BofA SECURITIES

Collateral Thinking

Earnings at an inflection point

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Leveraged Loan Strategy
United States

BofA Data Analytics

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Top of the stack

Rate cuts keep getting pushed out further as the chorus of hawkish Fedspeak grows louder. Despite this rates U-turn, credit market conditions remain exceptionally strong. IG spreads reached a new post war low last week (93bps), despite a torrent of supply, likely to push monthly volumes to $160bn - biggest Feb on record. Within HY, single-B spreads have reached a post GFC record (317bps), with BBs a few bps shy of getting there. Loans have lagged for a change due to the drag from distressed CCCs.

Topical: earnings rebound?

This level of HY spreads is only sustainable in an economic upturn. Until now there has been little evidence of fundamental improvement, with LevFin earnings growth wrapped around 0. However, this might change going forward. A first peek into Q4 loan issuer earnings suggests EBITDA growth is at an inflection point. We see a similar rebound amongst small cap equity EPS growth. Readthroughs of recent macro and fundamental data suggests that this trajectory could continue into Q1, solidifying the profit recovery narrative for below-IG issuers.

Most levered to this outcome are loan CCCs - in a higher for longer rates environment they need earnings growth to support their declining coverage ratios. Should these initial readings pan out, we could be set up for a risk rally with the spread gap between CCC loans and CCC bonds closing further. That said, some challenges remain, most notably in the form of struggling topline growth and continued bearish guidance from corporates. In this report, we take a first look at Q4 issuer earnings to understand what lies ahead.

Market technicals

In the three weeks ending Feb 16, demand for loans totaled $27.2bn, increasing from the $11.5bn seen in the prior three weeks. CLO issuance and coupon payments increased by $11bn and $4.5bn respectively, while Retail flows declined by $186mn.

Rating actions

In the past month, we have seen rating actions across 17 distinct issuers. A total of 9 issuers were downgraded by 20 notches and 8 issuers upgraded by 10 notches. In terms of sectors, Telecoms and Media each contributed 46% and 20% of total downgrades in the past month whereas Healthcare and Gaming each contributed to 31% and 26% upgrades respectively. Overall, we see a net downgrade of $1.1bn.

Return performance

Loans in the LCD index returned 0.5% in three weeks ending Feb 16th, down from the -0.42% cumulative return seen in the prior three weeks. Across asset classes, YTD loan returns are at 1.4%, YTD HY returns are at 0.2% and YTD IG returns are at -1.4%.

Primary activity

YTD global and US issuance totals $113bn and $98bn, with a total of 165 and 128 loans launched respectively in the primary market thus far. In total, YTD 2024 has outperformed YTD 2023 in both global and US issuance.

Exhibit 1: Loan performance
YTD Loan return is at 1.4%

Index	Level	1wk Δ	2wk Δ	YTD Rtn
All Loan	96.4 pts	+0.1	+0.1	1.4%
BBs	99.4 pts	+0.1	+0.1	1.1%
Bs	98.2 pts	+0.1	+0.2	1.4%
CCCs	81.3 pts	+0.8	+0.7	3.6%

Source: S&P LCD
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Exhibit 2: HY performance
YTD HY return is at 0.2%

Index	Level	1wk Δ	2wk Δ	YTD Rtn
US HY	322 bps	-13	-16	0.2%
BBs	189 bps	-12	-15	0.0%
Bs	317 bps	-13	-17	0.3%
CCCs	906 bps	-22	-21	0.3%

Source: BofA Global Research
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Exhibit 3: Fund flows ($mn)
YTD loan inflows are at 1,231mn

Asset	1wk	2wk	YTD	LTM
Loans	+6	+275	+1,231	-6,988
US HY	+698	+81	+4,774	+8,945
US IG	+3,007	+4,739	+53,400	+183,134

Source: EPFR Global

See glossary of abbreviations and terms in the Glossary section
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Top of the stack

Rate cuts keep getting pushed out further as the chorus of hawkish Fedspeak grows louder. The market is now pricing only 3.3 cuts for 2024 after a string of Fed governors implied that rate cut talk is premature, suggesting a Fed pivot could be a 2H story. It's hard to believe that less than a month ago, pre- Jan Fed, consensus was close to 6 rate cuts in 2024. First full cut is now priced for July, and rates are now back to their Nov highs.

Despite this rates U-turn, credit market conditions remain exceptionally strong. IG spreads reached a new post war low last week (93bps). BBBs are at 116bps, also last seen in Nov 2021. This is despite a torrent of new supply- last week IG primary priced $53.5bn in deals. With one week left in the month we are on track to cross $160bn which will be the biggest Feb supply figures on record.

HY created a record of its own. Single-B spreads reached a new post GFC lows (317bps), after tightening 14bps in a single day. These are levels last seen in 2007. HY BBs (195bps) are also just 10bps shy of setting a new post GFC record. Two things have helped here. First, gross issuance in HY has slowed down - last week we saw $4bn in new HY supply, lowest week YTD. In addition, net issuance remains muted as well because an overwhelming portion of issuance is for refinancings. For perspective, 90% of supply YTD has gone towards refinancings, a historical record. Combined these two factors have created very strong technicals, which we expect to remain in place until supply increases organically, probably also a 2H story.

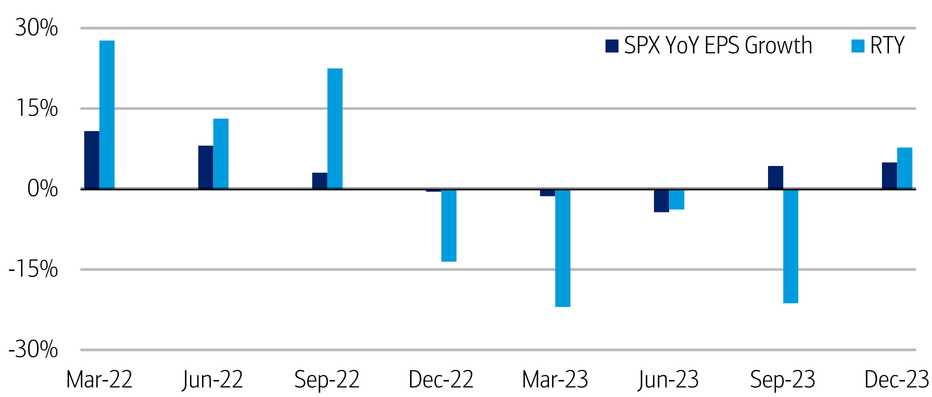
Loans lagged for a change, staying flat, even as supply slowed down to a trickle ($2.6bn). The asset class is the most exposed to a higher for longer rate environment, especially on the bottom of the quality spectrum. That said, loans remain the best performing asset class across both US and EU credit, sitting on 1.4% returns YTD vs 30bps for US HY and -1.1% for US IG. Looking across the pond, EU credit has fared even better with EU HY at 1.35% and EU Loans already at 2.1% owing to a >1pt rally YTD.

