Collateral Thinking

Brace for a repricing wave

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Leveraged Loan Strategy
United States

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Top of the stack

2023 ended with HY CCC spreads in their 44th percentile since GFC, while Bs/BBs finished at an eye-watering 2nd percentile. In comparison loans tightened "only" 25bps and are in their 25-70th percentile of spreads. However, LevFin fundamentals remain unchanged and markets backtracked last week upon absorbing more economic data, something we were wary of. Despite the correction, current loan over HY premiums are unsustainable and we expect loans to outperform HY going forward. Nevertheless, both loans and bonds are the tightest they've been in a year, triggering a spate of repricing/refinancing activity.

Brace for a repricing (mini) wave

We think repricing activity is likely to remain strong in Q1 given supportive technicals, which has increased the size of the repricing-eligible universe. Our estimate is $80bn and $150bn could get repriced over the next 3 and 6 months respectively if conditions remain strong. We think activity will be concentrated in loans with margin in 250-450bps range, which currently represents $320bn in repricing-eligible paper.

We think repricing activity will come in mini spurts like last year as risk-premia bounces around with incoming data. The recent rally has been a hesitant one - driven by mid-priced loans moving towards par, while stressed/distressed segments have remained unchanged. Dispersion remains high which will have the impact of driving up repricings as well as defaults simultaneously.

Market Technicals

In the three weeks ending Dec 29th, demand for loans totaled $8.3bn, a decline from $17.9bn demand seen in the prior three weeks. CLO issuance declined by $8.8bn followed by decline in coupon payments by $606mn and retail flows by $273mn respectively.

Rating Actions

In the past month, we have seen rating actions across 26 distinct issuers. A total of 19 issuers were downgraded by 26 notches and 7 issuers upgraded by 13 notches. In terms of sectors, Technology and Retail each contributed 18% and 12% of total downgrades in the past month whereas Travel and Healthcare contributed 43% and 40% to upgrades respectively. Overall, we see a net downgrade of $12bn.

Return Performance

Loans in the LCD index returned 0.90% in three weeks ending Jan 5th, down from the -1.11% cumulative return seen in the prior three weeks. Across asset classes, YTD loan returns are at 0.3%, YTD HY returns are at -0.7% and YTD IG returns are at -0.8%.

Primary Activity

YTD US new money issuance totals $10.3bn, with a total of 7 loans launched in the primary market. In comparison, YTD '23 brought in $600mn US new money issuance across 3 loans.

Exhibit 1: Loan performance
YTD Loan return is at 0.3%

Index	Level	1wk Δ	2wk Δ	YTD Rtn
All Loan	96.3 pts	+0.0	+0.1	0.3%
BBs	99.6 pts	-0.0	+0.0	0.3%
Bs	98.0 pts	+0.0	+0.1	0.4%
CCCs	79.6 pts	-0.5	-0.2	0.4%

Source: S&P LCD

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Exhibit 2: HY performance
YTD HY return is at -0.6%

Index	Level	1wk Δ	2wk Δ	YTD Rtn
US HY	359 bps	+5	+25	-0.6%
BBs	219 bps	+2	+15	-0.6%
Bs	361 bps	+4	+19	-0.6%
CCCs	947 bps	+22	+96	-1.0%

Source: BofA Global Research

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Exhibit 3: Fund flows ($mn)
YTD loan flows are at -43mn

Asset	1wk	2wk	YTD	LTM
Loans	-43	+341	-43	-15,123
US HY	-904	+276	-904	-7,374
US IG	+5,034	+3,200	+5,034	+141,420

Source: EPFR Global

See glossary of abbreviations and terms in the Glossary section

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Top of the stack

The remarkable rally that the credit market witnessed last month has been second to none. HY bonds compressed 50bps in the last 2 weeks of Dec, generating 3.7% during a sleepy month, and coming in second only to Dec of 2008. Spread percentiles collapsed across the board even as rates declined 45bps. 2023 ended with HY CCC spreads in their 44th percentile since the GFC, while Bs and BBs finished at an eye-watering 1st-2nd percentile (Exhibit 4). In comparison loans have been more behaved tightening "only" 25bps and are still in their 25-70th percentile of spreads (Exhibit 5). The current loan over HY premiums are unsustainable and we expect them to close with time.

Exhibit 4: Spread percentile as of Dec 31, 2023
HY CCC spread ended 2023 in their 44%ile since GFC, BB/B ended at 2%ile

	Loans	HY	IG (RHS)	
Index	54%	7%	11%	Index
BB	28%	2%	3%	AA
B	42%	1%	18%	A
CCC	72%	44%	9%	BBB

Source: BofA Global Research, Markit, ICE

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Exhibit 5: Spread percentile as of Jan 5, 2024
Loans are still in their 30-70th percentile of spreads

	Loans	HY	IG (RHS)	
Index	53%	18%	14%	Index
BB	26%	11%	8%	AA
B	40%	17%	25%	A
CCC	73%	51%	11%	BBB

Source: BofA Global Research, Markit, ICE

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While we acknowledged that the tone of the Dec Fed meeting provided upside to prices (All that glitters is not Gold-ilocks), we were also of the opinion that risk-taking is likely to be short-term and that long-term trajectory is dependent on fundamentals. And since nothing has materially changed on that front- rates, ebitda, coverage, and maturities are still a LevFin concern, the fierceness of the HY rally had an element of FOMO, in our opinion. Which is why the HY decline has been just as swift as its ascent.

That said, rate cuts would provide incremental relief to loan issuers, partially reversing coverage ratio declines that have reached 2.7x. However, currently penciled in rate cuts for '24 are unlikely to move the fundamental needle. We have previously shown how for loan downgrade pressures to truly diminish, either front end rates have to decrease to a 3% context, or issuers have to generate positive ebitda growth (Year Ahead 2024: Goldilocks and the Three Bears). Current base case is for neither to materialize this year. HY has healthier overall coverage levels (4x), but given approaching maturity walls, the threat of declining coverage, foreshadowing downgrades has become real.

It is only natural then, that upon absorbing more incoming data flow this year, risk markets backtracked last week– something we were wary of. HY has come full circle-widening approx. 40bps, closing last week out at 370bps, as rates sold-off in the face of payroll strength. In comparison loans have remained relatively resilient through the selloff, having lagged the initial Dec rally.

Irrational exuberance has once again been silenced by data that suggests the war has not been won yet. Given payroll strength, higher for longer rates scenario is very much alive. These kinds of data-led retracements have happened before (Oct) and are likely to happen again as we move through this period of economic transition. One of our year-ahead calls was to expect market volatility to remain elevated amid the push-pull between recession, soft-landing and goldilocks. Our preference is to use such knee-jerk reactions to lighten up on high priced CCCs on melt-ups, and load up on quality yield on the way down. All eyes are on inflation data this week to provide another such trigger.

