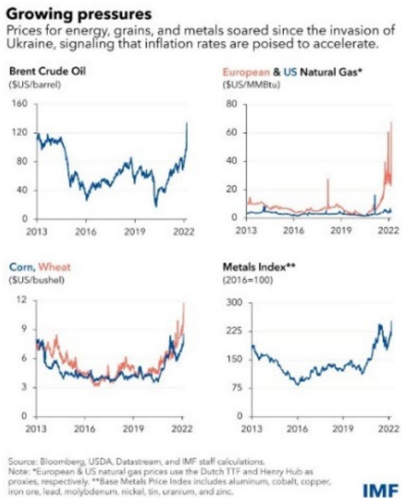
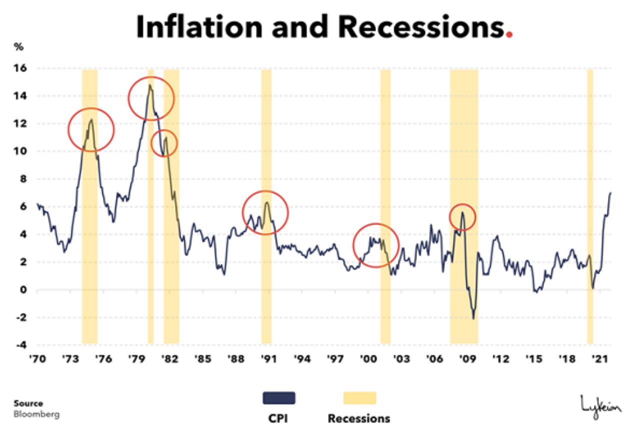
MARKET MONITOR APRIL 2022: Q2 MARKET UPDATE AND OUTLOOK

Q2 Market Update and Outlook:

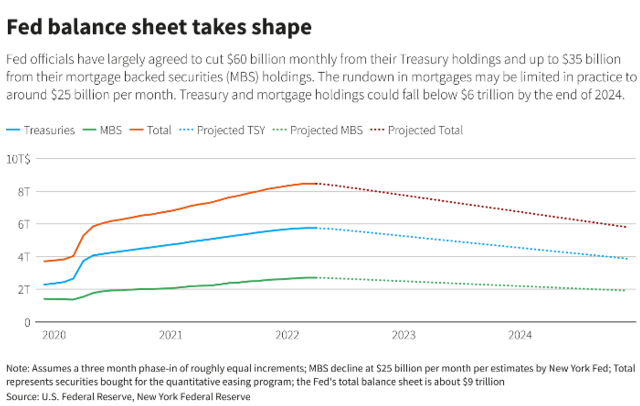
Rising Inflation and Rising Interest Rates are causing major challenges to economic growth and appear increasingly likely to result in a new recession this year or next. Inflation ended 2021 at 40-year highs of 7% and has moved even higher during Q1. The unexpected war in Europe has resulted in spiking energy prices, while China's recently-commenced phase of Covid lock-downs promises to add additional headwinds as we enter Q2. These events have reinforced supply chain problems, pushing inflation even higher. Historically, sharp rises in inflation, particularly in energy prices, precede recessions. All of these challenges have served to further strengthen the position we took in our January Outlook, when we forecasted that a new recession and credit default cycle are likely to begin later this year. As such, we expect the markets to get cheaper, perhaps materially so, as the year progresses.

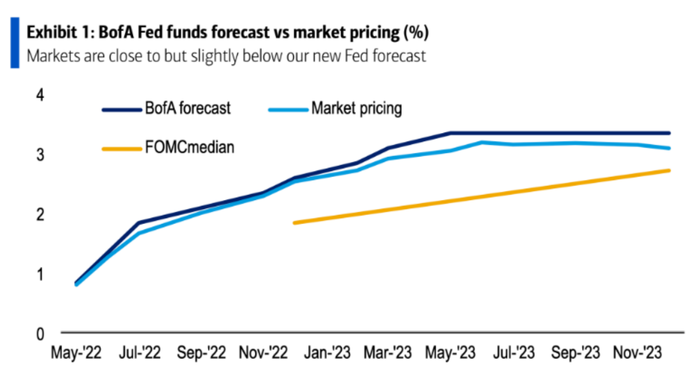




The Fed has launched an aggressive campaign of Credit Tightening to combat inflation by: 1) Shrinking its Balance Sheet, and 2) Hiking Interest Rates.

