PALMER SQUARE
CAPITAL MANAGEMENT

Palmer Square Opportunistic Income Fund (PSOIX)

October 2023

Fund Refresher

As a refresher, the Palmer Square Opportunistic Income Fund ("PSOIX" or the "Fund") seeks to not only capture a high level of current income, but also long-term capital appreciation by investing with a flexible mandate to find the best relative value opportunities across corporate credit and structured credit.

Performance Summary

The Fund returned 6.45% (net of fees) for the third quarter of 2023 and 14.23% (net of fees) year-to-date 2023. We remain confident in our positioning in CLO Debt, bank loans and high yield bonds and believe the total return outlook hasn't looked this constructive since mid-2020. The current yield on the Fund is now 10.73%.

Fund Performance Net of Fees as of 9/30/2023 (inception 8/29/2014*)

	Q3 2023	YTD 2023	2022	2021	2020	2019	2018	2017	2016	2015	2014*
PSOIX	6.45%	14.23%	-4.48%	6.66%	5.92%	7.59%	-0.47%	11.04%	12.10%	-5.32%	-0.76%

	1 Year	3 Years	5 Years	Since Inception Annualized
PSOIX	18.55%	7.80%	5.09%	4.90%

The performance data quoted represents past performance and that past performance does not guarantee future results. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain performance information current to the most recent month-end please call 866-933-9033.

Portfolio Snapshot

Please refer to the table below for a portfolio snapshot by quarter.

	9/30/2022	12/31/2022	3/31/2023	6/30/2023	9/30/2023
Interest Rate Duration*	0.51 yrs	0.48 yrs	0.43 yrs	0.43 yrs	0.40 yrs
Spread Duration*	3.84 yrs	3.62 yrs	3.26 yrs	3.23 yrs	2.90 yrs
Credit Spread	997	866	892	835	707
Weighted Average Price	$89.1	$90.4	$90.2	$92.0	$95.4
Yield to Expected Call*	13.97%	13.24%	12.59%	12.85%	11.44%
Yield to Maturity	12.95%	12.40%	11.56%	11.81%	10.80%
Current Yield	9.66%	11.00%	11.18%	11.40%	10.73%

Past performance does not guarantee future results. *Please see Notes and Disclosure for definitions.

Relative Value and Current Upside Potential

- The Fund is well positioned for potential upside going forward. We also believe high breakeven spread levels exist which serve as a cushion in a spread widening environment. As shown in the highlighted box below, if spreads were to go back just to average levels over the past 10 years, the 1-year total return is estimated to be about +15%. If we go back to 10-year tights on spreads, that return goes to +18%. Also given the very high coupon and spread levels currently, there is a very high hurdle to not capture a positive

return over a 1 year holding period. The 1yr forward breakeven column below shows the spread levels each asset class would need to hit to not earn a positive return over the next year. At a Fund level, we would need to see over 280bps of widening from current levels, which would put us near levels than we last saw during COVID.

- Most notably, we see a lot of value in CLO debt at current levels, as spreads are still well wide of average levels since 2008. If CLO debt levels return to their average post crisis spreads, total return potential is very attractive. We continue to favor shorter duration CLO deals with cleaner portfolios at a discount, which we think will continue to deliver high total returns over the near term. Please see the table below highlighting current price/spreads and potential upside from current levels. Yield to expected illustrates yields if spreads were to stay the same and the bonds pull to par by maturity. The Average 1-year upside represents the 1yr total return if spreads return to their 10yr average levels, and the Tight 1-year upside represents the 1yr total return if spreads return to their 10yr tight levels[1,2].

PALMER SQUARE OPPORTUNISTIC INCOME FUND							1yr Forward Breakeven[3]	3/31/2020[4]	2/28/2016[5]
Rating	**Allocation**	**Price**	**Spread**	**YTE***	**Average 1yr Upside[1]**	**Tight 1yr Upside[2]**	**Spread**	**Spread**	**Spread**
CLO AA	1.87%	94.93	354	6.63	8.36	9.56	346	349	284
CLO BBB	30.29%	95.99	483	9.47	12.66	15.63	698	755	661
CLO BB	33.72%	95.53	829	13.21	16.83	20.51	1084	1384	1193
CLO B	5.32%	87.99	1229	17.20	24.20	32.65	1198	1949	1653
CLO Equity	4.75%	41.43	1647	20.74	26.25	31.25	2546	2000	1850
CMBS	0.49%	58.11	1850	23.19	62.73	67.67	2520	1030	665
Corp HY	5.58%	89.56	547	9.93	9.46	12.79	811	880	726
Corp IG	0.37%	86.84	209	5.27	5.25	7.71	439	272	197
Bank Debt	17.44%	97.95	453	9.09	10.46	11.00	844	844	639
Total	**100.00%**	**94.92**	**693**	**11.59%**	**14.88%**	**18.04%**	**974**	**1103**	**940**