The recent rally has been a hesitant one. In fact, market leadership has come from mid-priced loans moving towards par, while stressed/distressed segments have remained unchanged. Dispersion remains high- the wedge between "haves" and "have-nots" is stark. This has a double consequence of increasing defaults amongst troubled issuers, while also pushing prices higher amongst the most sought-after ones. On the back of recent price action, we expect i) the loan premiums over HY to compress ii) loan repricings to increase as spreads are the tightest they've been in a year.

In this report we deep dive into repricings, where activity has been increasing over the last few months. We think repricing pressures are set to increase in the face of supportive technicals and plenty of cash chasing good credits. In total we think 5.5%, or $80bn of the market could get repriced in Q1 should conditions remain strong.

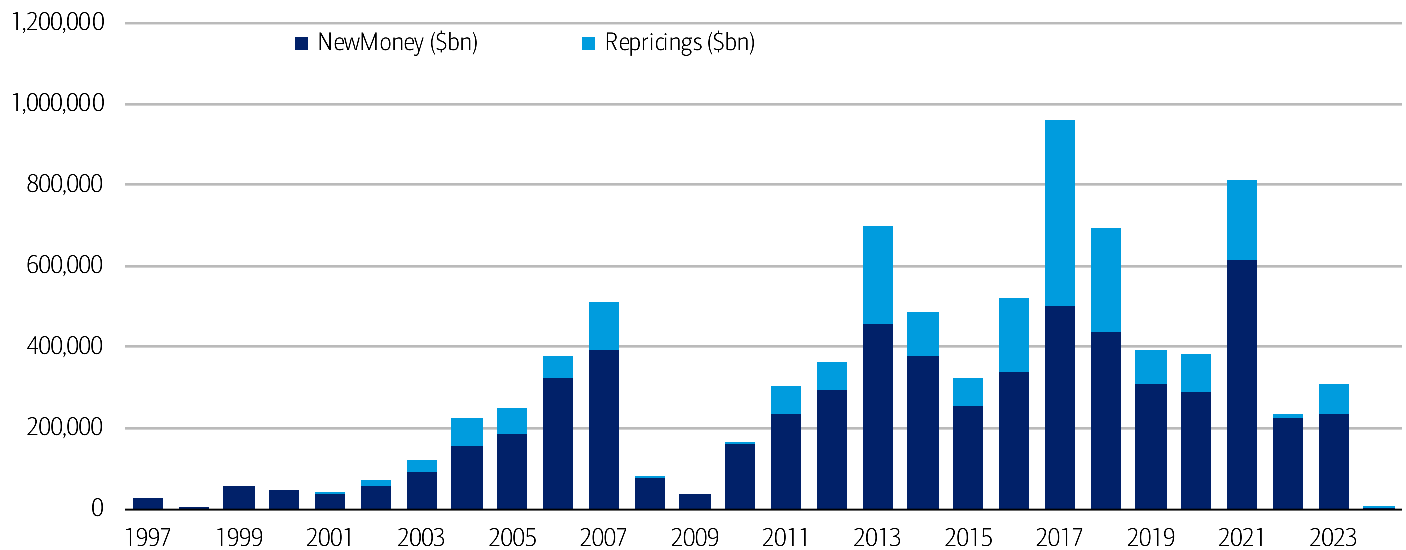
Brace for a repricing wave

Repricings are generally a sign of market tops, reflecting a fully functional primary, and investors in a risk-on mode, enough to be willing to take a spread haircut. For issuers that find themselves in this fortunate position, this is one of the many reasons they prefer to issue loans over bonds. Loans have issuer-friendly call structures, typically allowing to be refinanced without penalty as soon as 6mths post issue, whereas most HY bond issuers don't have that luxury for 2-3 years. For loans trading above par, their market yields are lower than coupons, thus prompting repricing conversations. In fact, proportion of loans trading above par is the single-best determining factor in future repricing pressures faced by the loan market.

Repricings have been largely non-existent since 2021 – when lofty valuations and animal spirits triggered the last big wave of loan repricings. The year finished with nearly $200bn in repriced paper, a jumbo total, but which paled in comparison to the year's new money supply of $615bn which set a new historical record (Exhibit 6). The last time repricings truly dictated the supply pipeline was the 2017-2018 period, where amid a growing economy just existing a recession, and tightening spreads, many issuers rushed to reprice, sometimes multiple times over. Repricings posted a total of $460bn in FY '17, nearly matching the new money total of $500bn.

Exhibit 6: Annual gross loan supply broken down by new money and repricings

The last wave of repricings was in 2021, but was overshadowed by the year's record new money supply



Source: BofA Global Research, LCD

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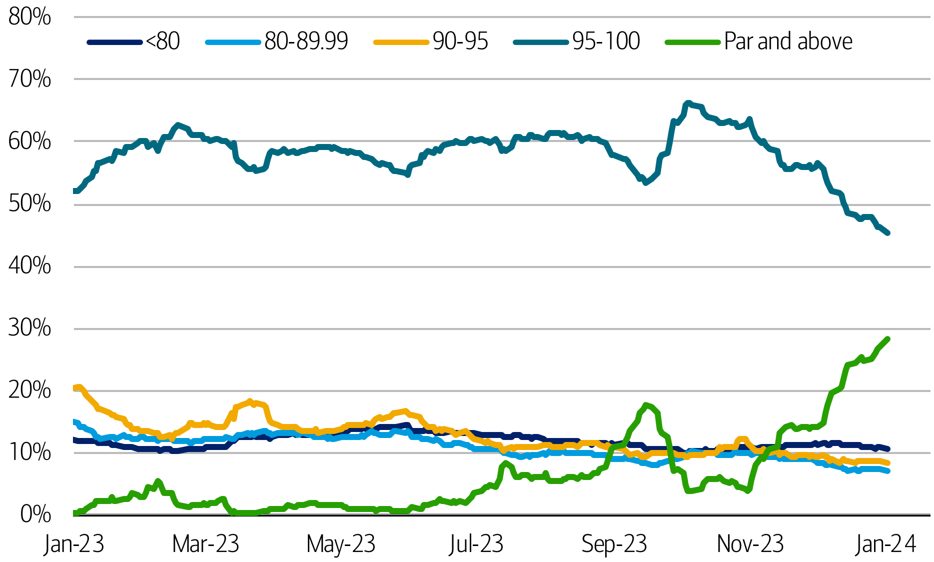
We find ourselves yet again on the verge of a repricings mini-wave. We think it will be a "mini" as we don't suspect there is enough demand for a 2021 style wave, let alone one that resembles the 2017 period. The recent rally has been a hesitant one - driven by the 95+ px segment moving to 100+, while the distressed and stressed segments have remained unchanged at 10% levels (Exhibit 7). The market favors a largely pre-defined set of "haves" in a highly dispersed world. These "haves" are attracting most capital, while the "have-nots" remain on the sidelines. This will have the impact of driving up repricings as well as defaults simultaneously.