Shrinking the Balance Sheet: Over the past two years, the Fed more than doubled the size of its balance to almost $9tn, up from $4.1tn in February 2020. The balance sheet expansion was in response to Covid, and was effective in helping to keep the credit markets open and available to support the economy. However, low rates and easy credit have now contributed to a major spike in inflation that is presenting a serious challenge to consumers and the economy. The Fed is now aggressively reversing course in a major way to tighten credit to slow inflation down. Last month, the Fed made it clear that it plans to shrink its balance sheet by trillions of dollars of assets, mainly Treasury and Mortgage bonds. Fed officials agreed at their March meeting that it might be "appropriate to begin this process at a future meeting, perhaps as early as May". The Fed is expected to reduce its balance sheet by as much as $95bn per month by selling bonds in the open market and by letting bonds mature without reinvesting in new ones. This will place a significant and steady supply of bonds into the open market, which will likely put downward pressure on bond prices and upward pressure on interest rates.





To read the full market update and outlook, please contact CVP at info@cvp7.com.

ENDNOTES & LEGAL INFORMATION

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The HFRI® Indices family is produced by Hedge Fund Research. HFRI Event Driven Distressed/Restructuring Index is a composite of Distressed/Restructuring strategies which employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments which are publicly traded, in some cases actively and in others under reduced liquidity but in general for which a reasonable public market exists. In contrast to Special Situations, Distressed Strategies employ primarily debt (greater than 60%) but also may maintain related equity exposure.

Credit Suisse ("CS") Leveraged Loan ("LL") is an index designed to mirror the investable universe of the $US-denominated leveraged loan market. The index inception is January 1992. The index frequency is monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: Loans must be rated "5B" or lower; only fully- funded term loans are included; the tenor must be at least one year; and the Issuers must be domiciled in developed countries (Issuers from developing countries are excluded). Fallen angels are added to the index subject to the new loan criteria. Loans are removed from the index when they are upgraded to investment grade, or when they exit the market (for example, at maturity, refinancing or bankruptcy workout). Note that issuers remain in the index following default. Total return of the index is the sum of three components: principal, interest, and reinvestment return. The cumulative return assumes that coupon payments are reinvested into the index at the beginning of each period.

The CS Distressed Loan Index is a sub-index of CS LL, designed to mirror the distressed sector of the $US-denominated leveraged loan market. The Distressed Loan Index is designed to include only those loan facilities priced 90 or lower at the beginning of each measurement period.

Other sub-indices include those related to specific ratings, for example those that include only loan facilities rated CCC (called "CS Leveraged Loan CCC Index").

The Credit Suisse High Yield Index is designed to mirror the investable universe of the $US-denominated high yield debt market. The index inception is January 1986. The index frequency is daily, weekly and monthly. New issues are added to the index on their issuance date if they qualify according to the following criteria: Issues are publicly registered in the US or issued under SEC Rule 144a. The minimum amount outstanding (par value) is $75 million for publicly registered issues or 144a issues with registration rights. 144a issues without registration rights must have a minimum amount outstanding of $150 million and must be issued by an issuer domiciled in a developed country. Issues must be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. Issues must be $US-denominated straight corporate debt, including cashpay, zero-coupon, stepped-rate and pay-in-kind (PIK) bonds. Floating-rate and convertible bonds and preferred stock are not included. If an issuer has more than two issues outstanding, only the two most liquid issues are included in the index.

Sub-indices include those related to specific ratings, for example those that include only issues rated CCC (called "CS HY CCC Index").

S&P Leveraged Loan Indexes (S&P LL indexes) are capitalization-weighted syndicated loan indexes based upon market weightings, spreads and interest payments. The S&P/LSTA Leveraged Loan Index (LLI) covers the U.S. market back to 1997 and currently calculates on a daily basis.