Source: Bloomberg, Palmer Square, as of 9/30/2023. *YTE, also known as Yield to Expected Call, is a Yield to Call metric that assumes callable bonds are not called at their call date, but some later date prior to maturity. [1]Refers to the potential increase in value of the investment in one year if spreads return to 10-year average levels. [2]Refers to the potential increase in value of the investment in one year if spreads return to 10-year tight levels. The potential increase in value is calculated by determining the return resulting from the positive or negative difference between the current price of the securities and the price of the securities at the respective spread levels noted in the hypothetical performance (i.e., spread levels at 10-year averages) plus the income from anticipated coupon payments over the next 12 months. For purposes of this analysis, anticipated coupon payments incorporate the forward LIBOR/SOFR curve. [3]Refers to the level at which spreads would need to widen in order to cause a negative value in an individual investment over a one-year period. This is determined by reducing a security's price by its expected coupon payments over the next 12 months and then calculating the level of spread widening that would need to occur to move the security's actual price to the reduced price. For purposes of this analysis, anticipated coupon payments incorporate the forward LIBOR/SOFR curve. [4]Month end during Covid dislocation. [5]Month end of energy market dislocation. Below investment grade ratings are subject to higher risks. Figures shown are not indicative of the performance of the Fund. The presented hypothetical performance does not reflect the impact of material economic and market factors on decision-making, any changes to the strategy over time, and was prepared with the benefit of hindsight. Past performance is no guarantee of future returns.

PALMER SQUARE CLO INDEX LEVELS AND 1YR UPSIDE TO AVERAGE/TIGHTS					
Rating	**Current Average Price**	**Discount Margin**	**Yield to Expected**	**Average 1yr Upside[1]**	**Tight 1yr Upside[2]**
CLO AAA	$99.48	161	6.29%	7.28%	7.53%
CLO AA	$98.60	228	6.71%	8.27%	9.03%
CLO A	$98.26	275	7.25%	8.59%	9.86%
CLO BBB	$95.74	446	8.96%	12.10%	14.71%
CLO BB	$90.74	905	13.68%	17.86%	24.47%
CLO B	$70.54	1466	19.55%	37.08%	48.42%

Source: JPM / Intex / Palmer Square. As of 9/30/2023. Below investment grade ratings are subject to higher risks. Figures shown are not indicative of the performance of the Fund. [1]Refers to the potential increase in value of the investment in one year if spreads return to 10-year average levels. [2]Refers to the potential increase in value of the investment in one year if spreads return to 10-year tight levels. The potential increase in value is calculated by determining the return resulting from the positive or negative difference between the current price of the securities and the price of the securities at the respective spread levels noted in the hypothetical performance (i.e., spread levels at 10-year averages) plus the income from anticipated coupon payments over the next 12 months. For purposes of this analysis, anticipated coupon payments incorporate the forward LIBOR/SOFR curve. The presented hypothetical performance does not reflect the impact of material economic and market factors on decision making, any changes to the Fund over time, and was prepared with the benefit of hindsight. Please see Notes and Disclosure for definitions.

Allocation / Attribution Summary

Select Portfolio Attribution and Characteristic Dashboard

Allocation	9/30/2023 Allocation	Q3 2023 Gross Attribution	Average Price	Yield to Expected Call*
CLO Debt	71%	5.36%	$95.3	11.73%
Bank Loans	17%	0.72%	$98.2	9.09%
High Yield Bonds	6%	0.21%	$90.9	9.72%
Sub Notes	5%	0.65%	$45.2	20.74%
ABS/MBS	1%	-0.11%	$71.9	23.15%

Asset-backed Securities (ABS), Mortgage-backed Securities (MBS).

Historic Positioning Detail by Asset Type:

	9/30/2022 Allocation	12/31/2022 Allocation	3/31/2023 Allocation	6/30/2023 Allocation	9/30/2023 Allocation	Q3 2023 Gross Attribution
CLO Debt	60%	63%	71%	69%	71%	5.36%
Bank Loans	24%	25%	17%	19%	18%	0.72%
High Yield Bonds	9%	7%	6%	7%	6%	0.21%
Sub Notes	5%	5%	5%	5%	5%	0.65%
ABS/MBS	0%	0%	0%	1%	1%	-0.11%

Please note the allocation above is on a gross exposure basis as a percent of NAV and does not include cash. Gross attribution does not include hedges, expenses and fees if applicable. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. Attribution refers to the process of measuring returns generated by various sources.

- **Q3 2023 Performance and Attribution: The Fund returned 6.45% (net of fees) for the third quarter of 2023 and 14.23% (net of fees) through 2023 YTD.** The positive absolute performance was driven by a broad-based rally in credit spreads, particularly within our CLO exposure in the month of July, which in turn was driven by cooler than expected inflation data. The Fund's exposure to CLO debt and sub notes provided the largest contribution at +6.01%, followed by bank loans at +0.72% and HY bonds at +0.21%. There were no meaningful detractors during the quarter.
- There are a few key takeaways from general Q3 credit market performance. First, the move in long interest rates was the overwhelming negative driver of returns. Indeed, duration continues to run over any and everyone who chooses to stand in her way. Most fixed income benchmarks are back in the red for the year, following the worst year for fixed income in 40 years. Fun fact: the 5Y and 10Y annualized returns of the U.S. Aggregate Index are ZERO percent and +1% respectively, while over that same time period inflation has compounded at 2.8%. Second, current yields are also very high and mitigate the impact of higher rates. For example, high yield managed a positive return in the quarter despite higher rates and modestly wider spreads, all thanks to carry. This was even more pronounced in floating rate products (loans, CLOs) which receive the full benefit of higher short rates without the downside price adjustment. The final takeaway is that CLO debt spreads played a bit of catch up with corporate spreads but are notably still wide of averages. Below we include quarterly performance of the key credit benchmarks.

