DECEMBER 2019

THE INVESTOR Compass

NAVIGATING THE CREDIT MARKETS

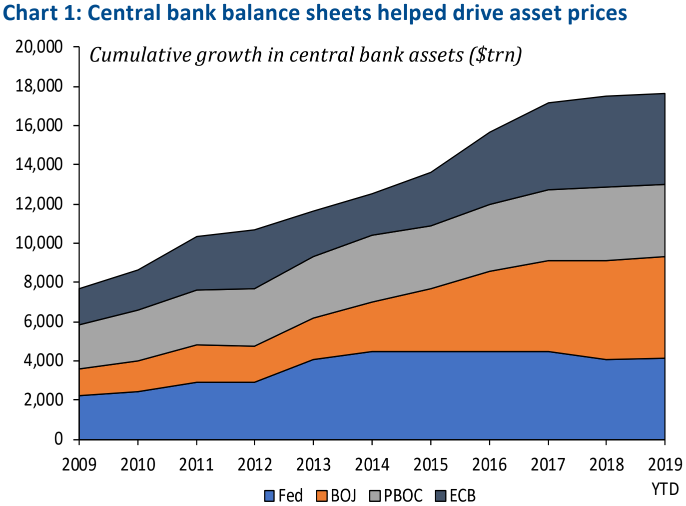
Twelve for '19

Happy New Year!

2019 was a fitting finale to an extraordinary decade that displayed the long-term resilience of economies and markets. Victory went to risk-takers, even though it rarely felt comfortable. Central banks provided the foundation and mechanism for asset price appreciation. Corporations issued debt, purchased stock, and acquired competitors. Private equity made fortunes "rolling up" industries. Amazon became the flagship reminder for secular disruption, as technology pushed creative destruction. These are a few observed themes. Our humble conclusion: a mix of size (bigger having a significant advantage) and agility were hugely important to success over the past decade.

In this note, we highlight some charts that help illustrate the story.

Chart 1: Central bank balance sheets helped drive asset prices



Source: U.S. Federal Reserve, as of November 28, 2019

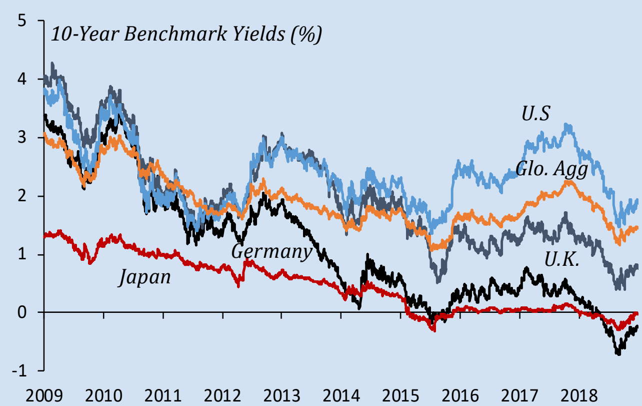
A Decade to Remember

Asset returns were both strong and broad based

Index	Total Return (2010-2019)
S&P 500	256%
Russell 2000	206%
BBG Barclays US. High Yield	107%
BBG Barclays EMD (USD)	90%
BBG Barclays US Corporate	72%
CS Leveraged Loan	70%
BBG Barclays US Aggregate	44%

Source: S&P, Barclays, Credit Suisse. Cumulative total returns based on time period 12/31/2009 to 12/31/2019.

As central banks expanded balance sheets, global yields fell



Source: Barclays, as of 12/30/2019

Global benchmark yields

10-Year Yield (%)	2010	2019
Germany	3.39	-0.26
Japan	1.29	-0.01
United States	3.84	1.87
United Kingdom	4.01	0.75
Global Aggregate Index	*3.07*	*1.44*