Exhibit 7: Recent rally has been a hesitant one

Rally driven by 95+ loans moving to Par+, while <90 cohort remains at similar levels



Source: BofA Global Research, LCD

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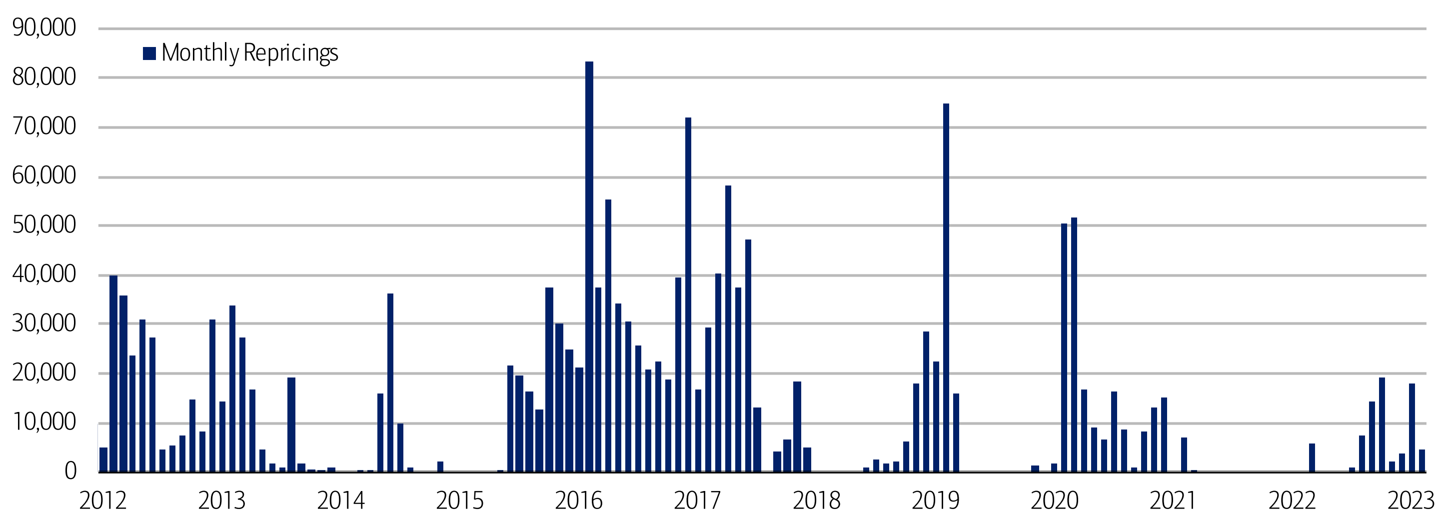
Dissecting recent repricings

After a lull of nearly 2 years, repricing activity came in spurts last year. In late summer as markets pricing in Goldilocks conditions and spreads compressed, the first wave of repricings kicked in. Aug and Sep posted repricings of $14bn and $19bn respectively (Exhibit 8) before things simmered down when the next string of economic data pointed to a softer economy thwarting Goldilocks expectations. Then the Dec rally brought with it another $18bn, bringing 2023 total to $72bn. Going forward we think repricing activity will remain high as long as the loan market remains strong. The floodgates have already opened - first week of '24 is clocking in at $5bn, and another $30bn in repricings are scheduled to close over the next few weeks.

Exhibit 8: Historical monthly repricings

Repricing activity came in spurts last year after a lull of 2 years



Source: BofA Global Research, LCD

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However, not all issuers are fortunate enough to be in a position to reprice. We have analyzed various aspects of repricings through the lens of ratings and margins and come to three broad conclusions:

i) A loan's margin is much more reflective of its probability of getting repriced, than its rating.

ii) Loans are getting repriced within a year of being issued, on average.

iii) Margin compression achieved via repricing is proportional to the loan's original margin.

Exhibit 9: 2023 repricings distribution by ratings
Near uniform distribution of activity across ratings

Rating	Count	Amount ($bns)	Avg Margin Change	Time To Repricing
BB1	16	22	-48	14
BB2	11	11	-48	17
BB3	9	10	-47	19
B1	15	16	-53	17
B2	19	16	-76	12
B3	3	2	-67	7
Total/Avg	**73**	**76**	**-57**	**15**
Median			**-50**	**11**

Source: BofA Global Research, Markit

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Exhibit 10: 2023 repricings distribution by original margin
Activity driven by the 250-350bps margin cohort

Margin	Count	Amount ($bns)	Avg Margin Change	Time To Repricing
<250	5	4	-30	13
250-350	30	42	-48	18
350-450	29	25	-54	12
450-600	8	4	-94	14
600+	1	0.3	-275	29
Total/Avg	**73**	**76**	**-57**	**15**
Median			**-50**	**11**

Source: BofA Global Research, Markit

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Repricing probability driven by margins not ratings

Exhibit 9 shows a breakdown of LTM repricings by ratings. A total of $76bn in repricings have been absorbed by the market across 73 deals over the last 12 months, a lion's share of which came in 2H'23. The number and amounts are almost uniformly distributed across rating categories. But the breakdown of repricings across margin buckets shows that bulk of the current momentum is coming from the 250-350bps margin cohort which accounts for $42bn of the $76bn in total repricings over the last 12 months. 350-450bps margin cohort comes in next with a total of $25bn repriced, while the other cohorts contribute <$10bn towards the total (Exhibit 10).

