BofA SECURITIES

Collateral Thinking

Private-to-public deals on a hot streak

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Leveraged Loan Strategy
United States

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Top of the stack

Despite the renewed concern around higher for longer rates, credit markets are pricing in a relatively low risk premium. HY spreads have tightened, loan prices remain firm while the C&I bank loans show continued easing of lending standards. The built in assumption is that we will see a 3-handle in Fed Fund rates early next year - a critical milestone for loans. This is the reason LevFin markets have remained strong, despite higher supply and medium-term fundamental risks.

Topical: Private-to-Public, dividend, and refi deals

LevFin primary markets have been front and center with both bonds and loans setting multiple records last month. In this report we break down YTD new-issue surge into its components to understand what lies ahead. We spotlight notable trends including BSL takeout of private debt loans, and the resurgence of dividend deals.

YTD, close to $10bn has been refied out of Direct Lending (DL) into the BSL space with issuers saving 200bps-300bps in margins on average. This is a result of DL spread premium over BSL recently hitting 250bps, the highest in a decade, thereby incentivizing issuers to cut interest costs by rotating into syndicated markets. We expect this private-to-public rotation to remain in full swing until the DL premium decreases to our forecast of 150bps -200bps levels. We calculate the opportunity set of such transactions to be >$100bn with the only limitations being loan non-call period, issuer size and 1L capacity.

Other trends include a comeback of loan-led dividend financing. LTM dollar value of such deals stands at $22bn, the highest since Sep '22. However, LBO and M&A activity remains subdued, while repricings have given way to more refinancing activity.

Market Technicals

In the three weeks ending Feb 2nd, demand for loans totaled $19.5bn, increasing from $9bn demand seen in the prior three weeks. CLO issuance and coupon payments increased by $9bn and $2bn respectively, while Retail flows declined by $430mn.

Rating Actions

In the past month, we saw rating actions across 18 distinct issuers. A total of 8 issuers were downgraded by 19 notches and 10 issuers upgraded by 13 notches. Telecoms and Real estate contributed 35% and 20% of downgrades while Tech and Healthcare each contributed 26% towards upgrades. Overall, net upgrades came in at +$145mn.

Return Performance

Loans in the LCD index returned 0.27% in three weeks ending Feb 2nd, down from the -0.74% cumulative return seen in the prior three weeks. Across asset classes, YTD loan returns are at 0.9%, YTD HY returns are at 0.1% and YTD IG returns are at -0.7%.

Primary Activity

YTD global and US issuance totals $90bn and $80bn, with a total of 127 and 99 loans launched respectively in the primary market thus far. In total, YTD 2024 is leading YTD 2023 in both global and US issuance.

Exhibit 1: Loan performance

YTD Loan return is at 0.9%

Index	Level	1wk Δ	2wk Δ	YTD Rtn
All Loan	96.2 pts	-0.0	-0.1	0.9%
BBs	99.3 pts	-0.1	-0.3	0.6%
Bs	98.0 pts	+0.1	-0.0	0.9%
CCCs	80.2 pts	+0.4	+0.7	2.2%

Source: S&P LCD

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Exhibit 2: HY performance

YTD HY return is at 0.1%

Index	Level	1wk Δ	2wk Δ	YTD Rtn
US HY	343 bps	-16	-01	0.1%
BBs	207 bps	-15	-01	0.1%
Bs	339 bps	-20	-08	0.2%
CCCs	942 bps	-11	+27	-0.3%

Source: BofA Global Research

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Exhibit 3: Fund flows ($mn)

YTD loan inflows are at -8,931mn

Asset	1wk	2wk	YTD	LTM
Loans	-64	+64	+376	-8,931
US HY	+2,165	+617	+3,789	+5,203
US IG	+949	+3,935	+22,828	+173,743