*Please see Notes and Disclosure for definitions.

Selected Indices	Q3 2023 Performance	YTD 2023 Performance
Bloomberg U.S. Treasury Index	-3.06% (Yield +0.48%)	-1.52% (+0.70%)
Bloomberg U.S. Aggregate Bond Index	-3.23% (spread +3bps)	-1.21% (+3bps)
Bloomberg U.S. Corporate Index	-3.09% (spread -1bps)	+0.02% (-8bps)
Bloomberg 1-3 Year U.S. Corporate Index	+0.77% (spread +12bps)	+2.30% (+12bps)
Bloomberg U.S. High Yield Index	+0.46% (spread +3bps)	+5.86% (-75bps)
iBoxx Liquid Leveraged Loan Index	+2.72% (DM -20bps)	+9.06% (-92bps)
Palmer Square CLO Senior Debt Index	+2.44% (DM -26ps)	+6.62% (-49bps)
Palmer Square CLO Debt Index	+5.30% (DM -56bps)	+12.83% (-97bps)
S&P 500 Index	-3.27%	+13.06%
STOXX 600 Index	-4.12%	+10.79%

Source: Bloomberg as of 9/30/2023

- **CLO Allocation/Opportunity to Capture Income and Total Return:** As of quarter-end, 76% (i.e. CLO Debt and Sub Notes) of the portfolio, up from 74% last quarter. CLO BBBs are currently trading on average at a spread of 483bps with prices in the mid $90s and BBs are at a spread of 830bps with prices in the low to mid $90s for higher quality portfolios. Since 2008 we have only seen wider levels during two short time-frames, February 2016 and March-May 2020 (please see table below). Looking at CLO BBs in particular, there have only been 9 months in the past 10 years where spreads were wider than 900bps (we are currently in the 800-900bps range). Looking at 12 month forward returns from those points in time, the average return was +40.33% and the minimum return was +25.04%[1]. The breakeven spread widening on CLO BBs is approximately 200bps, which means that spreads could widen a further 200bps over the next 12 months before one lost money on $1 invested[2]. That type of spread widening from here would put us back at levels we saw in the wides of 2022. Another tailwind for CLO debt going forward is the increase in LIBOR/SOFR* and the higher for longer narrative. In October almost the entire CLO portion of the portfolio will reset higher by 10-15bps (3m LIBOR/SOFR is currently at 5.68%/5.43%). *We continue to add to CLO portfolios that are higher quality and more liquid as we believe they will continue to outperform portfolios with more risky collateral.*

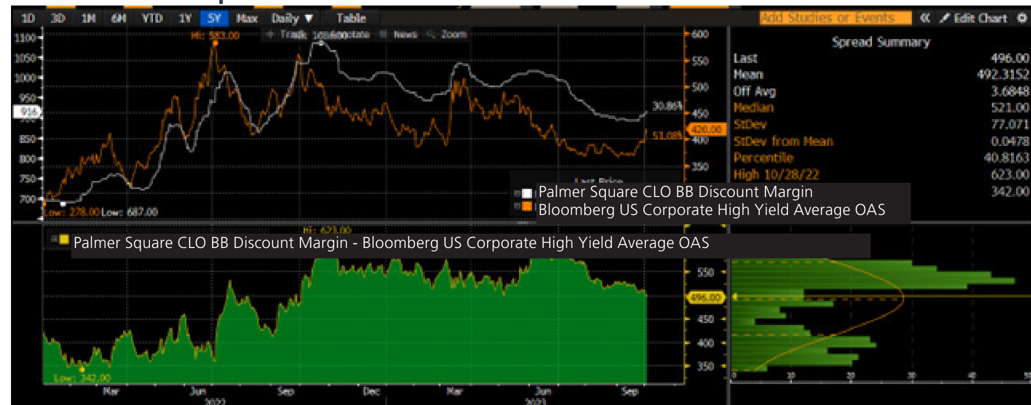
BB SPREADS AND 1YR FORWARD RETURNS		
Period	**CLO BB Spread**	**1yr Forward Return[1]**
1/29/2016	954	32.57%
2/29/2016	1193	51.32%
3/31/2016	972	35.39%
5/31/2016	916	30.62%
6/30/2016	909	30.77%
3/31/2020	1384	63.03%
4/30/2020	1299	55.59%
5/29/2020	1094	38.61%
7/31/2020	916	25.04%

Source: Bloomberg / Palmer Square CLO Indices. As of 12/31/2022. [2]Refers to the level at which spreads would need to widen in order to cause a negative value in an individual investment over a one-year period. This is determined by reducing a security's price by its expected coupon payments over the next 12 months and then calculating the level of spread widening that would need to occur to move the security's actual price to the reduced price. The presented hypothetical performance does not reflect the impact of material economic and market factors on decision making, any changes to the Fund over time, and was prepared with the benefit of hindsight. The above analysis looks specifically at CLO BB's. Upon request, Palmer Square will provide this analysis for other CLO rating classes.

*Please see Notes and Disclosure for definitions. This example is provided for illustrative purposes only.

CLO BBs remain a significant allocation in the portfolio and at current valuations offer a lot of potential value on an absolute and relative basis. As compared to High Yield (HY) opportunities, CLO BBs on a historical basis still look very cheap. CLO BBs currently pick up 577bps of spread versus HY, which looking back to 2012 is a 98th percentile reading (meaning CLO BBs have been relatively cheaper only 2% of the time). The median spread differential over the same time period is 260bps, which means CLO BBs need to tighten* about 317bps just to get back to historical average levels vs HY.