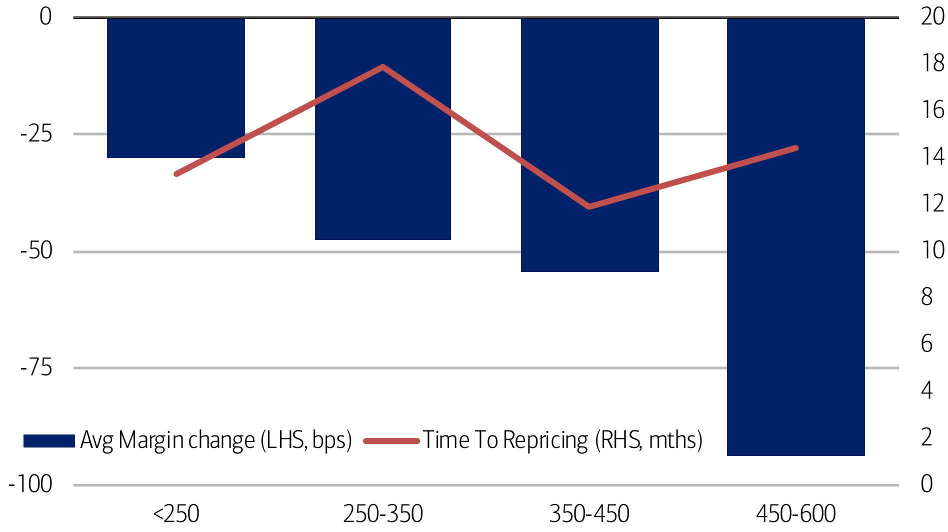
Loans are getting repriced within 1yr of being issued

Time to repricing, ie the number of months post issuance the loan is repriced, stands at a median of 11 months for LTM repricings (average 14 months). It's even lower for the most recent repricings of '24 - at 6 months, which is the bare minimum an issuer needs to avoid prepayment penalty. Additionally, we find that ratings or margins don't necessarily impact time to repricing, as reflected by their uniform distribution in both tables.

Margin compression in a repricing is proportional to original margin

Despite the smaller sample set for the higher margin repriced loans, we can see a pattern emerge – the wider the margin, the more relief an issuer will seek. On average a thin margin loan (<250bps) can get away with ~25bps in margin compression. Those with margins in 250-450bps range are getting 50bps relief, while the higher margin loans can see up to 100bps in margin cuts (Exhibit 11).

Exhibit 11: Avg margin compression achieved in a repricing is dependent on original margin
The higher the margin, the more an issuer can cut costs, while time to repricing is similar



Source: BofA Global Research, LCD

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Q1 to see $80bn in repricing activity

To assess what drives repricing activities, we perform correlation analysis on forward-looking repricings against 8 relevant metrics. In the analysis, we express repricings as a percentage of par value of the loan market outstanding to standardize it over time, and we test 3 different forward-looking windows – next 3M (N3M), N6M and N12M – to assess which time window has higher correlation with the variables, and thus results in better estimates.

We mentioned earlier how proportion of loans trading above par is the single best driver of repricings. In our analysis we have enhanced this variable by calculating a "repriceable universe" in every observation period. This is achieved by taking all the loans trading above par at a point in time and layering in more conditions around loan callability (ie if the loan is outside its non-call period), and loan margins (ie if the loan has margin > 250bps, below which margin compression may not be enticing enough for the issuer to reprice). We include both the original and enhanced metrics in the correlation analysis. Exhibit 12 shows the correlation results.

Exhibit 12: Correlation between forward-looking repricings and
Repriceable universe and proportion of loans trading above par drive future repricings

	N3M repricings	N6M repricings	NTM repricings
Repriceable universe as % of index	74%	69%	57%
Loans trading above par as % of index	67%	62%	46%
10y breakeven inflation rate	5%	-3%	-11%
2s10s yield curve	2%	-1%	-1%
2y treasury rate	-17%	-20%	-29%
Index Sofr/Libor	-20%	-21%	-30%
10y treasury rate	-22%	-30%	-39%
10y real rate	-26%	-31%	-37%

Source: BofA Global Research, LCD, Markit, Bloomberg

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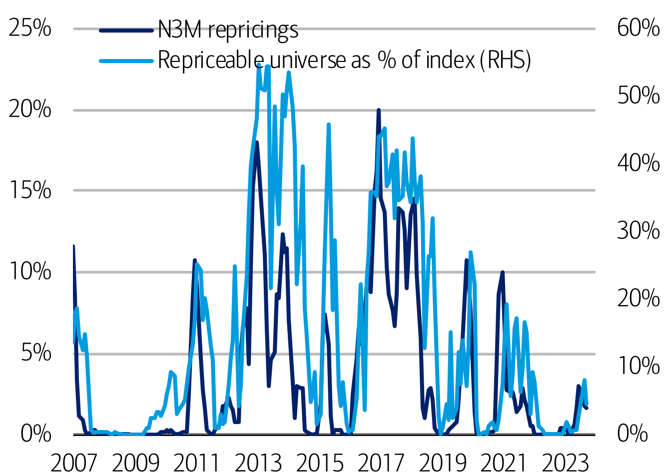
Repriceable universe as percentage of loan index and proportion of loans trading above par stand out as two most impactful factors driving future repricings, whereas the other factors are less correlated to repricings. In addition, N3M repricings given the shorter time frame, are more correlated with tactical factors such as repriceable universe and par+ loans vs more macro factors such as rates. The opposite is true for N6M and

N12M, which naturally have more built-in uncertainty. For this reason, we focus on N3M results when estimating repricings, which we discuss next.

Exhibit 13: N3M repricings vs Repriceable universe as % of index
This pair has a 74% correlation



Source: BofA Global Research, LCD, Markit

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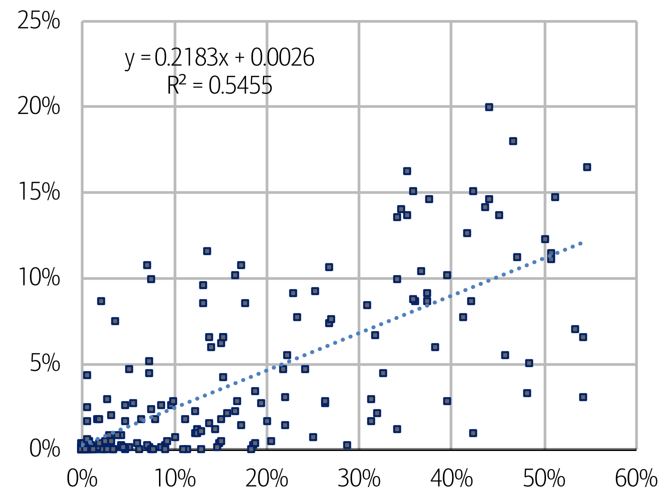
Exhibit 14: Regression of repriceable universe on N3M repricings
55% of variation in repricing activity is explained by repriceable universe