Source: EPFR Global

See glossary of abbreviations and terms in the Glossary section

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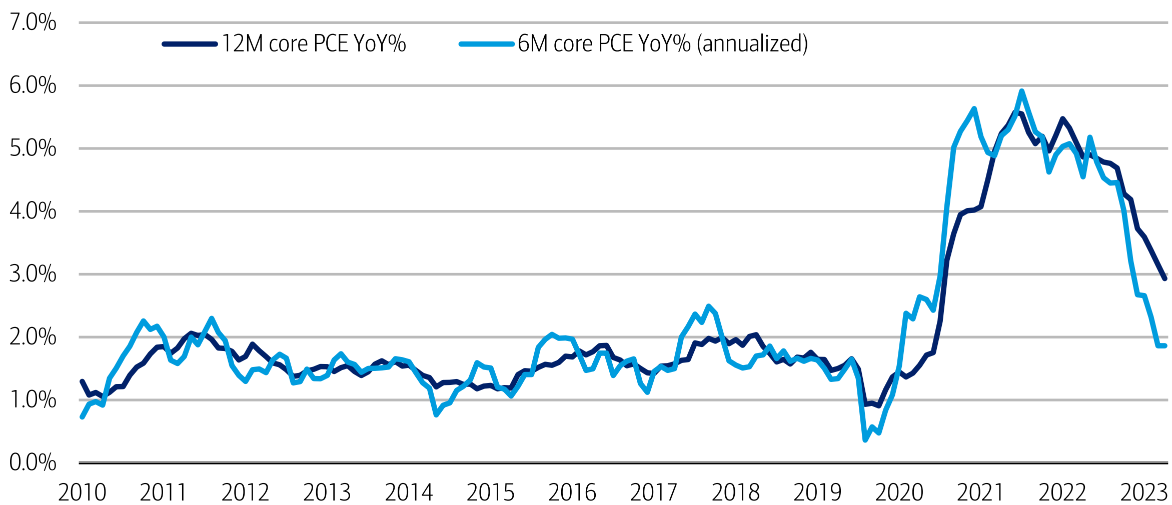
Top of the stack

Chair Powell keeps us on our toes. The January FOMC press conference was surprisingly hawkish, seeing as how the December press conference was just the opposite. Dec's tone encouraged the market to discount the Fed's own "higher for longer" posturing, but then the Jan meeting reinforced it. The chair implied that the Fed has attained its peak rate, ie the next policy action will be a cut. But he also stressed that greater confidence is needed that inflation will head towards the 2% goal, for the Fed to cut. The biggest moment of the hour was when the chair explicitly ruled out a March cut which the market was optimistically hoping for. When asked what constitutes "greater confidence", Powell's explanation was intentionally vague, leaving the market yearning for more direction.

We have since coalesced around three metrics we think will dictate this "further proof". First, his views on inflation composition suggests that the Fed needs to see more contribution from services disinflation as goods deflation mean-reverts. Second, the blowout Jan employment report has refocused attention on how payroll figures need to decrease to 150k-200k/month to be consistent with a 2% inflation backdrop. Importantly, we are taken by the emphasis Powell placed on 12m core PCE, which today is 2.9%. The market thus far had been taking cues from the 3m and 6m annualized PCE figures which are already <2%. That said, he has previously acknowledged that cuts will likely come before inflation hits 2% and BofA team expects 12m core PCE to break 2.5% in 2Q. Note that pushing the timeline further isn't ideal as the Fed then runs into election season. All of this seems to circumstantially point to a late 2Q/early 3Q first cut.

Exhibit 4: Core PCE deflator

6M core PCE is already below 2% whereas 12M core PCE is still at 2.9%



Source: BofA Global Research, Bloomberg

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To note, the total number of expected cuts has changed only marginally, with the rates market now pricing 4.7 cuts as opposed to 5.3 cuts by year end '24. The downside pressure from CRE risk has somewhat neutralized the upside pressure from economic data, leading the market to stack similar number of cuts over a shorter period of time, steepening the inversion instead. We've gone from earlier, slower to later faster.

With HY spreads at 340bps and loans at $96.3, credit markets are pricing in a relatively low risk premium. Additionally, the IG bank loan market (C&I loans) is strengthening with the Senior Loan Officer survey this week showing continued easing of lending standards. The built in assumption is that we will see a 3-handle in Fed Fund (FF) rates early next year (a critical milestone for loans) which seems justifiable for now given the projected path of inflation. This is the reason markets, particularly LevFin, have remained strong, despite clear fundamental and macroeconomic risks.

LevFin primary markets have been front and center with both bonds and loans setting multiple records in dealmaking activity last month. We argue that Jan activity was extraordinary- driven by a unique combination of good economic data and low rates, opening up the floodgates for refinancing and repricing activity. The enthusiasm has since tempered given the higher for longer narrative, but remains elevated nevertheless, driving key themes in the new issue markets.