So how do we reconcile market events in Rates and Credit? Regular readers of our pages are likely well acquainted on our two-pronged approach to this issue. We either need a) rates to fall to 3% levels or b) earnings to rebound in order to feel less concerned about coverage ratios and future fundamental decline. We are seeing a) slowly slip away- a month ago we were on track to fall to a 3-handle in FF rates by Jan '25 but such is no longer the case today. The silver lining here might just be earnings, which are at an inflection point. YoY EPS growth of Russell 2000, the closest equity counterpart of LevFin credit has turned positive for the first time since Sep '22 (Exhibit 4).

Will this bring good tidings to our market as well? In this report, we answer this question as we take a first look at Q4 earnings releases for loan issuers.

Exhibit 4: YoY EPS growth of SPX and RTY

YoY EPS growth of Russell 2000 has turned positive for the first time since Sep'22



Source: BofA Global Research, Bloomberg

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Topical:

With about half of our 250+ issuer sample having reported, we take stock of fundamental health of leveraged issuers. We do this by tracking the headline numbers reported by our sample of public loan issuers. We also peruse guidance announcements and individual earnings transcripts to understand issuers' forward trajectory and enumerate challenges and demand trends observed by issuers.

Based on the first half of Q4 earnings reports, despite genuine challenges, we see an improvement in loan issuers' earnings on balance. On the positive side, the proportion of issuers beating revenue consensus has increased substantially vs Q3, mainly driven by outperformance from higher quality issuers. In addition, cost headwinds continue to dissipate versus previous quarters, helping realize stronger than expected EBITDA growth. Macroeconomic indicators such as real GDP and PMI have been holding up well, while small caps are set to register their first positive YoY growth print since Q3'22. Taken together this suggests that the earnings growth rebound first seen in Q3 is likely real. Initial readings imply that EBITDA growth could stay in the 5% zipcode for Q1'24 as well.

Amongst negatives, corporate topline growth remains challenging leading to flattish YoY real revenue growth. The macroeconomic factors helping facilitate the earnings rebound are largely overwhelmed by the slowdown in nominal GDP, suppressing revenue growth prospects. Additionally, issuers have become increasingly bearish on their Q1'24 revenue guidance. There is also a chance fundamentals deteriorate as more earnings come in since the second half of the earnings season is heavier on lower quality issuer reports.

All told, we are cautiously optimistic that issuers will be able to sustain the mid-single digit earnings growth in the short term. An imminent turnaround in profits and cashflows is a big deal for floating rate issuers, especially B3s and CCCs, as it helps them cover their increased interest costs, improving coverage ratios in a higher for longer rate backdrop. If the upward trajectory continues, performing CCC loans have the biggest upside in returns across credit, followed by CCC bonds and B Loans, which could set us up for a risk rally in the short term. Over the longer term, for sustained fundamental improvement, we also need to see revenue growth improve.

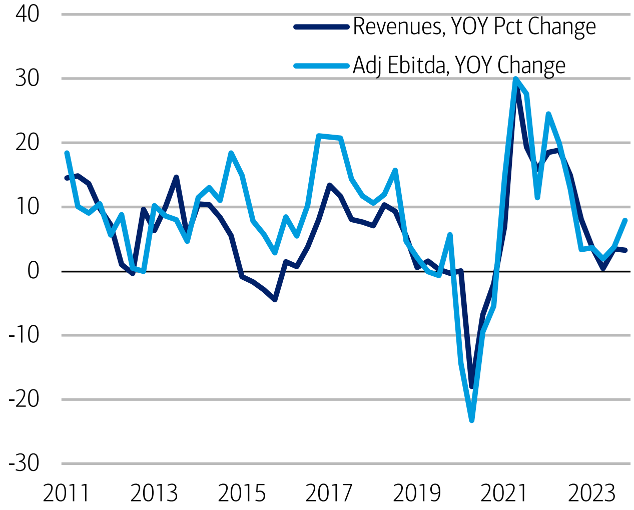
Q4 earnings first take

EBITDA growth higher; Revenue growth stable

Exhibit 5 shows the YoY growth of loan issuers' aggregate revenues and adjusted EBITDA. Both metrics reached a local bottom in Q2'23 and have bounced back since. QTD Q4'23, revenue growth stands at 3.3%, about the same level compared to Q3, as demand level remains moderate according to reported issuers. In contrast, adjusted EBITDA growth has increased to 8%, more than double its 3.7% level in the previous quarter. Continued dissipation of cost headwinds have helped realize this strong-than-expected earnings growth, facilitating coverage ratios to increase to 3.7x in Q4 vs 3.4x in Q3, the first increase in nearly two years (Exhibit 6). On an adjusted basis, coverage has also seen a marginal increase from 3.9x to 4.0x.

Exhibit 5: YoY % change in Revenue and Adj EBITDA

Revenue growth has been flat whereas Adj EBITDA growth has doubled QoQ



Source: BofA Global Research, Bloomberg, LCD

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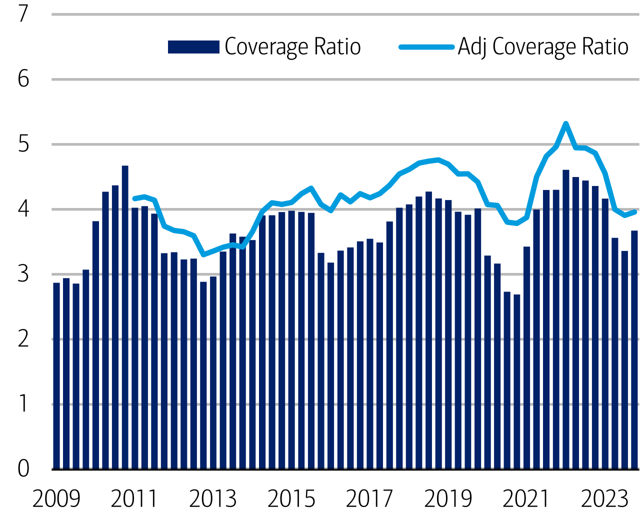
Exhibit 6: Coverage ratio has improved

Coverage stands at 3.7x, the first increase since Q1'22



Source: BofA Global Research, Bloomberg, LCD

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Beats/misses versus expectations

We track loan fundamentals using earnings reported by our large sample of over 250 public loan issuers. Besides aggregating headline numbers, we also peruse guidance announcements and individual earnings transcripts to understand issuers' forward trajectory and enumerate challenges and demand trends observed by issuers.