Source: Barclays, as of 12/30/2019

Chart 2: Returns in the decade were strong and broad

Index	Total Return (2010-2019)
S&P 500	256%
Russell 2000	206%
BBG Barclays US. High Yield	107%
BBG Barclays EMD (USD)	90%
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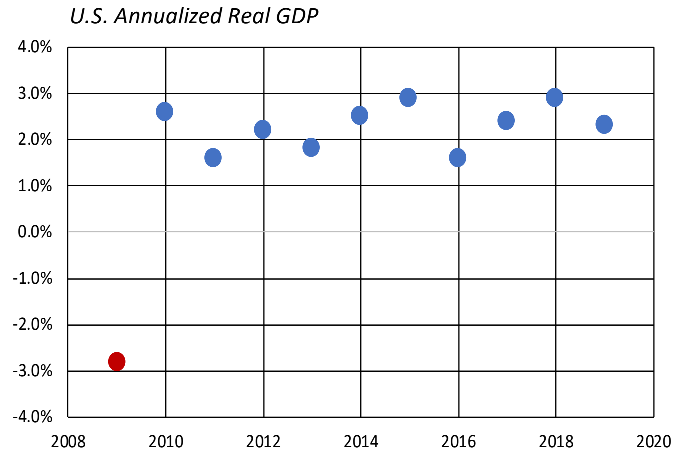
CS Leveraged Loan	70%
BBG Barclays US Aggregate Index	44%

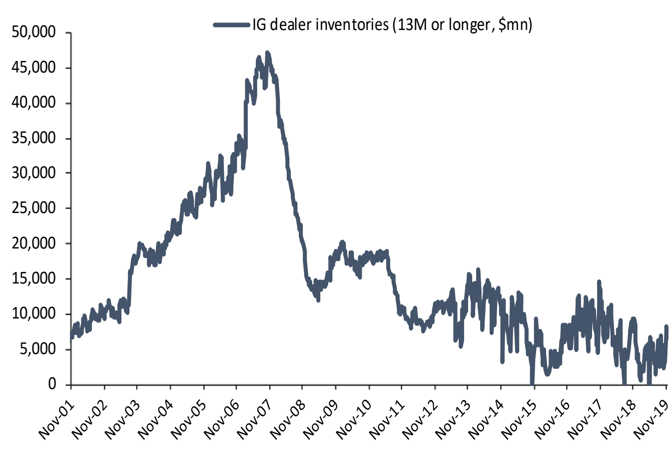
Source: CS, Barclays, cumulative total return calculated from 12/31/2009 through 12/31/2019

Chart 3: The first decade without a U.S. recession in modern history



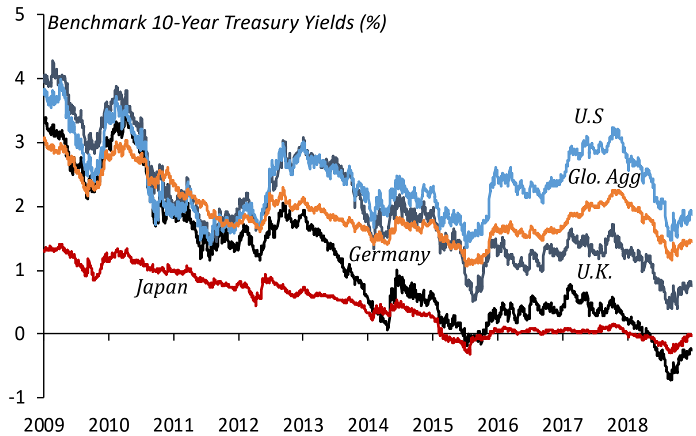
Source: St. Louis Federal Reserve, os of September 30, 2019

Chart 4: Despite Global liquidity being high, overnight liquidity has weakened substantially