In this report we break down this new-issue surge, and what that means for markets going forward. We spotlight a few notable trends in the loan primary including BSL takeouts of previously private loans, resurgence of dividend deals, and decrease in repricings.

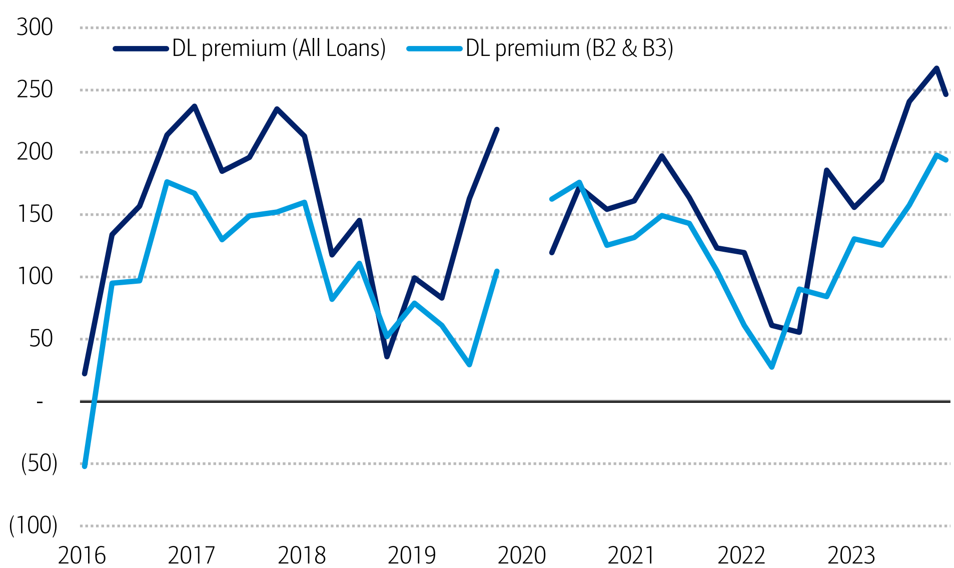
Topical: Primary market trends

The rise in Private-to-Public loan transactions

A developing trend in the LevFin market has been private to public market conversions as an increasing number of issuers look towards the syndicated market to take out their expensive privately placed loans. YTD, close to $10bn has been refied out of Direct Lending deals into the syndicated loan market with spectacular margin savings for issuers. On average, 1L deals have been able to shave off 200bps and 2L deals 300bps+ by converting to public syndicated markets. With savings this big, sponsors have been willing to pay 1-2 points of call protection on deals still in their non-call period. In a lot of cases the deals have also been upsized. For comparison, YTD private to public takeout activity stands higher than '23 and '22 combined.

The driver of this trend has been a rapid rise in Direct Lending spread premiums which we define as the margin differential between Direct Lending (DL) and broadly syndicated loan (BSL) primary deals. Average 1L DL premium has jumped from 150bps a year ago to 250bps today representing the highest point in the last decade (Exhibit 5). This has come as a result of rapid compression of spreads in public markets on the back of a strong economy, open primary and thriving US equities, while private margins have been slow to compress driving a deep divergence.

Exhibit 5: Direct Lending spread premium over broadly syndicated loans at cycle highs
Direct Lending margins are comparatively much higher than those in BSL markets