Source: BofA Global Research, LCD, Markit

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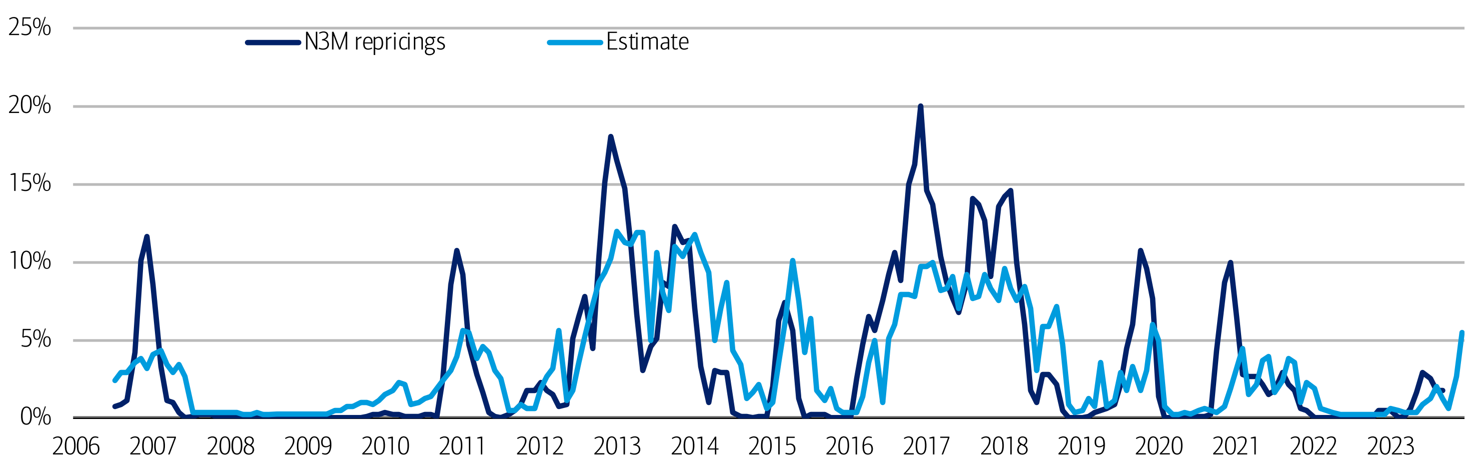
A multivariate regression with N3M repricings as percentage of index and the above 8 factors shows Repriceable universe to be the key driver of repricings. This pair has a 74% correlation with each other, the highest among all variable combinations we tested above, and their historical time series are plotted in Exhibit 13. A simple univariate regression is able to explain 55% of the variation in repricing activity measured by R-square (Exhibit 14), and has strong t-stats for the independent variable. We also tried adding additional independent variables to see if explanatory power can be improved, but variables either become insignificant or benefit for adding extra factors is minimal. Exhibit 15 shows the actual historical N3M repricings vs our estimates. Using this analysis, we are expecting ~$80bn loans (5.5% of index) to be repriced in Q1'24.

Exhibit 15: Actual historical N3M repricings vs regression estimates
$77bn loans, or 5.5% of index, is estimated to be repriced in Q1'24



Source: BofA Global Research, LCD, Markit

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Performing similar regressions, repricing estimates for next 6 and 12 months are $150bn (10.6% of index) and $270bn (19.3% of index) respectively. However, explanatory powers for these two regressions are only 47% and 32% respectively, and thus the confidence level of these estimates is lower compared to our N3M estimate.

Further, we don't think conditions will remain persistently strong throughout the year, and we could fall well short of our 12m estimates which assume today's conditions to exist all year.

Dissecting current repriceable universe

In total there is a large portion of the loan market $356bn that is repriceable, essentially passing the three conditions of price, margin and callability described earlier. Dropping the margin condition to look more widely, the number jumps to $438bn. Exhibit 16 and Exhibit 17 break down this larger universe by ratings and margin buckets to ascertain where future repricing activity is likely to come from.

Exhibit 16: Current Repriceable universe by rating

$112bn of B2 loans are eligible for repricing, the largest among all rating buckets

Ratings	Count	Repriceable Universe	Count%	Repriceable Universe%
BB+	43	45,773	11%	10%
BB	41	50,259	10%	11%
BB-	46	46,093	12%	11%
B+	73	95,286	19%	22%
B	102	111,991	26%	26%
B-	51	56,772	13%	13%
Other	36	31,749	9%	7%
Total	392	437,924	100%	100%

Source: BofA Global Research, Markit

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Exhibit 17:Current Repriceable universe by margin cohort

A majority of future repricings will be concentrated in the 250-450bps margin cohorts

Margins	Count	Repriceable Universe	Count%	Repriceable Universe%
<250	54	55,023	14%	13%
250-350	127	159,802	32%	36%
350-450	138	161,495	35%	37%
450-600	58	52,307	15%	12%
600+	15	9,297	4%	2%
Total	392	437,924	100%	100%

Source: BofA Global Research, Markit

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In line with historical trends, we think a majority of future repricings will be concentrated in the 250-450bps margin buckets which collectively represents $320bn in paper currently eligible for repricing. While we have added the cohort of loans with margin< 250bps to Exhibit 17, note that this cohort's contribution to repricings has been minimal historically, given the diminished ability to shrink margins further from already low levels.

Assuming optimistically that good market conditions last all year, we can reasonably assume that nearly all of the $320bn could get done in 2024, representing a rate of $80bn/qtr. Adding some activity from the higher and lower margin cohorts gives us an upper estimate of $90-$100bn/qtr in repricings from a bottoms-up perspective.

That said, the likelihood of changes in market risk premium with incoming economic data is high. We think repricings are likely to come in mini waves, and not all that is repricing-eligible will ultimately get done. As such, we remain comfortable with our assessment of $80bn in repricings for Q1, while our estimate of future quarters is likely to change.

Conclusion

We think that the recent repricings uptick in the loan market has legs and we estimate ~$80bn of loans (5.5% of index) will get repriced in Q1. Repricings estimate for the next 6 and 12 months is $150bn (10.6% of index) and $270bn (19.3% of index) respectively.

A prerequisite to this panning out is the strong market conditions. As we saw last year, repricing activity can be quick to shut down in unfavorable market conditions, causing waves to come in brief spurts. Given that markets are data dependent and economic volatility is expected to remain high, we could expect to see a similar pattern of mini waves this year in periods of strength, as opposed to the single large wave seen in 2017 or 2021.