With about half of our issuer sample having reported, we see issuers have delivered more beats and less misses in revenue compared to the same time frame in the last earnings season (Exhibit 7). Of the 130+ issuers that have reported so far, 38% beat revenue consensus, almost double the 21% level in Q3, whereas 14% missed revenue consensus, down from 16% in Q3. In terms of EBITDA, the picture is less rosy – while the percentage of issuers beating consensus remained the same at 56%, the percentage of issuers missing consensus increased marginally from 19% to 23%. Issuers beating both revenue and EBITDA consensus increased to 25% in Q4 vs 19% in Q3.

Exhibit 7: Earnings beats/misses Q4'23 versus Q3'23

Loan issuers delivered more beats and less misses in revenue compared to last quarter

	Revenue		EBITDA		Both	
	Beat	Miss	Beat	Miss	Beat	Miss
Q4 2023	38%	14%	56%	23%	25%	7%
Q3 2023	21%	16%	56%	19%	19%	7%

Source: BofA Global Research, Bloomberg, LCD

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Looking further into what is driving these QoQ changes, we observed it was mainly the higher quality issuers that contributed to earnings improvements, whereas lower quality issuers lagged and contributed to the deterioration. For revenue, the percentage of issuers beating consensus increased 20% for BBs but only 8% for Bs, and the percentage of issuers missing consensus decreased 2% for BBs compared to a 3% increase for Bs. Similarly for EBITDA, while the overall percentage of beats and misses remained roughly unchanged, we see dispersion underneath the surface – BB issuers have reported an 8% increase in EBITDA beats and 4% decrease in EBITDA misses, whereas B issuers have reported a 20% decrease in beats along with a 11% increase in misses.

Exhibit 8: Q4 earnings beats/misses by rating

Higher quality issuers seeing incrementally higher beats, lower quality issuers seeing more misses

	Revenue					EBITDA				
Rating	Issuers reported	%Beat	% Beat Chg	%Miss	% Miss Chg	Issuers reported	%Beat	% Beat Chg	%Miss	% Miss Chg
BB	71	34%	20%	11%	-2%	71	56%	8%	15%	-4%
B	43	40%	8%	19%	3%	46	48%	-20%	26%	11%
Total	**114**	**36%**	**15%**	**14%**	**-1%**	**117**	**53%**	**-2%**	**20%**	**1%**

Source: BofA Global Research, Bloomberg, LCD

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Beats/misses by sector

Exhibit 9 shows the same earnings beats/misses by sector. We have greyed out non-representative sectors that have only limited sample sizes. Among sectors that have meaningful number of issuers reported so far, Services, Real Estate and Healthcare led all sectors with 57% of issuers beating revenue consensus.

Services continue to benefit from relatively strong demand despite recent slowdown in consumer spending (The risk of easing policy too quickly). Peering further, more than half of issuers that have reported are from education and childcare services segment, where issuers have seen stable demand and continued growth in new enrollment from traditional daycare centers, middle/high schools, as well as online programs.

For Real Estate, as the Fed has signaled end to hikes, with cuts potentially around the corner, issuers have seen improved market sentiment. In the REITs segment, some of the tail risks driven by inflation and higher interest rates have subsided. In the building & construction segment, issuers see consumers continue to invest in their homes through repair and remodeling as wages stay high and housing valuations hold up.

Healthcare issuers have also reported strong demand across major segments including medical device, pharmaceuticals, therapy services and vaccines. Stability in labor costs has also contributed to the sector's outperformance.

On the other end of the spectrum, Travel, Retail and Financials all have less than 20% of issuers beating revenue consensus. Travel and Retail are exposed to consumers reining in their discretionary spending as post pandemic tailwinds subside. Underperformance in Financials reflects a slowdown in financial market activities and lower average invested AUM as investors prefer sitting in cash, cautious to deploy it in a high rate environment.

Exhibit 9: Q4'23 earnings beats/misses by sector

Services, Real Estate and Healthcare led sectors in revenue beats whereas Travel, Retail and Financials lagged

	Revenue							EBITDA						
Sector	Issuers reported	Miss	%Miss	%Change	Beat	%Beat	%Change	Issuers reported	Miss	%Miss	%Change	Beat	%Beat	%Change
Metals	2	0	0%	0%	2	100%	50%	2	1	50%	50%	1	50%	-50%
Food Producers	4	0	0%	0%	3	75%	25%	4	2	50%	0%	0	0%	0%
Gaming	3	1	33%	33%	2	67%	27%	2	1	50%	30%	1	50%	10%
Services	7	1	14%	-7%	4	57%	29%	7	0	0%	-21%	5	71%	14%
Real Estate	7	1	14%	-7%	4	57%	29%	3	0	0%	0%	3	100%	20%
Healthcare	14	1	7%	0%	8	57%	24%	14	4	29%	9%	7	50%	23%
Energy	4	1	25%	-25%	2	50%	50%	5	1	20%	-5%	2	40%	-35%
Capital Goods	9	1	11%	-3%	4	44%	16%	9	2	22%	-6%	5	56%	-2%
Autos	7	1	14%	-14%	3	43%	29%	7	2	29%	0%	2	29%	0%
Technology	27	1	4%	-5%	10	37%	28%	27	3	11%	2%	20	74%	6%
Cable/Media	6	2	33%	33%	2	33%	19%	6	1	17%	17%	3	50%	-21%
Chemicals	5	0	0%	-71%	1	20%	20%	5	3	60%	17%	0	0%	-43%
Financials	7	3	43%	18%	1	14%	2%	7	2	29%	16%	5	71%	-4%
Retail	14	4	29%	16%	2	14%	2%	14	4	29%	-14%	9	64%	7%
Transportation	1	0	0%	0%	0	0%	-100%	1	0	0%	0%	1	100%	0%
Telecoms	3	0	0%	0%	0	0%	0%	3	0	0%	-33%	2	67%	33%
Travel	7	0	0%	0%	0	0%	-23%	7	1	14%	-1%	4	57%	-4%
Packaging/Paper	1	1	100%	-	0	0%	0%	1	1	100%	-	0	0%	0%
Utilities	0	0	-	-	0	0%	0%	0	0	-	-	0	0%	0%

Exhibit 9: Q4'23 earnings beats/misses by sector

Services, Real Estate and Healthcare led sectors in revenue beats whereas Travel, Retail and Financials lagged

	Revenue							EBITDA						
Total	**128**	**18**	**14%**	**-2%**	**48**	**38%**	**17%**	**124**	**28**	**23%**	**3%**	**70**	**56%**	**0%**

Source: BofA Global Research, Bloomberg, LCD

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Cost headwinds and demand scorecard

Regular readers of our pages know that we have been tracking five major cost headwinds afflicting public loan issuers– input costs, FX drag, supply chain issues, rising interest rates, and weak overseas market. Due to the limited sample observations that are available thus far, we focus on index-level stats of these metrics and present their evolution since we started tracking these metrics (Exhibit 10).

