost from higher carry, spread tightening, and improving credit quality. While we favor rotating into Loans in an upside scenario, private credit (PC) fails to shine even then." [5]

- Barclays Strategy updated issuance forecasts across credit: "High yield: We have raised our gross supply forecast to $370-390bn from $340-380bn, primarily because H1 26 volatility delayed some refinancing rather than eliminating it. We expect $150-160bn of bond-for-bond refinancing and have increased our bond-for-loan estimate to $90-110bn, as issuers address a record near-term maturity wall and fixed-rate bonds remain attractive relative to loans. We also forecast $65-80bn of M&A/LBO issuance and $40-55bn of GCP/capex and other supply, including some AI-related funding. The calendar should be back loaded, with about 56% of issuance expected in the second half, raising the risk of indigestion if delayed refinancing and capex supply arrive together." [6]

Sources

[1] JP Morgan Strategy, July 10, 2026
[2] Citi IG Strategy, July 27, 2026
[3] Barclays Strategy, July 24, 2026
[4] Barclays Strategy, July 24, 2026
[5] Bank of America Merrill Lynch Strategy, July 24, 2026
[6] Barclays Strategy, July 24, 2026

Definitions

- **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 (bp)** is one hundredth of a percent, so 100 basis points is equivalent to 1%.
- **Beta** measures an asset's price volatility relative to the broader market. It is a gauge of systematic risk—the unpredictable market forces that affect all investments, which cannot be diversified away.
- The **Bloomberg Global Aggregate Bond Index** (global IG index) is a flagship fixed-income benchmark that measures global investment-grade debt from developed and emerging markets.
- 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.
- **Capital Expenditures** (CapEx) are funds companies use to acquire, upgrade, or maintain physical assets like buildings, technology, or equipment, with the goal of increasing operational scope or future economic benefits.
- 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.
- **Duration** is often used to measure a bond's or fund's sensitivity to interest rates. The longer a fund's duration, the more sensitive it is to interest-rate risk. The shorter a fund's duration, the less sensitive it is to interest-rate risk.
- **Fallen angels** refers to investment grade bonds that are given a reduced rating to "junk bond" due to a decline in the credit rating of the issuer.
- **Group Credit Profile (GCP)** an assessment by rating agencies of an entire parent company and its subsidiaries' collective ability to pay financial obligations.
- **High-yield bonds** (or **junk bonds**) are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds.
- The **Hyperscalers Index** refers to a financial benchmark that measures the equity or corporate debt performance of major cloud data center and Artificial Intelligence (AI) providers.
- 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 Finance (LevFin)** is the process of taking on debt or borrowing funds to increase returns gained from an investment or a project.
- **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.
- **Morningstar LSTA US Leveraged Loan Index** is a market-value weighted index designed to measure the performance of the US leveraged loan market.
- **Private Credit (PC)** refers to any loan-based financing provided by non-bank institutions—such as private equity firms, asset managers, or specialized funds—to businesses outside of public bond markets.
- **Rising star** refers to a bond that is rated as a "junk bond" but could become investment grade because of improvements in the issuing company's credit quality.
- **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.
- **Total return**, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given evaluation period.
- The **upgrade/downgrade ratio** is a metric used to measure the proportion of upgrades versus downgrades of a particular stock or asset for a given period of time.
- **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.

Disclosures

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