The first installment of the expected mini-waves are already underway, and given our expectation of short-term market strength, we think the wave could last over the short-term leading up to that $80bn in total repricings in Q1. We think activity will be concentrated in loan cohort with margin in 250-450bps range, which currently represents $320bn in repricing-eligible paper. Higher and lower margin cohorts may also contribute to the total, but relatively little. We don't expect the entire eligible universe to get repriced in FY 24 supporting our current assessments of repricings above. That said, our longer-term assessments of next 6 and 12 months repricings are likely to change based on incoming economic data.

In addition, dispersion remains high- the wedge between "haves" and "have-nots" is stark. This has a double consequence of increasing defaults amongst troubled issuers, while also pushing prices higher amongst the most sought-after ones, increasing repricing activity simultaneously.

Market Technicals

In the three weeks ending Dec 29th, demand for loans totaled $8.3bn, decreasing from the $17.9bn of demand seen in the prior three weeks ending Dec 8th. The decrease in demand was mainly driven by $8.8bn decrease in CLO issuance followed by $606mn decrease in coupon payments and $273mn decrease in retail flows respectively between the two three-week periods. YTD net demand has outweighed supply by $234.8bn versus the $139.3bn of net demand seen this time last year. Note that this table doesn't account for demand channels such as SMAs and alternate asset vehicles.

Exhibit 18: Weekly Technicals ($mns)

Demand net of supply is at 234.7bn

	YTD as of 12/29/2023	12/29/23	12/22/23	12/15/23	12/8/23
Retail flows (a)	-8,902	51	258	98	248
CLO creation (b)	107,089	490	803	406	1,259
Coupons (c)	121,549	1,761	2,255	2,140	1,906
Demand (a+b+c)	219,736	2,302	3,316	2,643	3,414
Issuance Ex-repricings (d)	234,694	0	0	2,010	6,205
Repayments (e)	249,750	5,063	957	11,114	9,049
Supply (d-e)	-15,056	-5,063	-957	-9,104	-2,844
Demand net of Supply	234,792	7,365	4,273	11,747	6,258

Source: BofA Global Research, LCD

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Rating Actions

In the past 30 days, we have seen rating actions across 26 distinct issuers. A total of 19 issuers were downgraded by 26 notches ($20.6bn total notional) and 7 issuers upgraded by 13 notches ($8.3bn total notional). Of the downgrades, Covis Pharma Sarl and GGP Inc each had one loan downgraded by three notches, totaling $1.8bn. Of the upgrades, Carnival Corporation had two loans upgraded by two notches each, totaling $3.5bn the most by notional.

In terms of sectors, Technology and Retail each contributed 18% and 12% of total downgrades by notional respectively. Of the upgrades, by notional amount, 43% was in Travel followed by 40% in Healthcare. Five distinct sectors experienced upgrades while fourteen distinct sectors experienced downgrades. Downgrades outweighed upgrades by $12bn.

Exhibit 19: Recent downgrades and upgrades
There was net downgrade activity of $12.2bn

Issuer	Ticker	Margin	Notional	Maturity	Sector	Rating Action	Current Rating	Previous Rating	Notches
Covis Pharma Sarl	COVPHA	650	432	2/18/2027	Healthcare	Downgrade	CCC-	B-	-3
GGP Inc	BPY	250	1,371	8/27/2025	Real Estate	Downgrade	B+	BB+	-3
Careismatic Brands	STAPAR	325	591	1/6/2028	Retail	Downgrade	CCC-	CCC+	-2
Astra	ASTACQ	525	772	10/25/2028	Financials	Downgrade	CCC+	B-	-1
Catalent Pharma Solutions	CTLT	200	1,411	2/22/2028	Healthcare	Downgrade	BB-	BB	-1
Coinmach Laundry Corp	DRY	400	1,945	3/4/2028	Retail	Downgrade	CCC+	B-	-1
Dynacast International	DYNCST	450	624	7/22/2025	Metals	Downgrade	CCC+	B-	-1
Electronics For Imaging	EFII	500	620	7/23/2026	Technology	Downgrade	CCC+	B-	-1
Envalior	SCUALP	550	1,401	3/29/2030	Services	Downgrade	B	B+	-1
Hearthside Food Solutions LLC	HEFOSO	369	1,082	5/23/2025	Food Producers	Downgrade	CCC	CCC+	-1
Hearthside Food Solutions LLC	HEFOSO	400	491	5/23/2025	Food Producers	Downgrade	CCC	CCC+	-1
Hearthside Food Solutions LLC	HEFOSO	500	406	5/23/2025	Food Producers	Downgrade	CCC	CCC+	-1
Hilton Grand Vacations Inc	HGV	275	1,271	8/2/2028	Travel	Downgrade	BB+	BBB-	-1
KBR, Inc	KBR	275	501	2/5/2027	Capital Goods	Downgrade	BB	BB+	-1
McAfee Enterprise	MAGBUY	500	3,112	7/27/2028	Technology	Downgrade	CCC+	B-	-1
Oxea Group	OXEAGR	350	435	10/14/2024	Chemicals	Downgrade	B	B+	-1
Securus Technologies Inc	SECRUS	450	1,025	11/1/2024	Telecoms	Downgrade	CC	CCC-	-1
STG Logistics Inc	STGWAR	600	783	3/24/2028	Transportation	Downgrade	B-	B	-1
SunSource Inc	STSOPE	425	662	12/11/2024	Capital Goods	Downgrade	B-	B	-1
Vialto Partners	GXUSCO	475	959	4/29/2029	Services	Downgrade	CCC+	B-	-1
WideOpenWest Finance LLC	WOWFIN	300	715	12/20/2028	Cable	Downgrade	BB-	BB	-1
Epic Crude Services LP	EPICRU	500	1,064	3/2/2026	Energy	Upgrade	B	B-	1
MyEyeDr	CAPVIS	425	1,381	8/31/2026	Healthcare	Upgrade	B-	CCC+	1
Zelis Healthcare Corp	STRATO	350	1,978	9/30/2026	Healthcare	Upgrade	B+	B	1
Amex GBT	GLBUSI	250	238	8/13/2025	Financials	Upgrade	B+	B-	2
Carnival Corporation	CCL	325	2,254	10/18/2028	Travel	Upgrade	BB+	BB-	2
Carnival Corporation	CCL	300	1,304	8/8/2027	Travel	Upgrade	BB+	BB-	2
Glass Mountain Pipeline	GLASSM	450	6	10/28/2027	Energy	Upgrade	B+	B-	2
Outerstuff Ltd	OUTERS	500	113	12/30/2027	Retail	Upgrade	CCC+	CCC-	2

Source: BofA Global Research, LCD

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Return Performance

Loans in the LCD index returned 0.90% in the three weeks ending Jan 5th, down from the 1.11% cumulative return seen in the prior three weeks ending Dec 15th. Second Lien loans were the best performer during the three-week period returning 196bps and CCC's (115bps) outperformed both BB's (73bps) and B's (96bps) respectively. Across asset classes, YTD loan returns are at 0.3%, HY returns are at -0.6% and IG returns are at -0.8%.