Q4'22 was the quarter where loan issuers faced the most headwinds based on the data sample we collected. 72% issuers reported to be likely impacted by at least one headwind, of which 48% issuers highlighted rising input costs, 33% highlighted FX headwinds, 27% supply chain issuers and 24% interest rates. Since then, the percentage of issuers impacted by these headwinds has been on a downward trajectory. In the latest prints from Q4, we see percentage of issuers highlighting rising input costs has decreased to 13%, FX drag has decreased to 6%, supply chain to 8%, rising interest rate to 9%, and weak overseas markets stands at 11%. Overall, 36% issuers today feel they are likely to be impacted by at least one of the major headwinds going forward, which is half the level a year ago.

Despite the overall downward trend, it is worth noting that supply chain issues have resurfaced in some industry segments. In particular, multiple airlines and aerospace/defense companies have expressed concerns regarding FAA's recent action of barring Boeing from expanding production, which is likely to cause delays in new aircraft deliveries and more operation disruptions. Moreover, geopolitical conflicts in the Red Sea are also posting challenges as companies may have to face higher freight rates and volatility in production timeline.

Exhibit 10: Cost headwinds dissipating

Today issuers are facing less headwinds compared to 1 year ago, but supply chain issues have resurfaced in some sectors

Quarter	Issuers Reported	Input cost	FX Headwinds	Supply chain	Rising interest rate	Weak overseas market	At Least One
Q3'22	350	38%	28%	-	-	-	55%
Q4'22	319	48%	33%	27%	24%	-	72%
Q1'23	283	17%	16%	5%	13%	-	43%
Q2'23	277	21%	13%	7%	18%	13%	53%
Q3'23	287	19%	11%	5%	11%	7%	40%
Q4'23	132	13%	6%	8%	9%	11%	36%

Source: BofA Global Research, Bloomberg, LCD

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Exhibit 11 represents a demand scorecard we create by parsing companies' earnings presentations and transcripts to collect information related to demand trends observed by issuers in the quarter and going forward. We assign a numeric score of 1 to issuers seeing a softening demand, a score of 2 to moderate demand, and a score of 3 to strong demand. The final score is the average of all the individual issuer scores within the quarter. The higher the score, the stronger demand issuers in general see. Similar to the headwind table, we present index-level evolution.

In Q4'22, issuers reported a demand score of 2.12, the highest since we began tracking this metric. This strong demand helped loan issuers deliver better than expected earnings in the subsequent Q1'23, as we discussed in The rolling blackout. However, companies were not able to maintain the good headline momentum since then, and demand score in Q1'23 plummeted to 1.81 as more issuers started to see softening end user demand, before bouncing back to 1.94 in Q2’23 and hovering around that level since then. So far in Q4, the demand score stands at 1.93, roughly the same level as the previous quarter. However, as pointed out in All that glitters is not Gold-ilocks, although the overall score has not changed much, in Q3 we have seen less dispersion across sectors underneath the surface, which could set us up for an “everything rally”. Thus it will be interesting to watch how dispersion evolves this quarter as we enter the second half of earnings season for loan issuers.

Exhibit 11: Demand tailwinds relatively unchanged

Demand score currently stands at 1.93 in Q4, roughly same as in the previous quarter

Quarter	Issuers reported	Softening	Moderate	Strong	Demand Score	Score Chg
Q4'22	207	36	110	61	2.12	-
Q1'23	190	62	102	26	1.81	-0.31
Q2'23	208	44	132	32	1.94	0.13
Q3'23	215	19	186	10	1.96	0.02
Q1'24	113	17	87	9	1.93	-0.03

Source: BofA Global Research, Bloomberg, LCD

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Q1’24 earnings outlook

Q1’24 forward guidance

In Exhibit 12 we summarize quarterly revenue and EBITDA guidance that issuers have provided for Q1’24 versus Q3’23. Overall, issuers have become more pessimistic on their Q1’24 revenue outlook. We see 18% of issuers bullish on quarterly revenues, down from 30% seen from last earnings season, whereas the percentage of bearish issuers increased to 50% from 44%. In terms of EBITDA, issuers’ outlook remains roughly unchanged -32% of issuers are bullish for Q1’24, marginally down from 35% for Q4’23, and the percentage of bearish issuers has also marginally decreased to 48% from 52%.

Exhibit 12: Quarterly guidance for Q1’24 versus Q4’23

Issuers have become more bearish on revenue outlook

	Revenue		EBITDA	
	Bullish	Bearish	Bullish	Bearish
Q1’24	18%	50%	32%	48%
Q4’23	30%	44%	35%	52%

Source: BofA Global Research, Bloomberg, LCD

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We also look at loan price action immediately post company announcement of earnings to understand evolving investor reaction function with respect to the earnings beats and misses. Exhibit 13 shows the 1-day and 3-day average loan price moves of companies immediately after their Q4’23 earnings release.

The results suggest that so far in the earnings season price action is relatively muted post earnings announcement, especially in the context of revenues. Prices have been largely flat regardless of a revenue beat or miss. For EBITDA, price action for beats is also small, and the only noticeable reaction is when issuers report an EBITDA miss. On average we see a -0.1pt decline 1 day after reporting and a -0.14pt decline 3 days after reporting. This also illustrates that the penalty for missing estimates remains higher than the reward for beating them.