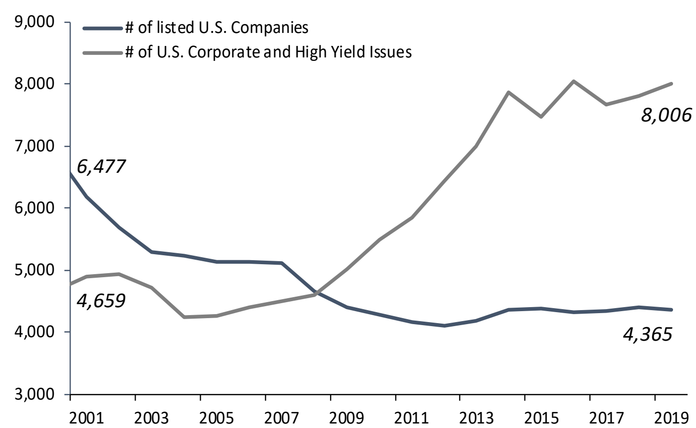
Source: BAML, as of November 27, 2019

Chart 5: Global bond yields declined across the developed world



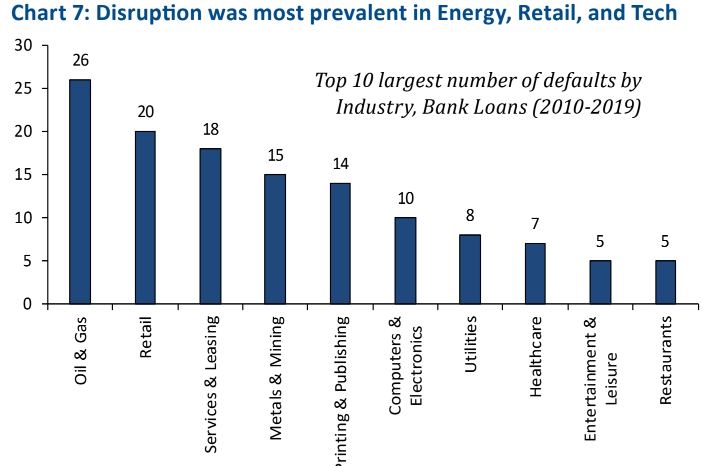
Source: Barclays, as of 12/27/2019

Chart 6: Preference to remain Private. While the number of publicly traded companies shrunk over the decade, the number of corporate issues increased.



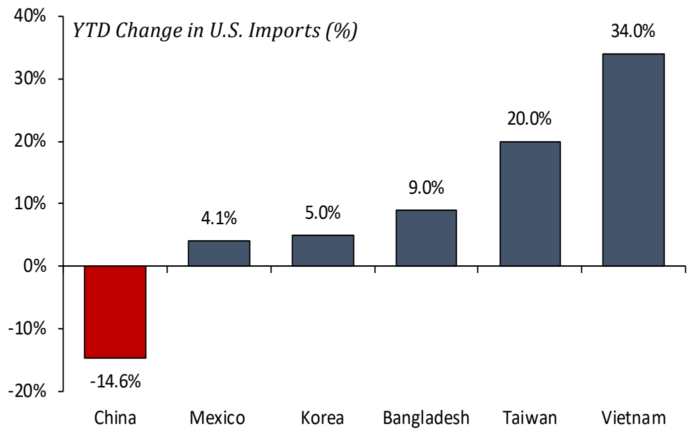
Source: Worldbank, Barclays, as of 11/30/2019