CLO BBB vs HY Spreads



Source: Bloomberg as of 9/30/2023. Current performance is not a guarantee of future performance of the Fund.
*Please see Notes and Disclosure for definitions.

- **Bank Loan Allocation:** As of quarter end, bank loans were 18% of the portfolio. In the 3rd quarter, we net added $1.5mm of bank loan exposure, recycling select sales and paydowns mostly into primary as well as select discounted secondary opportunities. The bulk of primary issuance came post-Labor Day after a seasonal summer lull and represented the best selection of deals for the quarter. Our primary participation in September came at a weighted average spread of 418bps and an OID (original issue discount)* of 98.6 across $5mm of purchases (8 deals). Sales were focused on higher-dollar price credits with asymmetric downside risk. *We continue to view the asset class as attractive given the low interest rate duration and will focus our efforts on adding high quality/lower risk credits in the coming quarter.*
- **High Yield Bond Allocation:** As of quarter end, HY bonds were 5.9% of the portfolio, down from 7.0% last quarter. The HY allocation was near 7% for the majority of the quarter, but we began reducing exposure in early September as the Bloomberg U.S. Corp HY Index OAS (Option-Adjusted Spread)* hit the lowest level (366bps) since April 2022 and a busy new issue calendar led to a less favorable technical environment. Although yields remain compelling on a historical basis (8.88% as of 09/30; 95th 10Y %tile), a number of factors including tight spread levels (26th %tile 1Y basis), increasing long-term rates and rate volatility, and less favorable supply / demand technicals (new issue up, fund flows negative) have made us more judicious with our HY allocation. We remain focused on identifying idiosyncratic credit opportunities with a particular focus on minimizing interest rate risk and maximizing spread convexity. In addition, we continue to find attractive opportunities within the EUR HY market, particularly in cross-border capital structures where EUR bonds provide more attractive relative value. *Valuation levels have narrowed the scope of our opportunity set; however, we believe there are still attractive credit-specific opportunities within the broader HY market.*

*Please see Notes and Disclosure for definitions.

Outlook / Focus on CLO Relative Value

- **CLO Issuance Forecast and Outlook:** CLO issuance so far in 2023 is about $85.5BN in new issue volumes, down about 20% from last year. We have also seen reset/refi activity pick up recently at about $10BN YTD. The size of the CLO market continues to grow in the U.S. and is now $1 trillion and over $1.2 trillion globally, which is now the largest credit sector within securitized products. Barring a material tightening in AAAs, we expect issuance to be close to $100BN in 2023.
- **Pause, Not Pivot:** Recent inflation data is mixed at best, with "goods" prices decelerating but "services" inflation remaining stubbornly high. Core inflation has also likely peaked, but what is not clear is how long it will take to normalize back to the Fed's target level of 2%. Due to the way core inflation is calculated, the housing component of the Consumer Price Index (42% weight in headline, 54% in core) works on a lag and will take time to fully reflect the current state of the housing and rental markets. Additionally, the inflation in core services is also unlikely to trend meaningfully lower without a sustained loosening in the labor market, which remains incredibly robust (unemployment at record lows and job openings still near record highs). Therefore, our base case is core y/y numbers, currently +4.8% y/y, will remain stubbornly high throughout 2023. And until the Fed feels core inflation has normalized, they will be forced to keep rates in restrictive territory (i.e. > 5%). That said, we also believe the Fed will pause the current hiking cycle in 2H 2023 once the Fed Funds Rate reaches 5.50% in order to observe the cumulative impact of higher interest rates on the economy. Furthermore, we do not see the Fed cutting rates in 2023, nor in early 2024, without a material weakening of the labor market combined with negative GDP (Gross Domestic Product) growth, which is not our base case. In summary, we believe short term interest rates will remain higher for longer than the market is currently pricing in. This would be positive for floating-rate securities as their coupons would remain higher for longer than the market currently anticipates.
- **Soft(ish) Landing:** Our view that rates will stay higher for longer is, in part, based on our view that the macro picture looks resilient. The labor market is as strong as ever, literally. In fact, so strong that the Fed would like to see it cool a bit to ease inflation pressure. We have seen some layoffs starting, but so far this has been isolated to the tech space. The consumer remains in decent shape, with debt/income levels still historically low and excess savings still high. In Europe, the macro picture has improved substantially thanks to warmer weather and government actions. And lastly, geopolitical risks have eased as well – Russia in a stalemate in Ukraine, Ukraine exporting grain, China reopening, European unity, etc. Growth will undoubtedly slow as high interest rates restrict investment, but we don't envision a hard landing.
- **Earnings Headwinds to Stabilize in 2H23:** Corporate earnings have been under pressure recently, particularly in the cyclical sectors like housing, construction, industrials and chemicals. However, we are starting to see signs of green shoots, with a consensus building that Q3 2023 will be the earnings trough. In any case, as we have highlighted previously, corporates started this current cycle from a period of strength, particularly when compared to previous cycles when corporates entered recessions over-levered and under prepared. Moreover, the Fund's non-cyclical bias has mitigated the recent earnings headwinds. On the whole, most measures of credit metrics are strong: debt leverage, interest coverage, liquidity, maturity profile, etc. As such, we think most