Exhibit 13: Average loan price moves of issuers post earnings beat/miss

Price action relatively muted post earnings announcement

	Revenue		EBITDA	
Avg Price Chg (pts)	**Beat**	**Miss**	**Beat**	**Miss**
1 Day	0.00	-0.01	0.02	-0.09
3 Day	0.00	-0.01	0.02	-0.14

Source: BofA Global Research, Bloomberg, LCD, Markit

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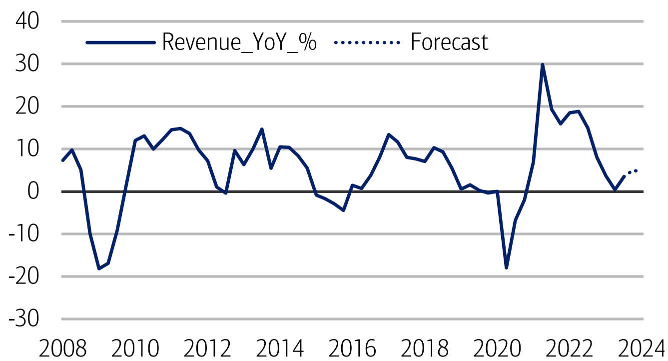
Q1'24 revenue and earnings forecast

Based on readthroughs of recent macroeconomic data and small cap equity earnings, Loan issuer earnings might be at an inflection point. Our revenue estimate for Q1'24 remains unchanged in the 4% YoY growth context. However, factors such as GDP growth, PMI and Russel earnings have helped improve Q4 realized earnings as well as estimates for Q1 EBITDA growth. For perspective, in Q4 '24 Russell 2000 is on track to report its first YoY EPS growth print since Q3 '22. Likewise, with half the Q4 sample reported, loan issuers are witnessing increased ebitda growth, bucking the existing declining trajectory. In Q1, we now expect adjusted ebitda growth to reach 5%, our first positive growth estimate in 4 quarters.

Having said that base effects are currently a tailwind for both Russell and LevFin issuers, are likely to dissipate later this year. Nevertheless an imminent turnaround is a big deal for floating rate issuers, especially B3s and CCCs, as it helps them cover their increased interest costs, helping improve their decimated coverage ratios, even in a higher for longer rate backdrop. The trajectory of earnings going forward remains critical in understanding lower quality loan performance. If upward trajectory continues, performing CCC loans have the biggest upside in returns across credit, followed by CCC bonds and B Loans. In the short term this will set us up for a risk rally, though for sustained fundamental improvement, we also need to see revenue growth improve.

Exhibit 14: YoY % Revenue change
Our revenue growth estimate remains unchanged at 4% level



Source: BofA Global Research, Bloomberg, LCD

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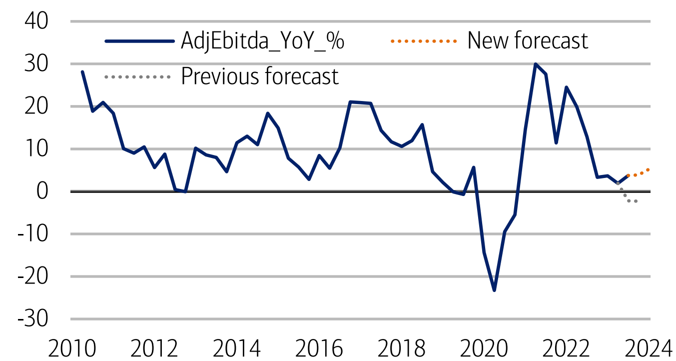
Exhibit 15: YoY % Adjusted EBITDA change
We now expect adjusted ebitda growth to reach 5%



Source: BofA Global Research, Bloomberg, LCD

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Market Technicals

In the three weeks ending Feb 16, demand for loans totaled $27.2bn, increasing from the $11.5bn of demand seen in the prior three weeks ending Jan 19th. The increase in demand was mainly driven by $11.2bn increase in CLO issuance followed by $4.5bn increase in coupon payments. Retail flows decreased by $186mn respectively between the two three-week periods. YTD net demand has trailed supply by ($14.9bn) versus the $23.3bn 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 16: Weekly Technicals ($mns)
Demand net of supply is at (27.2bn)

	YTD as of 2/16/2024	2/16/24	2/9/24	2/2/24	1/26/24
Retail flows (a)	1,489	224	478	-159	412
CLO creation (b)	21,969	4,397	5,453	6,747	2,774

Exhibit 16: Weekly Technicals ($mns)
Demand net of supply is at (27.2bn)

Coupons (c)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Demand (a+b+c)	**42,240**	**7,576**	**8,368**	**11,264**	**5,309**
Issuance Ex-repricings (d)	96,071	13,710	9,476	16,163	19,701
Repayments (e)	38,879	5,906	14,507	6,072	3,971
Supply (d-e)	**57,192**	**7,804**	**-5,031**	**10,091**	**15,730**
Demand net of Supply	**-14,952**	**-228**	**13,399**	**1,173**	**-10,421**

Source: BofA Global Research, LCD

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Rating Actions

In the past 30 days, we have seen rating actions across 17 distinct issuers. A total of 9 issuers were downgraded by 20 notches ($10.5bn total notional) and 8 issuers upgraded by 10 notches ($9.3bn total notional). Of the downgrades, CenturyLink Inc. had one loan downgraded by five notches, totaling $3.89bn the most by notional. Of the upgrades, BrightSpring Health Services had two loans upgraded by one notch, totaling $2.9bn the most by notional.

In terms of sectors, Of the downgrades, by notional amount, 46% was in Telecom followed by 20% in Media respectively. Of the upgrades, by notional amount, 31% was in healthcare followed by 26% in Gaming respectively. Six distinct sectors experienced upgrades and seven distinct sectors experienced downgrades. Downgrades outweighed upgrades by $1.2bn.

