

Market Update - Worried About Inflation?

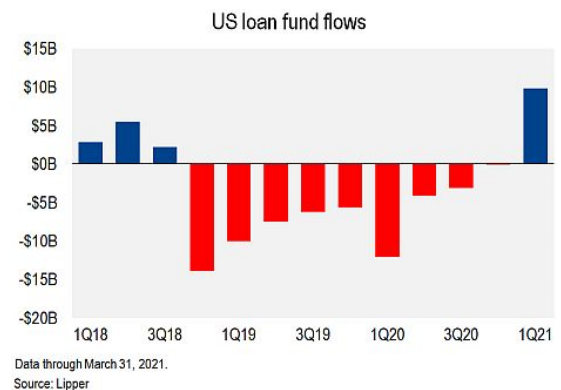
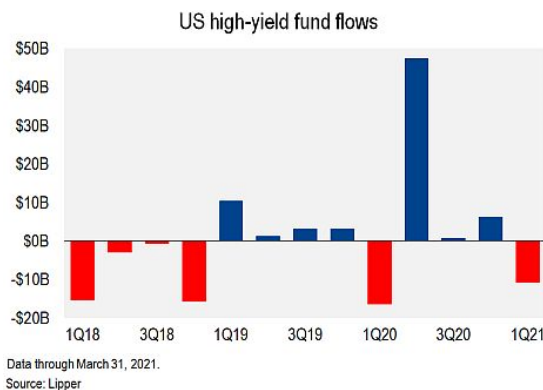
May 2021

With inflationary concerns becoming a front and center reality, how can a fixed income portfolio be positioned to potentially mitigate and exploit this risk?

While inflation has not been at the forefront of U.S. financial concerns in many years, unprecedented fiscal stimulus, commodity price increases and recent steepening of the yield curve have now moved the topic and the risks associated with inflation front and center.

High yield bonds and bank loans have encountered only brief stints of inflation over their relatively short life cycles, and certainly never to the extent of the levels witnessed in the 70's and 80's. Without a historical proxy for performance during inflationary periods, how might these asset classes perform in a heightened inflationary environment? In our view medium and long duration fixed rate bonds, especially those within more cyclical industries, are at the greatest risk of under performing during a period of inflation.

A rotation from fixed rate assets to floating rate areas is already showing signs of picking up steam, as is illustrated by the below charts. Q1 2021 witnessed an \$11bn outflow from US High Yield, with US loan funds seeing a \$10bn inflow.



Palmer Square's strategies are already positioned in areas we believe will benefit from rising rates and inflationary pressure. Examples of these asset classes include short duration bonds, and floating rate securities such as CLOs and bank loans. In addition, Palmer Square currently has an overweight to non-cyclical industries, which we believe will be less susceptible to inflationary environments. Another notable quality of Palmer Square's investment approach is our ability to continue to capture premium yield in a low yield environment.

Please contact us at investorrelations@palmersquarecap.com or 816-994-3200 if you would like to further discuss how Palmer Square's strategies are well-positioned to potentially benefit from an inflationary environment. We would be delighted to set up a call at your convenience.

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