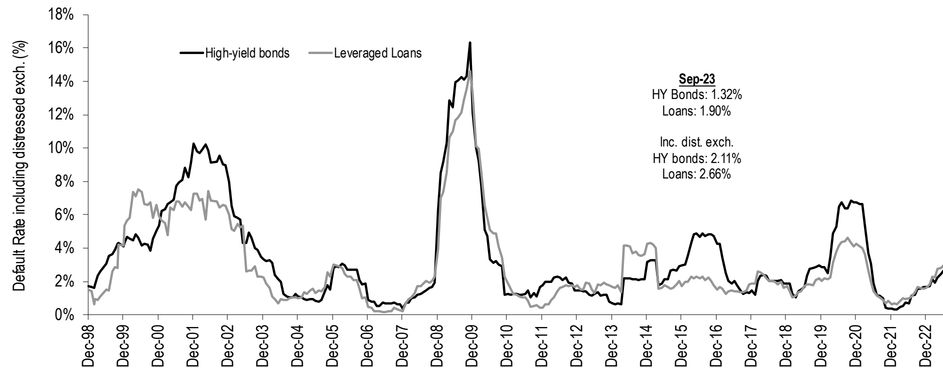
*Please see Notes and Disclosure for definitions.

corporates are well positioned to withstand several quarters of weak earnings without a deterioration in credit profiles. The exception to this will be the weakest cohort of companies with bad business models and/or bad capital structures (i.e. CCCs and cyclical single Bs). But this is why fundamental credit research and selection remains so important, now more than ever.

Fundamentals

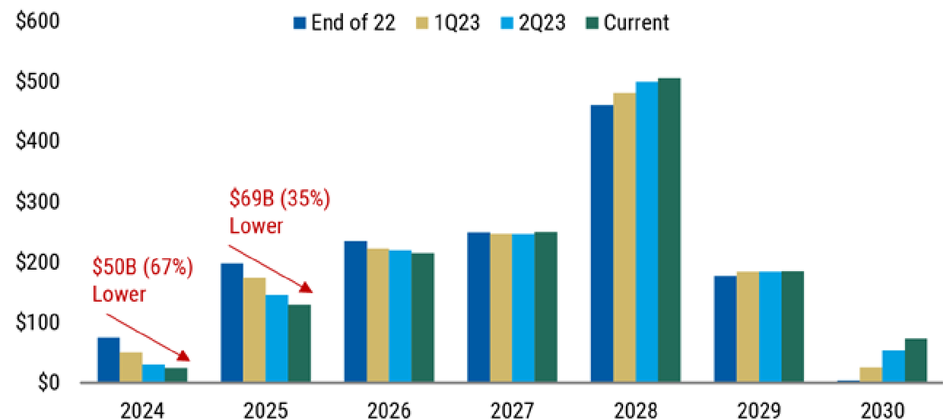
- As spreads drift wider with broader macro concerns, underlying loan fundamentals have been resilient. Loan defaults are hovering around longer term averages at 2.41%, with current defaults in CLO portfolios lower at 0.81%. We expect defaults to tick modestly higher in the next year but remain in the 2-4% range which is the longer term averages. The percentage of underlying CLO collateral trading at distressed levels (under $80) is currently around 6%, which is typically a good barometer of future defaults (Palmer Square deals are much lower in the 3-4% range). Also, loans with maturities before 2024 represent a small portion of the loan market at about 3%, meaning refinancing risk is low. The current CCC% in CLO portfolios is 5% (Palmer Square deals are lower in the 2-3% range) and still have ample cushion to withstand an uptick in downgrades.

Exhibit 1: Loan default rates off the lows, but still below long term average



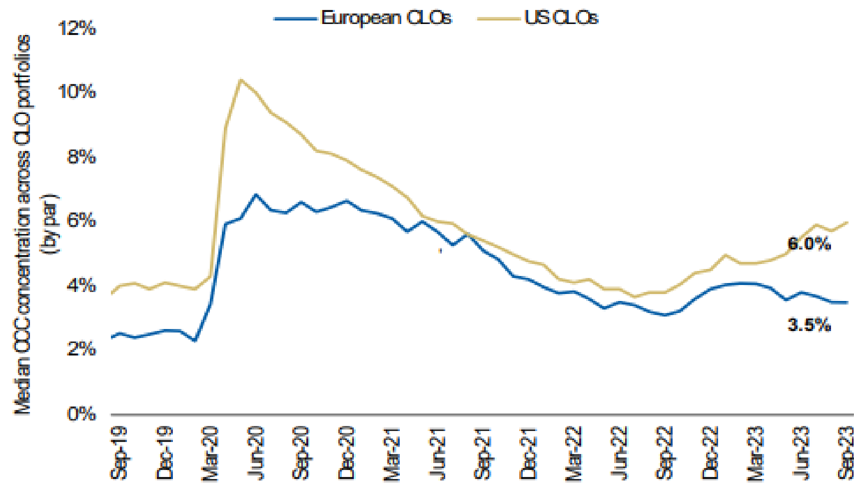
Source: J.P.Morgan Research 10/2/2023

Exhibit 2: Loan maturity walls ($BN)