Exhibit 17: Recent downgrades and upgrades
There was net downgrade activity of $1.2bn

Issuer	Ticker	Margin	Notional	Maturity	Sector	Rating Action	Current Rating	Previous Rating	Notches
CenturyLink Inc	LUMN	225	3,891	3/15/2027	Telecoms	Downgrade	CC	B	-5
Florida Food Products Inc	FLORFO	500	436	10/18/2028	Food Producers	Downgrade	CCC	B-	-2
Florida Food Products Inc	FLORFO	500	150	10/18/2028	Food Producers	Downgrade	CCC	B-	-2
Orchid Orthopedic	ORCORT	450	463	3/5/2026	Healthcare	Downgrade	CCC-	CCC+	-2
Terrier Media Buyer Inc	CMGMCO	350	2,089	12/17/2026	Media	Downgrade	B-	B+	-2
Xplornet Communications Inc	BARXPL	400	973	10/2/2028	Telecoms	Downgrade	CCC-	CCC+	-2
Anastasia Beverly Hills	ANABEV	375	616	8/11/2025	Retail	Downgrade	CCC	CCC+	-1
Forward Air Corporation	OMINHO	450	1,125	12/19/2030	Financials	Downgrade	B+	BB-	-1
Revere Power	REVPOW	425	422	3/27/2026	Capital Goods	Downgrade	CCC+	B-	-1
Revere Power	REVPOW	425	37	3/27/2026	Financials	Downgrade	CCC+	B-	-1
Therm-O-Disc Inc	THEODI	600	355	5/31/2029	Capital Goods	Downgrade	CCC-	CCC	-1
Academy Sports & Outdoors	ACALTD	375	192	11/5/2027	Retail	Upgrade	BB+	BB	1
BrightSpring Health Services	BRIHEA	325	1,719	3/5/2026	Healthcare	Upgrade	B+	B	1
BrightSpring Health Services	BRIHEA	350	1,190	3/5/2026	Healthcare	Upgrade	B+	B	1
Caesars Entertainment Inc	CZR	325	2,481	2/6/2030	Gaming	Upgrade	BB-	B+	1
Ceridian Corporation	CDAY	250	644	4/30/2025	Technology	Upgrade	BB-	B+	1
Cinemark USA Inc	CNK	375	645	5/24/2030	Media	Upgrade	BB+	BB	1
Ryman Hospitality Properties Inc	RHP	275	496	5/18/2030	Travel	Upgrade	BB	BB-	1
System1 Group Inc	SYSTMO	475	365	7/27/2027	Technology	Upgrade	CCC+	CCC	1
WestJet Airlines Ltd	WJACN	300	1,632	12/11/2026	Travel	Upgrade	B+	B-	2

Source: BofA Global Research, LCD

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Return Performance

Loans in the LCD index returned 0.50% in the three weeks ending Feb 16th, up from the 0.42% cumulative return seen in the prior three weeks ending Jan 26th. CCC's were the best performer during the three-week window returning 168bps and second Lien loans (85bps) outperformed both BB's (29bps) and B's (48bps) respectively. Across asset classes, YTD loan returns are at 1.4%, HY returns are at 0.2% and IG returns are at -1.4%.

Exhibit 18: Total Returns (price plus coupon return) bps

Loans returned 22bps in the week ending Feb 16th

	2/16/2024	2/9/2024	2/2/2024	1/26/2024
All Loans	22	23	5	13
BB	19	13	-4	6
B	25	20	2	14
CCC	23	100	45	50
2nd Lien	30	23	32	7
LL100	27	25	-8	10

Source: BofA Global Research, LCD

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Primary Activity

YTD global and US issuance totals $113bn and $98bn, with a total of 165 and 128 loans launched respectively in the primary market thus far. In comparison, YTD '23 brought in $44bn global issuance across 78 loans and $39bn US issuance across 53 loans. In total, YTD 2024 has outperformed YTD 2023 in both global and US issuance. In terms of the composition of the types of deals financed in the past 30 days, 54% by notional amount was for Refinancing and 16% was for LBO.

Exhibit 19: Recent new loan issues

The largest recent new issue came from Cotiviti Corp $4.25bn deal

Launch Dt	Issuer	New Inst. Money	Moody's	S&P	ABL	Cov Lite	Proceeds	Sector	Country
2/22/2024	B&B Hotels SAS	1,250	B3	B		YES	Refinancing	Gaming & Hotel	France
2/22/2024	Clean Harbors Inc	400	Ba1	BBB-	No	YES	Acquisition	Environmental	United States
2/22/2024	K-MAC Enterprises Inc	115	B3	B-	No	YES	Refinancing	Restaurants	United States
2/21/2024	Motor Fuel Ltd	936	NR	B		YES	Capex	Retail	United Kingdom
2/21/2024	Renta	350	B2	B		YES	Refinancing	Services & Leasing	Finland
2/21/2024	BlueTriton Brands Inc	300	B2	B	No	YES	Dividend	Food & Beverage	United States
2/21/2024	Barentz	521	B2	B	No	YES	Refinancing	Food & Beverage	Netherlands
2/20/2024	Ellucian Inc	420	B2	B-	No	YES	Refinancing	Computers & Electronics	United States
2/20/2024	Solina Group	420	B2	B	No	YES	Acquisition	Food & Beverage	France
2/20/2024	One Toronto Gaming	450	B3	B	No	YES	Dividend	Gaming & Hotel	Canada
2/19/2024	Affidea Kft	200	B2	B		YES	Refinancing	Healthcare	Netherlands
2/16/2024	Hightower Holdings	225	B2	B-	No	YES	Refinancing	Services & Leasing	United States
2/15/2024	Osaic Holdings Inc	575	B1	B	No	YES	Acquisition	Services & Leasing	United States
2/15/2024	Tallgrass Energy Partners	1,050	B3	B	No	NO	Refinancing	Oil & Gas	United States
2/15/2024	Upfield BV	400	B2	B		YES	Refinancing	Food & Beverage	United Kingdom
2/15/2024	Upfield BV	300	B2	B	No	YES	Refinancing	Food & Beverage	United Kingdom
2/14/2024	HB Fuller Co	200	Ba1	BB+	No	YES	Refinancing	Chemicals	United States
2/14/2024	Ingenico	1,100	NR	NR		YES	Dividend	Computers & Electronics	France
2/14/2024	Blackhawk Network Holdings	1,700	B1	NR	No	YES	Acquisition	Computers & Electronics	United States
2/14/2024	Cotiviti Corp	750	B2	B	No	YES	LBO	Healthcare	United States
2/14/2024	Cotiviti Corp	4,250	B2	B	No	YES	LBO	Healthcare	United States
2/13/2024	Rosen Group	1,150	Ba3	B	No	NO	LBO	Services & Leasing	Switzerland
2/13/2024	United Airlines Inc	2,500	Ba1	BB+	No	YES	Refinancing	Transportation	United States
2/12/2024	Socotec Group	150	B2	B		YES	Acquisition	Services & Leasing	France
2/12/2024	Sweetwater Sound Inc	90	B2	B	No	YES	Acquisition	Retail	United States
2/12/2024	Pregis Corp	250	B2	B-	No	YES	Dividend	Chemicals	United States
2/12/2024	Inspired Education	300	B2	B		YES	Refinancing	Not for Profit	United Kingdom
2/12/2024	Dayforce Inc	650	Ba3	BB-	No	YES	Refinancing	Computers & Electronics	United States
2/12/2024	FullBloom	120	B2	B-	No	YES	Refinancing	Healthcare	United States
2/8/2024	EisnerAmper	795	B2	B-	No	YES	Refinancing	Services & Leasing	United States
2/8/2024	Interstate Waste Services Inc	180	B2	B	No	YES	Acquisition	Environmental	United States
2/8/2024	WhiteWater DBR	540	Ba1	BB	No	NO	LBO	Oil & Gas	United States
2/7/2024	Planet Payment	910	B3	B-		YES	Refinancing	Services & Leasing	Ireland
2/7/2024	Techem AG	655	B1	B+		YES	Refinancing	Computers & Electronics	Germany
2/7/2024	Eleda	918	B2	B		YES	LBO	Building Materials	Sweden
2/7/2024	Constant Contact Inc	300	B2	B-	No	YES	Repurchase equity	Computers & Electronics	United States
2/7/2024	Greenalia SA	200	NR	NR	No	NO	Capex	Utilities	Spain
2/7/2024	AssuredPartners Inc	500	B2	B	No	YES	Refinancing	Insurance	United States
2/7/2024	BrightSpring Health Services	2,566	B1	B+	No	YES	Refinancing	Healthcare	United States

