SKY HARBOR
GLOBAL FUNDS

Period ending June 21, 2022

Performance (%)	1 Week	MTD	Q2	YTD
SHGF-SDHY USD A Cap (net)	-0.10	-3.13	-2.44	-9.43
ICE BofA US HY Index	0.36	-5.28	-4.51	-12.63
Relative Capture	*NM*	*59%*	*54%*	*75%*

Key Characteristics	YTW	MTD Δ	YTD Δ	DTW	MTD Δ	YTD Δ	OAS	MTD Δ	YTD Δ
SHGF-SDHY	8.43	1.17	4.26	3.02	0.19	1.24	496	51	166
ICE BofA US HY Index	8.49	1.36	4.17	4.55	0.00	0.74	506	84	196

Day ending June 21, 2022

Market participants continue to debate the probability of a recession given the Fed's commitment to taming inflation and increasingly negatively surprising economic data. Mutual fund outflows continue to put pressure on the market although risk is generally clearing. That said, smaller sized issues remain somewhat frozen in some cases for lack of focus generally and remain susceptible to sharp price decline as sellers lose patience or are otherwise forced to sell. After outperforming for the last 5+ months, Energy is starting to get hit as oil trades off on recessionary concerns. We are going to move to less frequent communications until and/or unless the general themes in the market change.

SHGF-SDHY: Sector

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Retail	3.7	-0.09	-0.01
Automotive	6.7	-2.47	-0.16
Leisure	4.9	-2.61	-0.13
Healthcare	8.6	-4.05	-0.35
Media	8.1	-4.00	-0.32
Transportation	3.8	-3.99	-0.15

US High Yield Index: Sector

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Capital Goods	6.1	-4.36	-0.27
Banking	1.3	-4.50	-0.06
Energy	13.0	-4.57	-0.60
Real Estate	3.9	-6.58	-0.26
Financial Services	4.9	-6.37	-0.32
Media	8.4	-5.99	-0.50

Prior Day Commentary

Aside from insurance, every sector in the market was positive. Healthcare was the big winner, rebounding after a difficult week. Like earlier commentary, we see the sector performance more indicative of larger BB issuers that were up more positively on the day dragging their respective sector higher and less about a market reflection of sector risk.

SHGF-SDHY: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	2.0	-3.10	-0.06
BB	32.2	-2.93	-0.95
B	50.9	-3.58	-1.82
CCC	6.9	-4.19	-0.29
Non Rated	0.5	-0.46	0.00
Cash	7.5	0.08	0.01
Factset Return USD - Gross of Fees	**100.0**	**-3.11**	**-3.11**

US High Yield Index: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.00	0.00	0.00
BB	52.15	-5.52	-2.87
B	36.99	-5.10	-1.89
CCC	10.86	-4.74	-0.51
Total	**100.0**	**-5.28**	**-5.28**

Prior Day Commentary

In the market, BB rated credit was the big winner outperforming Bs by almost 2x while CCCs were modestly negative. Interesting that BBs could rally despite modest sell-off in underlying Treasury rates. Maybe the fact that volatility was not large combined with equity market stability allowed for relief bids to fill in on the day.

SHGF-SDHY: Risk			
MTD	**Average Weight (%)**	**Total Return (%)**	**Contribution to Return (%)**
Maturities within 3 years	27.7	-2.28	-0.62
Shortest duration (<1)	0.8	-4.22	-0.03
Intermediate duration (1-2)	7.1	-3.48	-0.25
Longer duration (2-3)	12.4	-3.69	-0.46
Extended duration (>3)	27.9	-4.28	-1.19
Speculative (9+ YTW)	16.1	-3.47	-0.54
New Issue & Exchanged	0.4	-3.29	-0.01
Cash	7.5	0.08	0.01
Factset Return USD - Gross of Fees	**100.00**	**-3.11**	**-3.11**

US High Yield Index: Risk			
MTD	**Average Weight (%)**	**Total Return (%)**	**Contribution to Return (%)**
More Speculative (ex-energy)	14.6	-5.23	-0.76
Speculative Energy	2.5	-4.68	-0.12
Intermediate Risk	15.4	-5.53	-0.85
Interest Rate Sensitive	46.4	-6.20	-2.88
Short Duration	20.9	-3.18	-0.67
Total	**100.00**	**-5.28**	**-5.28**

Prior Day Commentary

Unlike prior days the more speculative securities in the market (and the Fund) did not perform the best. More duration was rewarded, which is in line with the rating commentary above as investors seemed to be most attracted to longer duration up-in-quality larger issues.

Forward Outlook

While the Fed met market expectations, the seemingly bigger take away is the window for the soft landing continues to get smaller and the probability of recession is increasing. There remains a compelling argument to be made on both sides, which is why spreads remain generally in between a soft-landing scenario and a moderate recession scenario. We are currently revising our scenario analysis and will put out a more quantitative assessment in our next weekly briefing. The Fed and the market are going to be highly dependent on the upcoming economic data both as it relates to inflation as well as read throughs for future economic growth, which most likely keeps volatility high across risk and risk-free assets.

Q1'22 earnings season generally surprised to the upside, with issuers tending to report higher than anticipated EBITDA growth and margin expansion despite inflationary pressures. That said, the market has punished earnings misses to a greater degree than we have seen in the recent past, and many management teams have become hesitant to supply guidance given risks on the horizon. Fortunately, fundamental credit metrics continue to move in the right direction, and noise associated with working capital volatility – most prevalent in the capital goods sector – is expected to partially subside in the second half of the year. Overall, we are generally encouraged by issuer performance in an admittedly difficult operating environment but remain cognizant that individual issuer handling of inflationary headwinds will become increasingly disperse in the coming quarters.

Despite the positive overall tone of Q1 earnings, various gauges of recession risk – those derived from economist surveys, yield curves, CCC-rated credit spread widening, etc. – all point to some degree of economic contraction probability on the horizon, with an average of methods coming very close to the 50% likelihood we measured by a show of hands throughout our client engagements in Europe over the last few weeks. Post recent events, the probability of recession has increased.

As noted in our recent publications, we continue to expect a 2% default rate by the end of 2023. If the Fed can orchestrate a soft landing, we believe a fair value spread target of ~ 400 bps is defensible. If a moderate recession begins to take shape, we think a 6% 2023 default rate is a more reasonable estimate, boosting our fair value spread target to ~ 600 bps. Consequently, we would expect high yield spreads to remain range-bound until greater clarity is achieved and view the path of inflation as being the key driver of sentiment in the coming months. After Monday's sell-off, spreads widened back out to ~490 bps, again showing the market is pricing in roughly 50:50 for a recession. That is changing daily.

Our portfolios have been generally well positioned for the threat of rising rates but were well offsides for the indiscriminate selling of lower rated credit that drove returns during most of May. The opening days of June brought some stability to the lower-rated part of the market and a return to pressure on tighter spread better-quality risk, providing a lift in relative returns. We have continued to moderate our conviction levels overall, bringing down our high conviction weights is some cases and adding higher rated risk with durations inside the duration of the portfolio. Our underweight to the Energy sector is a tough headwind as that sector continues to outperform although we are adding exposure where possible and targeting risk with similar underlying risk/return profiles where asset owners are prescriptive regarding their exposure to high carbon emitting sectors.

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