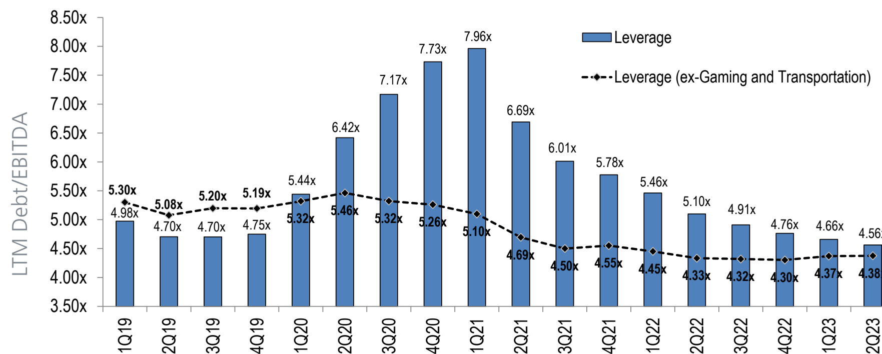
Source: ICE, Pitchbook LCD, Morgan Stanley Research as of 9/15/2023.

Exhibit 3: Median CCC assets in CLO portfolios



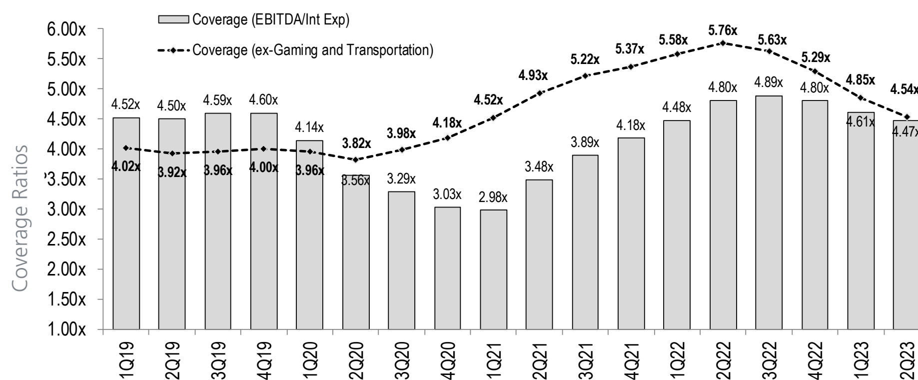
Source: Morgan Stanley Research, Intex as of 9/30/2023

Exhibit 4: Loan gross leverage still near multi year low



Source: J.P.Morgan Research 10/10/2023

Exhibit 5: Interest coverage ratios in line with historical averages



Source: J.P.Morgan Research 10/10/2023

- **Floating Rate Is the Place to Be:** As the 3rd quarter showed, even if the Fed hiking cycle is nearly finished, there still significant risk being exposed to the long end of the curve. Floating rate credit is the safest and best valued part of fixed income generally. Current yields still benefit from base rates at the highest part of the curve, but credit spreads are also more attractive than their fixed rate cohorts. And floating rate yields could even be understated if the projected interest rates cuts in 2024 don't materialize.

Summary

Given the portfolio positioning, we are confident in the outlook moving forward. We believe our portfolio is embedded with strong catalysts that will not only drive potential returns, but will also help mitigate volatility. More specifically, the portfolio has high current yield and the potential to generate price appreciation, and finally the portfolio has been providing low interest rate and relatively low spread duration*.

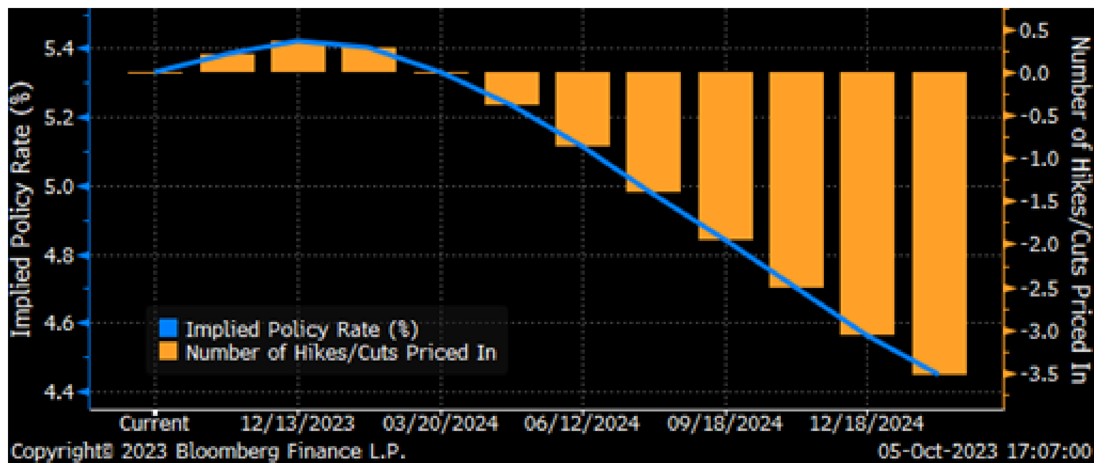
Please do not hesitate to contact us at investorrelations@palmersquarecap.com or 816-994-3200 should you desire more information. We would also be happy to set up a call and/or meeting at your convenience.

