M&G Credit Income Investment Trust plc (MGCI)
Quarterly Review

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**M&G CREDIT INCOME INVESTMENT TRUST PLC**

(the "Company")

LEI: 549300E9W63X1E5A3N24

**Quarterly Review**

The Company announces that its quarterly review as at **31 December 2024** is now available, a summary of which is provided below. The full quarterly review is available on the Company's website at:

https://www.mandg.com/dam/investments/common/gb/en/documents/funds-literature/credit-income-investment-trust/mandg_credit-income-investment-trust_quarterly-review_gb_eng.pdf

**Market Review**

In the final quarter of 2024, major central banks maintained their path of monetary policy easing, despite modest inflationary upticks. In the US, headline inflation edged up to 2.7% in the 12 months to November, a slight increase from 2.6% a month earlier. The UK's 12-month headline inflation rate climbed to an 8-month high of 2.6% in November, up from 2.3% in October. The eurozone also reported a rise in inflation in November: prices rose 2.3% year-on-year, up from 2% in October. During the period, the Federal Reserve (Fed) reduced its key interest rate by 25 basis points (bps) twice, taking it to a range of 4.25% to 4.5%. The decisions were driven by indications of moderating inflation and a weakening labour market. The European Central Bank (ECB) implemented two 25bps cuts, lowering the deposit rate to 3%, while the Bank of England (BoE) reduced interest rates from 5% to 4.75% in November.

Aside from the toing and froing of interest rate expectations, the main market narrative during the quarter centered around UK and US politics, in particular the implications of confirmed and prospective fiscal policies on future debt issuance and sustainability. In the more immediate term, investor concern focused on what these policies could mean for the path of monetary policy. A 'tax and spend' budget by the new Labour government sparked concerns over growth and inflation and put pressure on UK gilts yields. In the US, the presidential election on the 5th of November resulted in a victory for Donald Trump. In addition, the Republican party took control of the House of Representatives and the Senate, allowing the president-elect greater scope to enact policy plans. This left financial markets digesting the implications for US foreign and economic policy, with Trump announcing plans to impose tariffs on Europe, China, Mexico and Canada. Taking a backseat somewhat to events across the Atlantic, continuing political turmoil in France and Germany eventually led to the collapse of their respective governments as we approached the year end.

**Manager Commentary**

In the fourth quarter, the Company's performance was hindered by two idiosyncratic and unrelated instances of credit distress involving separate private issuers. This led to a mark down equivalent to 1% of NAV, which resulted in a quarterly NAV return of 1.70% compared to 2.24% returned by the benchmark. Despite this, the portfolio performed in line with the ICE BofA European Currency Non-Financial High Yield 2% Constrained Index (+1.72%), whilst outperforming comparable investment grade fixed income indices such as ICE BofA Sterling Corporate and Collateralised Index (-0.36%), and the ICE BofA 1-3 Year BBB Sterling Corporate Index (+1.01%).

Despite the political volatility, credit markets remained relatively stable. In the UK, in spite of the inflationary implications of the Autumn budget, investment grade sterling credit performed strongly, with spreads ending the period at almost 3-year lows. This continues to be a technically driven grind tighter, with the appetite for fixed income showing no sign of abating as investors look to lock in attractive all-in yields. In the portfolio, credit spreads of Tier 1 and 2 financials continued to compress on the back of strong appetite for risk, with higher beta, sterling investment grade bonds that had slightly lagged the year's rally, outperforming. Our remaining exposure to Scandinavian and European REITS continued to rally on the back of the loosening financial conditions/lower rates narrative, and we took the opportunity to lock in healthy gains by selling CPI Property whilst also exiting our Heimstaden position. We also sold down two bonds on credit concerns as we looked to further de-risk the portfolio: With continuing turmoil and uncertainty in the water sector, the picture developing at Southern Water had begun to look rather bleak, displaying similarities to the unravelling at Thames, and we saw little reason to retain what was a relatively small position for us. In addition, our Credit Agricole AT1 bond was trading inside our yield target and had tightened a decent amount since being purchased at new issue. Given the aforementioned weakening in French risk, pressure on the sovereign rating and notable political instability, we decided to sell down our holding and lock in a capital gain. We received repayments from our positions in ANCHE 8X, MARGAY 1X (both CLOs) and RIN 2019-1A (one of our illiquid ABS holdings), redeploying funds into high grade ABS collective vehicles whilst we wait to invest in higher yielding private opportunities.

In the private market, we committed a combined £3.3m in three new assets. These were the senior tranche in a securitisation backed by microfinance loans with inherent support from development banks and supranational agencies (£1.75m), the mezzanine tranche in an SRT transaction backed by a diversified portfolio of UK SME loans (£0.75m), and a Direct Lending transaction participating in a term loan to the leading laundry service provider in Germany (£0.8m).

**Outlook**

At a macro level, the re-election of Donald Trump has created an elevated level of uncertainty for the global economic outlook. Whilst it could be argued that a straight line assumption between trade tariffs and higher inflation is too linear, a more definitive assertion is that their implementation will certainly make the mandate for central banks to return inflation to target more complicated. The expected result is for a more cautious approach to cutting interest rates than had been previously assumed by investors, particularly in the case of the Fed. Financial market theory would tell you that an increase in economic uncertainty leads to investors taking more risk-off the table, but there has been little evidence of this in credit markets, as attractive all-in yields have continued to drive demand which is significantly outstripping corporate issuance. This has led to the level of compensation on offer for taking credit default risk, in our opinion, being at odds with the outlook for the UK economy, which faces headwinds including higher business taxation, Trump 2.0 tariffs, and the prospect of reaccelerating inflation and higher for longer interest rates. This hugely uncertain economic outlook warrants a cautious, patient and disciplined approach to investing and favours active management. In such times, our ability to invest across the breadth of both public and private fixed income markets distinguishes the Company in being able to seek out attractive risk-adjusted returns for our investors. With the public corporate bond market offering scant risk-adjusted value relative to our return target, our focus in the early part of 2025 will be to sell down tighter yielding public credits and redeploy proceeds into higher yielding private investments. We begin 2025 with a healthy and diverse pipeline of private investment opportunities which we hope to add to the portfolio in the coming months.

**MUFG Corporate Governance Limited**
**Company Secretary**

14 February 2025

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The content of the Company's web-pages and the content of any website or pages which may be accessed through hyperlinks on the Company's web-pages, other than the content of the Update referred to above, is neither incorporated into nor forms part of the above announcement.

*For further information in relation to the Company please visit: https://www.mandg.com/investments/private-investor/en-gb/investing-with-mandg/investment-options/mandg-credit-income-investment-trust*

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