Exhibit 20: Total Returns (price plus coupon return) bps
Loans returned 26bps in the week ending Jan 5th

	1/5/2024	12/29/2023	12/22/2023	12/15/2023
All Loans	26	29	35	59
BB	22	23	28	38
B	28	30	39	66
CCC	28	42	45	112
2nd Lien	36	47	112	107
LL100	14	34	41	81

Source: BofA Global Research, LCD

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Primary Activity

YTD US new money issuance totals $10.3bn, with a total of 7 loans launched in the primary market thus far. In comparison, YTD '23 brought in $600mn US new money issuance across 3 loans. In terms of the composition of the types of deals financed in the past 30 days, 67% by notional amount was for Refinancing and 25% was for Dividend.

Exhibit 21: Recent new loan issues
The largest recent new issue came from Westinghouse Electric Co $3.5bn deal

Launch Dt	Issuer	New Inst. Money	Moody's	S&P	ABL	Cov Lite	Proceeds	Sector	Country
1/8/2024	Internet Brands	300	B1	B	No	YES	Refinancing	Computers & Electronics	United States
1/8/2024	Jane Street Group	300	Ba2	BB	No	NO	Refinancing	Services & Leasing	United States
1/8/2024	Westinghouse Electric Co	3,500	B1	B	No	YES	Refinancing	Utilities	United States
1/8/2024	Caliber Collision	2,525	B3	B	No	YES	Dividend	Automotive	United States
1/4/2024	Hilton Grand Vacations Inc	900	Ba2	BB+	No	YES	Acquisition	Gaming & Hotel	United States
1/4/2024	KBR Inc	800	Ba1	BB	No	YES	Refinancing	Services & Leasing	United States
1/4/2024	Zelis Healthcare Corp	1,978	B1	B+	No	YES	Refinancing	Healthcare	United States

Source: BofA Global Research, LCD

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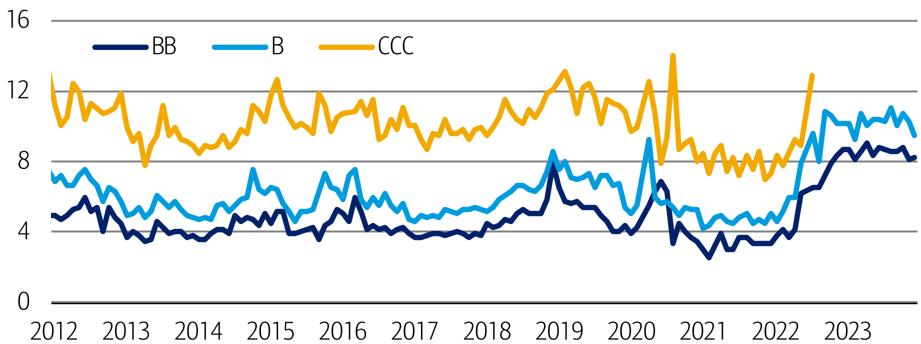
Exhibit 22: Average new issue yields by month
BB and B currently yield 8.2% and 9.55% respectively while there is not enough sample size for CCC



Source: BofA Global Research, LCD

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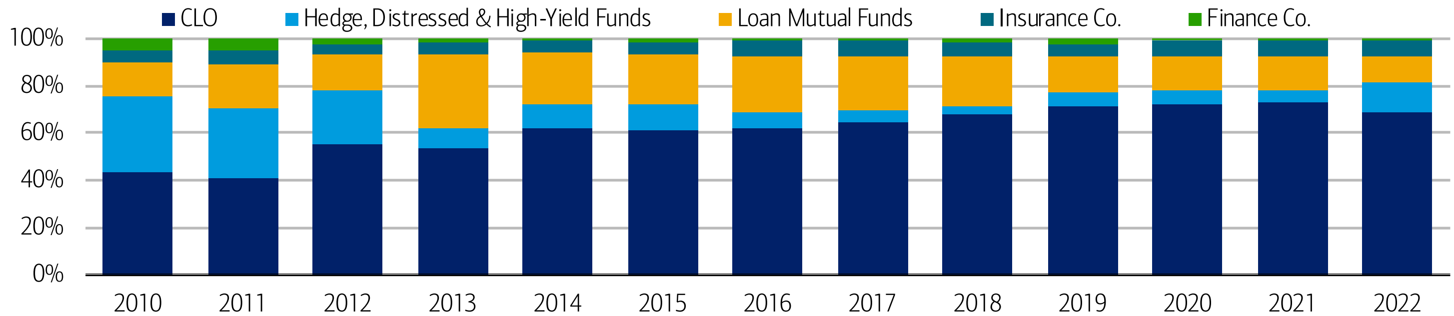
CLO Update

CLOs are the largest buyers of loans and today represent close to 70% of the primary demand within this asset class. Loan retail funds are the second largest buyers – their participation has shrunk since the peaks of 2013 but has been increasing recently, coinciding with the rate move. At the same time, hedge, distressed & high yield funds have played a lesser role in the primary market.

Exhibit 23: Distribution of investors across loan market
CLOs make up 69% of the primary institutional market



Source: BofA Global Research, LCD

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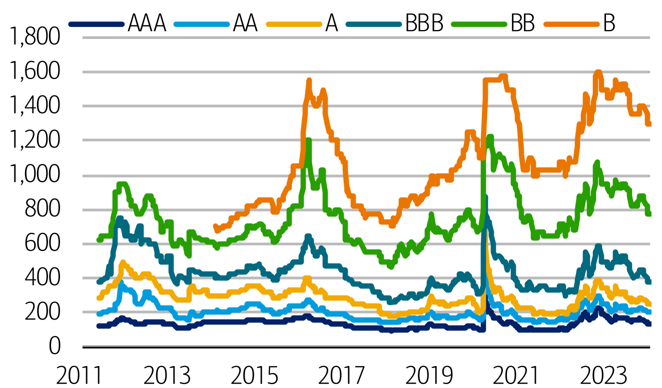
Exhibit 24 shows CLO spread levels by tranches. CLO arbitrage is a widely followed statistic in the loan market, and represents the theoretical spread that managers can capture by issuing CLOs. Exhibit 25 compares CLO asset (loan) spreads to the weighted average spreads of CLO liabilities. The difference between these two values is the theoretical arbitrage and represents the current attractiveness of creating new CLOs. A higher arbitrage number means a greater incentive for managers to bring new CLOs to the market, and thus provide incremental loan demand, and vice versa. Importantly, this arbitrage calculation puts more weight on the primary loan market.