APPENDIX: Macro Musings: James Carville, Fiscal Irresponsibility, Higher for Longer(er)

- One of our favorite finance quotes comes from someone not even in the finance industry, James Carville, who once quipped "I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would want to come back as the bond market. You can intimidate everybody." Indeed, the proverbial bond vigilantes must have seen the various labor protests around the world and decided to join the picket line and dump their treasury holdings in protest of persistent inflation and, increasingly, fiscal profligacy. Mr. Carville knows a thing or two about the relationship between the bond market and federal largesse. He was an advisor to President Clinton, and witnessed treasury yields increase from 5% to 8% in 1994, commonly referred to the Great Bond Massacre. It was only until fiscal spending was reigned in via the Omnibus Budget Reconciliation Act did treasury yields rally back to 5.0%. This was also that last time the U.S. Federal Government ran a budget surplus. Imagine that!
- Another great, and relevant, quote we like is "History never repeats itself, but it often rhymes." That one is not from Mr. Carville but rather Mark Twain. Are we rhyming with 1994? We hope not, but the parallels are unnerving. The latest PCE Deflator data showed inflation cooled more than expected and confirmed the steady, albeit slow, path back to 2% core was intact. But the rates market shrugged this off with the 10Y yield widening out 35bps 3 days later. This fading of positive inflation data indicates the bond market is concerned with more than just inflation. There's a growing supply/ demand imbalance that has been largely ignored until recently. And it appears it is going to get much worse before it gets better.
- The Federal budget balance was -8.5% of GDP in Q2 2023, the largest "non-crisis" quarterly deficit ever. That's $575Bn in new debt in just Q2 2023 alone. Federal debt-to-GDP has increased from 65% in 2007 to 121% in 2022. And the nominal amount of federal debt has increased from $20T to $34T just since 2016. That's 10x the amount of federal debt in 1994. As we know, excessive government spending can only be financed in two main ways, higher taxes and/or higher borrowing. While we do think tax rates will have to move higher, it is unquestionable that the market is going to have to absorb significantly more treasury supply in the near/medium term (NB: the Fed is also a net seller of treasuries). And this tidal wave of supply is coming at the same time foreign demand for U.S. debt is shrinking. Japan and China are the largest holders of U.S. treasuries and are both net reducing. U.S.-China trade peaked in 2018 and is headed lower. Lower Chinese exports means less USD to recycle into the U.S. debt market. And Japan is poised to end its policy of Yield Curve Control which will make domestic assets relatively more attractive. Plus, USDJPY hedging costs have skyrocketed. The picture for domestic treasury demand is more mixed but still not great. Most banks are paralyzed with existing unrealized losses and prefer to remain liquid in case deposit outflows resume. The retail and asset management community does have demand, but anyone who went long rates has been steamrolled, and probably stop-lossed out. Lastly, we haven't even mentioned yet the toxic political environment, persistent debt ceiling near-misses, rating downgrades and general lack of fiscal seriousness by either of the major parties.
- Switching gears a bit, the *Higher for Longer* narrative continues to play out, as evidenced by the latest FED dot plot and economic data, which continues to show significant tightness in the labor market. We think the market consensus has been

slow to adopt the higher for longer narrative because it's still anchored to a low-rate world. We suppose years of financial repression will do that to a person. But as we have highlighted repeatedly in past updates, there have been several structural changes in the global economy that suggest inflation is here to stay, for a while at least. The era of offshoring production to low wage economies, and importing deflation back is mostly over. This is partially due to emerging market countries becoming richer and seeing wage growth catch up with the west, but also due to reshoring in various industries deemed of national interest. Namely, semiconductor manufacturing, pharmaceuticals, steel production, battery and green tech, etc. The cost of this deglobalization is higher prices. Environmental sustainability, while noble and just, is also inflationary by and large. It simply costs more to be sustainable. These factors are admittedly high-level and slow moving, but significant enough to argue the neutral rate is no longer 2.5%.

Fed Funds Projection: Market expects cuts starting in summer 2024



Source: Bloomberg 10/5/2023

Notes and Disclosure

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The Palmer Square Opportunistic Income Fund is a closed-end interval fund. You should not expect to be able to sell your Shares other than through the Fund's repurchase policy, regardless of how the Fund performs.

Interest Rate Duration measures a portfolio's sensitivity to changes in interest rates. **Spread Duration** measures the sensitivity of a bond price based on basis point changes of more than 100. **Yield To Call** is the yield of a bond or note if you were to buy and hold the security until the call date. **Yield To Maturity** is the rate of return anticipated on a bond if held until the end of its lifetime. **Current Yield** is an annualized figure of distributions paid YTD, divided by the $98.78 price of shares on 9/30/2023. **Beta** describes an investment's volatility in relation to that of the stock or bond market as a whole. For example, the S&P 500 is typically considered to be "the equity market" and it has a beta of 1.0. Yield to Expected Call is a Yield to Call metric that assumes callable bonds are not called on their call date, but at some later date prior to maturity. **Yield to Expected Call** considers contractual terms in a bond's indenture or other similar governing document. A bond may be called before or after this date, which has the potential to increase or decrease the Yield to Expected Call calculation. All else equal, when a bond's price is below par, Yield to Expected Call is a more conservative yield metric than Yield to Call. If a bond is not callable, Yield to Expected Call calculates the bond's Yield to Maturity. **Credit Spreads** are often a good barometer of economic health - **wide or widening (bearish sentiment)** and **narrowing/tight or tightening (bullish sentiment)**. The **option-adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate. The **original issue discount (OID)** is the difference between the original face value amount and the discounted price paid for a bond. The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.