Chart 7: Disruption was most prevalent in Energy, Retail, and Tech



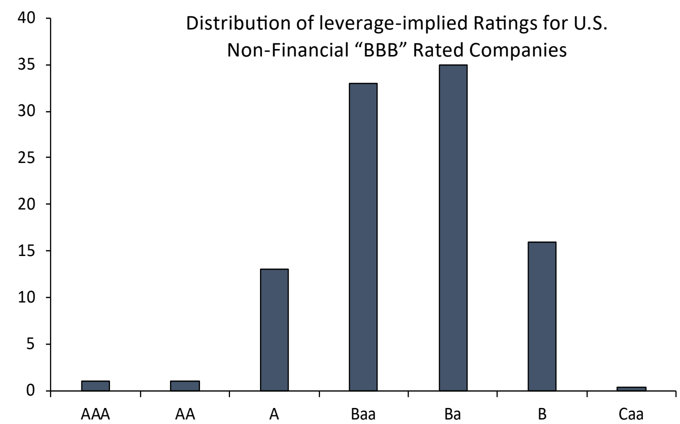
Source: LCD, as of December 27, 2019

Chart 8: Tariff fallout has led to global supply chain diversification



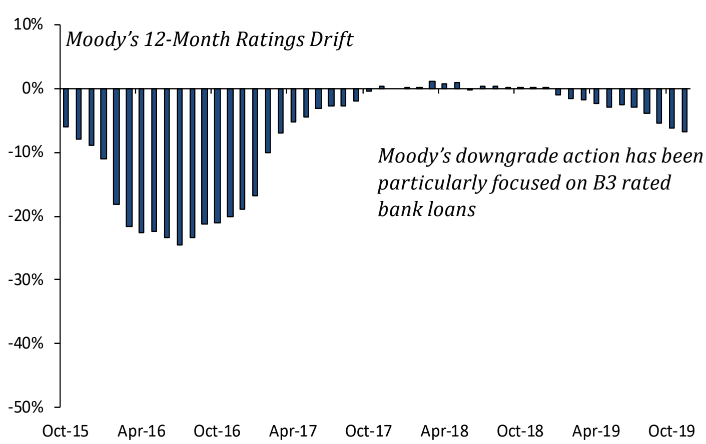
Source: Bloomberg, as of 12/23/2019.

Chart 9: Corporate leverage is a focus of the rating agencies



Source: Moodys, Morgan Stanley research, as of November 30, 2019
Rating drift = (notches upgrades - notches downgrades)/rated issuers

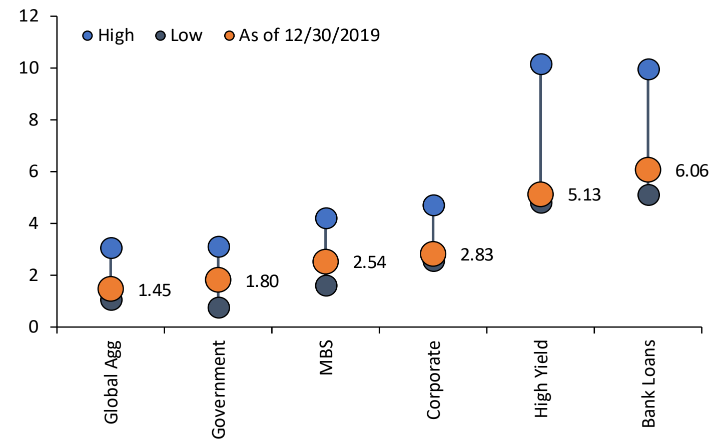
Chart 10: Could the rating agencies be more concerned about a recession than the markets?



Source: Moodys, as of November 30, 2019
Rating drift = (notches upgrades - notches downgrades)/rated issuers

Chart 11: After a decade of historically strong returns, where do investors turn for yield in the '20s

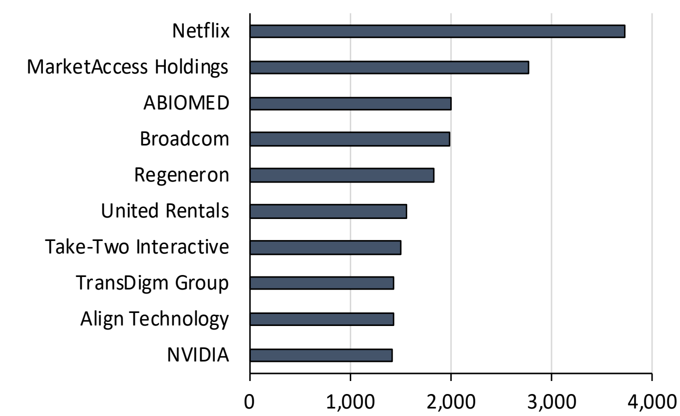
10 Year Yield Range (2010-2019)



Source: Barclays, Credit Suisse, LCD as of December 30, 2019

Chart 12: Technology represented the bulk of top returning S&P 500 stocks. Will the sector continue to lead?

Top 10 S&P 500 performing stocks of the decade (% Total Return)



Source: Bloomberg, as of December 21, 2019

ABOUT PACIFIC ASSET MANAGEMENT

Founded in 2007, Pacific Asset Management specializes in credit oriented fixed income strategies. Pacific Asset Management LLC is an SEC registered investment adviser and an indirect wholly-owned subsidiary of Pacific Life Insurance Company. As of November 30, 2019 Pacific Asset Management managed approximately $12bn.

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