Exhibit 24: US CLO 2.0/3.0 indicative spread level (bps)
Secondary CLO spreads have increased materially



Source: BofA Global Research

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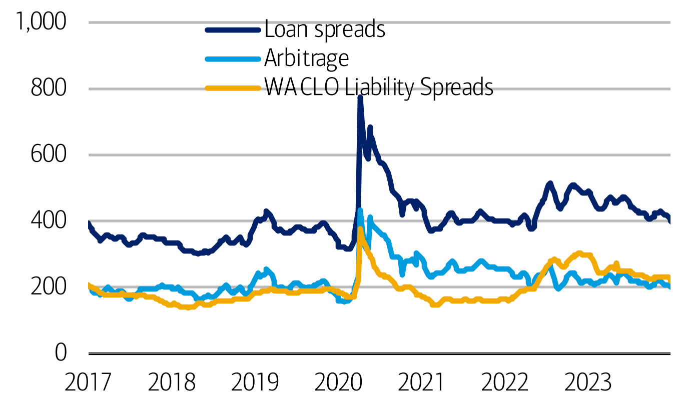
Exhibit 25: CLO Arbitrage (bps)
CLO arbitrage has been declining



Source: BofA Global Research, LCD
Arbitrage: Loan asset spread – WA CLO spread X Liability %
Loan spreads (running avg 4wks): 60% sec BB, 40% sec B
Until 3/4/22 Loan spreads (running avg 4wks): 50%new issue B+/B, 30% pri BB, 10% sec BB, 10% sec B

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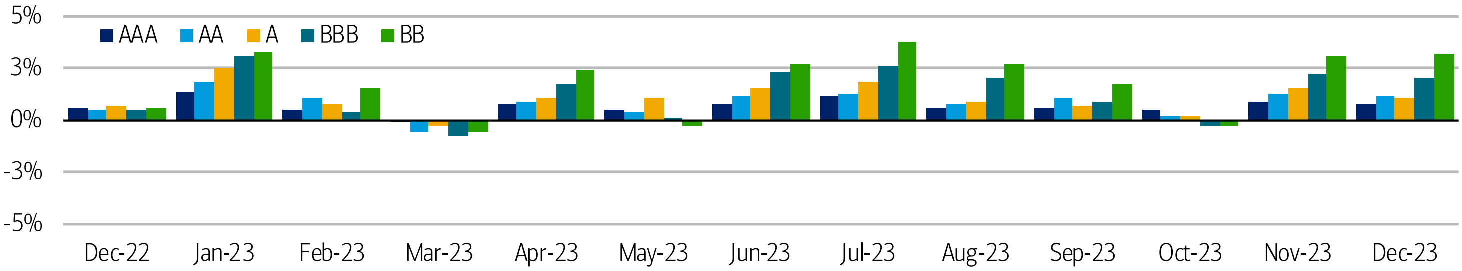
Exhibit 26 shows monthly CLO returns as defined by the Palmer Square CLO index (price plus coupon returns).

Exhibit 26: Monthly CLO 2.0 returns by rating
CLOs returned 1.1% in Dec



Source: BofA Global Research, PriceServe, Palmer Square CLO Indices, Bloomberg

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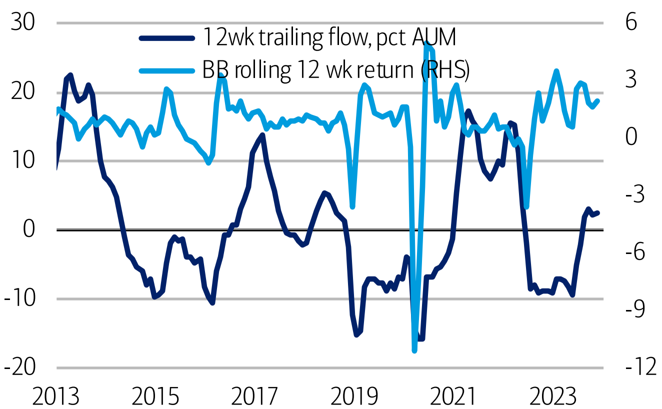
The following charts show demand trends within the loan market, correlated with returns within rating buckets. Exhibit 27 shows a measure of retail flows (12 week trailing retail flows as a percentage of outstanding AUM) vs. monthly BB Loan total returns, while Exhibit 28 depicts monthly CLO issuance vs. monthly B Loan total returns.

Exhibit 27: BB performance vs Loan retail flows
Currently BB rolling 12-week return is at 1.9% and 12-week trailing flow is 2.5% of outstanding AUM



Source: LCD, EPFR Global

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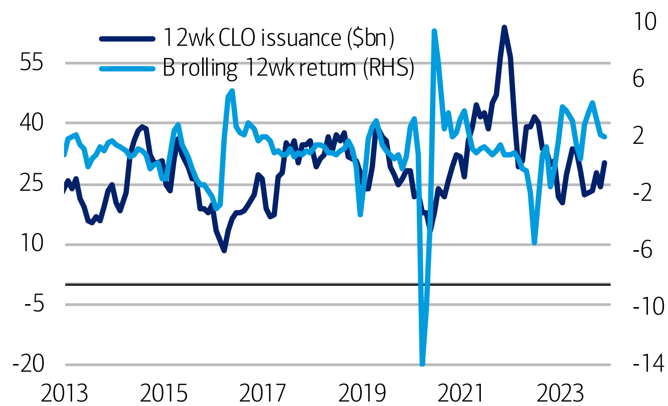
Exhibit 28: B performance vs CLO creation
For Bs, rolling 12 week return is at 2.0% while 12 week CLO issuance is $30.3bn



Source: LCD, EPFR Global

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Glossary

AUM: Assets Under Management

BSL: Broadly Syndicated Loan Market

CLO: Collateralized Loan Obligation

CPI: Consumer Price Index

DL: Direct Lending

GFC: Global Financial Crisis

IG: Investment Grade

HY: High Yield

ISM: Institute for Supply Management

LBO: Leveraged Buyout

LCD: Leveraged Commentary & Data

LevFin: Leveraged Finance

MM: Middle Market

OAS: Option-Adjusted Spread

OER: Owners' Equivalent Rent

PD: Private Debt

PPI: Producer Price Index

Refi: Refinancing

RV: Relative Value

SMA: Separately Managed Accounts

FOMO: Fear of Missing Out

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