The **Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index of publicly issued investment grade corporate, US Treasury and government agency securities with remaining maturities of one to three years. The **Bloomberg Barclays 1-3 Year US Corporate Index** measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with 1 to 2.9999 years to maturity. It is composed of a corporate and a non-corporate component that includes non-US agencies, sovereigns, supranationals and local authorities. **S&P 500 Index** is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. **U.S. Treasury index** is an index based on recent auctions of U.S. Treasury bills and is commonly used as a benchmark when determining interest rates, such as mortgage rates. **Bloomberg Barclays U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. **Bloomberg Barclays U.S. High Yield Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. **Bloomberg Barclays U.S. HY BB Corporates Index** tracks the performance of USD-denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market. **Credit Suisse Leveraged Loan Index** tracks the investable market of the U.S. dollar denominated leveraged loan market. **Palmer Square CLO Senior Debt Index (CLOSE)** seeks to reflect the investable universe for U.S. dollar denominated CLOs. CLOSE is comprised of original rated AAA and AA debt issued after January 1, 2009 subject to certain inclusion criteria. **Palmer Square CLO Debt Index (CLODI)** seeks to reflect the investable universe for U.S. dollar denominated CLOs. CLODI is comprised of original rated A, BBB, and BB debt issued after January 1, 2009 subject to certain inclusion criteria. **Palmer Square CLO BB TR Index (PCLOBBTR)** seeks to reflect the investable universe for U.S. dollar denominated CLOs. The index is comprised of original rated BB debt issued after January 1, 2009 subject to certain inclusion criteria. **LIBOR** (London Interbank Offered Rate) is the benchmark interest rate at which major global banks lend to one another. As of January 1, 2022 many banks are no longer required to submit the data needed to calculate the LIBOR rate. In June 2023, LIBOR will be replaced by SOFR. A **Reference Rate** is an interest rate benchmark used to set other interest rates. Various types of transactions use different reference rate benchmarks, but the most common include the Fed Funds Rate, LIBOR, the prime rate, and the rate on benchmark U.S. Treasury securities. Unlike mutual funds, indices are not managed and do not incur fees or expenses. It is not possible to invest directly in an index.

The allocation and credit quality distribution figures shown are used for illustrative purposes only. Palmer Square does not guarantee to execute that allocation and credit quality distribution. Allocation and exposures information, as well as other referenced categorizations, reflect classifications determined by Palmer Square as well as certain Palmer Square assumptions based on estimated portfolio characteristic information. Allocation and credit quality distribution figures may not sum to 100%. Ratings listed herein are assigned by Standard & Poor's (S&P) and Moody's Investor Service (Moody's). Credit quality ratings are measured on a scale with S&P's credit quality ratings ranging from AAA (highest) to D (lowest) and Moody's credit quality ratings ranging from Aaa (highest) to C (lowest). We use the higher of the two ratings. Credit ratings listed are subject to change. Please contact Palmer Square for more information.

Notes and Disclosure cont'd

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Collateralized Loan Obligations Risk – The Fund may invest in CLOs. The Fund is subject to asset manager, legal and regulatory, limited recourse, liquidity, redemption, and reinvestment risks as a result of the structure of CLOs in which the Fund may invest. A CLO's performance is linked to the expertise of the CLO manager and its ability to manage the CLO portfolio. Changes in the regulation of CLOs may adversely affect the value of the CLO investments held by the Fund and the ability of the Fund to execute its investment strategy. CLO debt is payable solely from the proceeds of the CLO's underlying assets and, therefore, if the income from the underlying loans is insufficient to make payments on the CLO debt, no other assets will be available for payment. CLO debt securities may be subject to redemption and the timing of redemptions may adversely affect the returns on CLO debt. The CLO manager may not find suitable assets in which to invest and the CLO manager's opportunities to invest may be limited.

The risks of an investment in a collateralized debt obligation depend largely on the type of the collateral securities and the class of the debt obligation in which the Fund invests. Collateralized debt obligations are generally subject to credit, interest rate, valuation, prepayment and extension risks. These securities are also subject to risk of default on the underlying asset, particularly during periods of economic downturn. Defaults, downgrades, or perceived declines in creditworthiness of an issuer or guarantor of a debt security held by the Fund, or a counterparty to a financial contract with the Fund, can affect the value of the Fund's portfolio. Credit loss can vary depending on subordinated securities and non-subordinated securities. If interest rates fall, an issuer may exercise its right to prepay their securities. If this happens, the Fund will not benefit from the rise in market price, and will reinvest prepayment proceeds at a later time. The Fund may lose any premium it paid on the security. If interest rates rise, repayments of fixed income securities may occur more slowly than anticipated by the market which may result in driving the prices of these securities down. The Fund is "non-diversified," meaning the Fund may invest a larger percentage of its assets in the securities of a smaller number of issuers than a diversified fund. Investment in securities of a limited number of issuers exposes the Fund to greater market risk and potential losses than if its assets were diversified among the securities of a greater number of issuers. Foreign investments present additional risk due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks. High yield securities, commonly referred to as "junk bonds," are rated below investment grade by at least one of Moody's, S&P or Fitch (or if unrated, determined by the Fund's advisor to be of comparable credit quality high yield securities).

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