Exhibit 19: Recent new loan issues

The largest recent new issue came from Cotiviti Corp $4.25bn deal

Launch Dt	Issuer	New Inst. Money	Moody's	S&P	ABL	Cov Lite	Proceeds	Sector	Country
2/6/2024	Clearwater Paper Corp	340	NR	NR	No	NO	Acquisition	Forest Product	United States
2/6/2024	Ascensus Inc	550	B3	B-	No	YES	Refinancing	Services & Leasing	United States
2/6/2024	Alterra Mountain Company	200	B1	B+	No	YES	Acquisition	Entertainment & Leisure	United States
2/6/2024	Global Healthcare Exchange	25	B2	B-	No	YES	Refinancing	Services & Leasing	United States
2/6/2024	Service Logic	380	B2	B	No	YES	Refinancing	Manufacturing & Machinery	United States
2/6/2024	Nord Anglia Education Inc	600	B2	B	No	YES	Refinancing	Not for Profit	United Kingdom

Source: BofA Global Research, LCD

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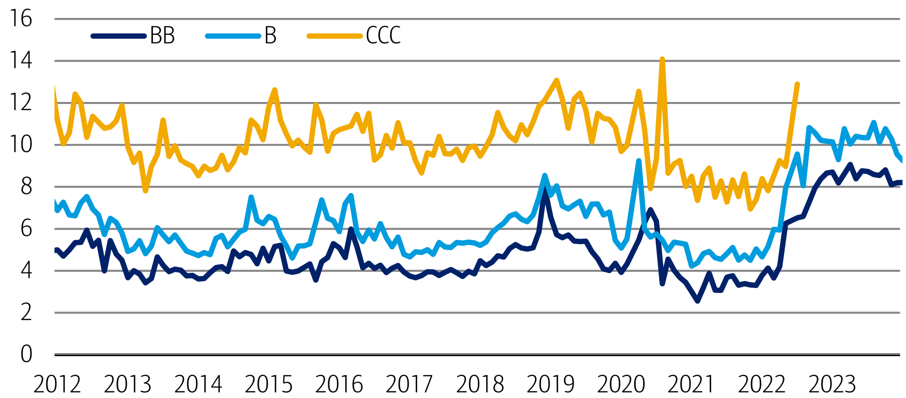
Exhibit 20: Average new issue yields by month

BB and B currently yield 8.35% and 9.47% respectively while there is not enough sample size for CCC



Source: BofA Global Research, LCD

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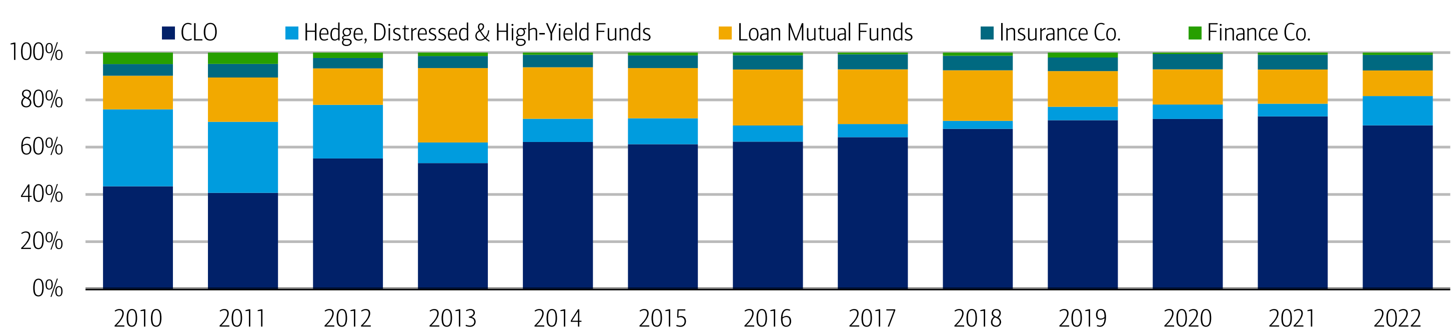
CLO Update

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 21: Distribution of investors across loan market

CLOs make up 69% of the primary institutional market



Source: BofA Global Research, LCD

Exhibit 21: Distribution of investors across loan market
CLOs make up 69% of the primary institutional market

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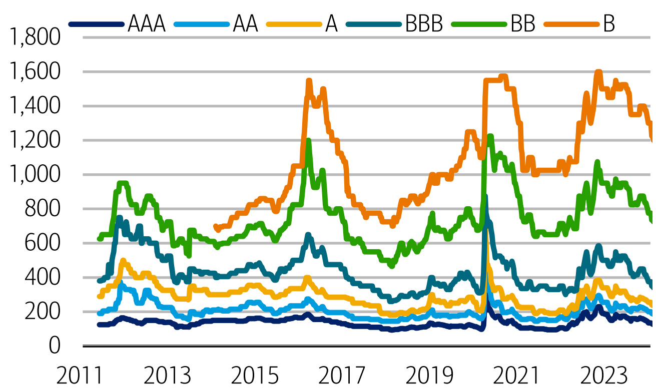
Exhibit 22 shows CLO spread levels by tranches. CLO arbitrage is a widely followed statistic in the loan market, and represents the theoretical spread that managers can capture by issuing CLOs. Exhibit 23 compares CLO asset (loan) spreads to the weighted average spreads of CLO liabilities. The difference 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 22: US CLO 2.0/3.0 indicative spread level (bps)
Secondary CLO spreads have increased materially



Source: BofA Global Research

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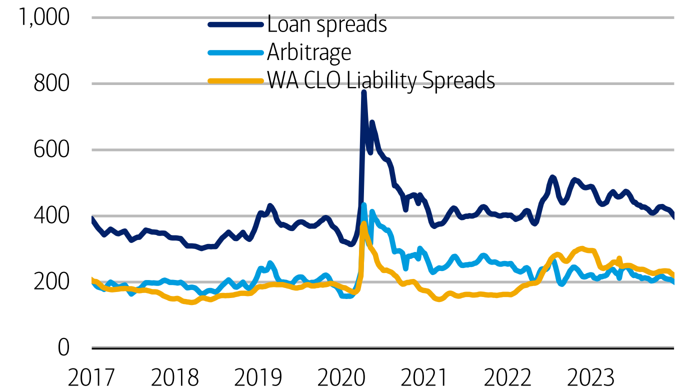
Exhibit 23: CLO Arbitrage (bps)
CLO arbitrage has been declining



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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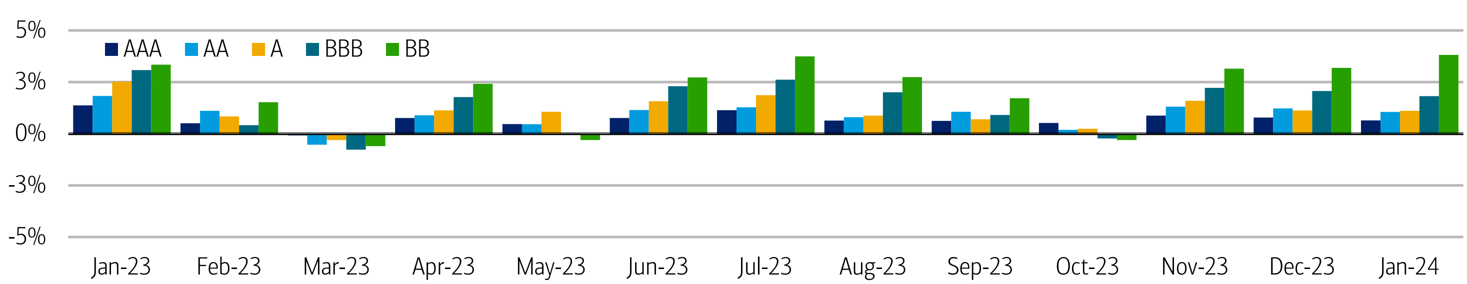
Exhibit 24 shows monthly CLO returns as defined by the Palmer Square CLO index (price plus coupon returns).

Exhibit 24: Monthly CLO 2.0 returns by rating
CLOs returned 1% in Jan



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

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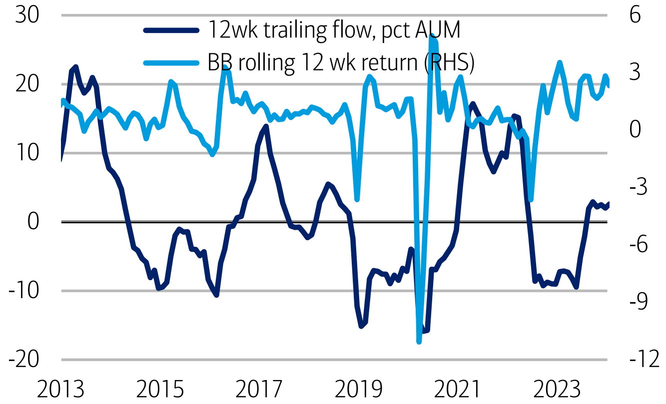
The following charts show demand trends within the loan market, correlated with returns within rating buckets. Exhibit 25 shows a measure of retail flows (12 week trailing retail flows as a percentage of outstanding AUM) vs. monthly BB Loan total returns, while Exhibit 26 depicts monthly CLO issuance vs. monthly B Loan total returns.

Exhibit 25: BB performance vs Loan retail flows
Currently BB rolling 12-week return is at 2.32% and 12-week trailing flow is 2.59% of outstanding AUM



Source: LCD, EPFR Global

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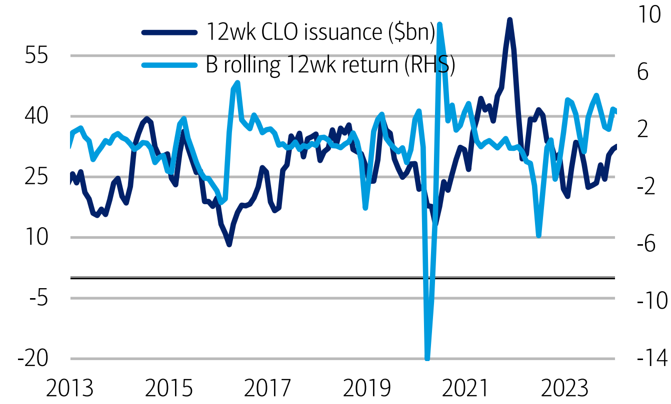
Exhibit 26: B performance vs CLO creation
For Bs, rolling 12 week return is at 3.26% while 12 week CLO issuance is $32.57bn



Source: LCD, EPFR Global

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Glossary

A&E: Amendment and Extension

AUM: Assets Under Management

BSL: Broadly Syndicated Loan Market

CLO: Collateralized Loan Obligation

CPI: Consumer Price Index

DE: Distressed Exchange

DL: Direct Lending

DR: Default Rate

FL/1L: First Lien

GFC: Global Financial Crisis

FOMO: Fear of Missing Out

IG: Investment Grade

HY: High Yield

ISM: Institute for Supply Management

LBO: Leveraged Buyout

LCD: Leveraged Commentary & Data

LevFin: Leveraged Finance

LTM: Last 12 months

MM: Middle Market
OAS: Option-Adjusted Spread
OER: Owners' Equivalent Rent
PD: Private Debt
PDR: Probability Default Rating
PIK: Payment-in-Kind
PPI: Producer Price Index
QoQ: Quarter over Quarter
Refi: Refinancing
RV: Relative Value
SL/2L: Second Lien
SMA: Separately Managed Accounts
TLA/TLB: Term Loan A/B
UoP: Use of Proceed
WK: Week
YoY: Year over Year

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