Source: BofA Global Research, Refinitiv

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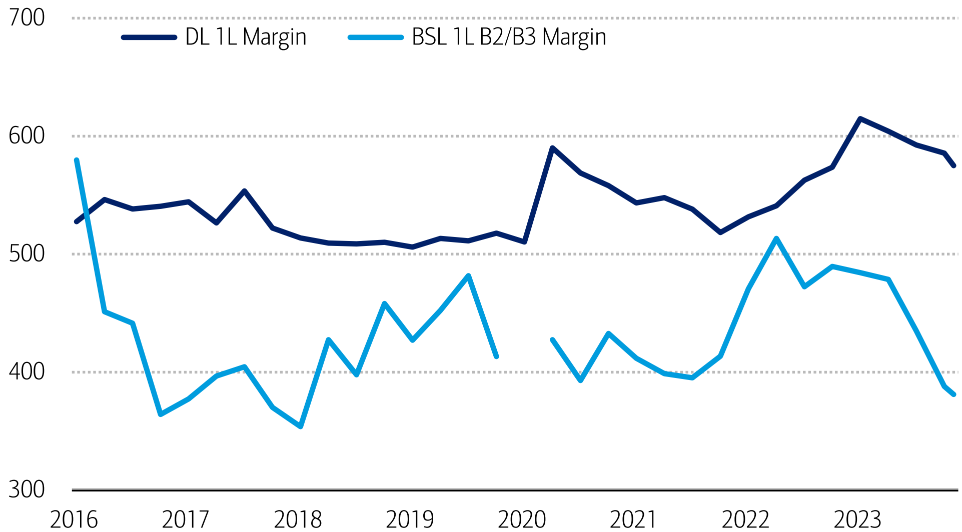
To arrive at a better comparison of the public/private worlds, we filter BSL primary deals for only B2/B3 rated loans given that most such takeouts will enter BSL primary in this rating band. Exhibit 6 shows the comparative margin trajectory in both primary markets. While margins have decreased everywhere since mid last year, the fall has been much steeper in BSL. The spreads on B2/B3 loans getting done in the primary markets today are near pre-war lows (<S+400bps). Such is not the case in DL where regular way 1Ls are still getting done in the high-500bps range, resulting in DL premium for B2/B3 rated loans at historical highs of 200bps (Exhibit 5).

It is our expectation that DL margins will continue to fall, but will take time to converge towards more appropriate DL premium levels which we think today is in the 150-200bps range. For perspective our DL premium target last year was 225bps in a soft landing scenario (Private Debt: Opportunities and challenges in a new rates regime) which has now been reached. Given the better-than-expected economic data coming in now, we see more compression in premiums which portends some downside risk to DL premiums going forward. We think this is achievable through a combination of decreasing DL spreads and increasing BSL spreads which compressed too far too fast in January.

Exhibit 6: Margins in Broadly Syndicated Loans have decreased faster than Direct Lending
Direct Lending margin premium is at cycle highs and should edge down from here



Source: BofA Global Research, Refinitiv

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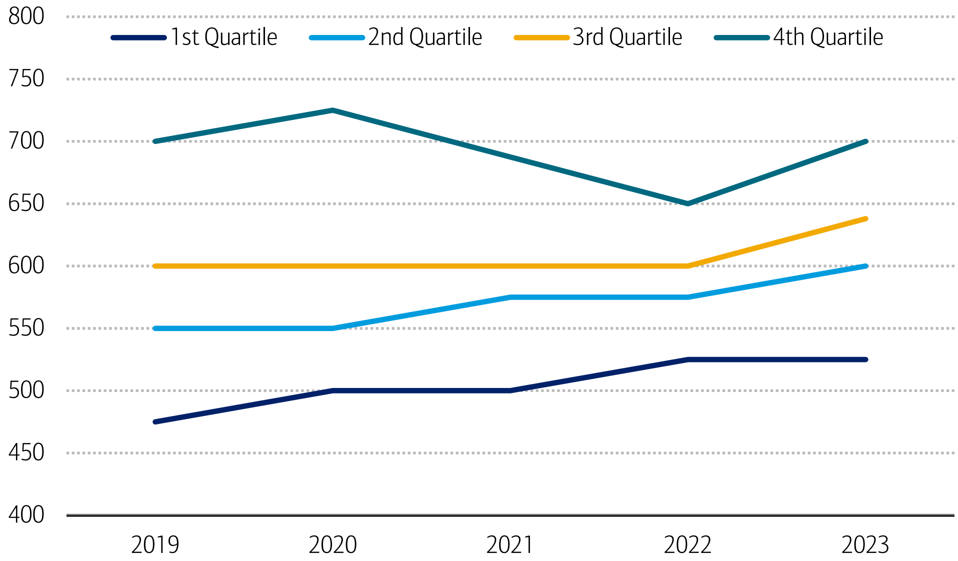
BSL takeout opportunity set ~$100bn

We expect private to public takeouts to remain in full swing until the premium decreases to a more acceptable high 100bps range – our forecast. $10bn in our opinion is just the tip of the iceberg. We calculate the opportunity set for such conversions to be >$100bn with the only limitations being non-call period, issuer size, and 1L capacity. To estimate this opportunity set we look at ~2,000 DL deals done over the last 5 years with spread information available, and then using variables such as loan launch date, potential margin savings and issuer credit risk, to identify an appropriate subset for takeouts.

We divide these deals into quartiles by spread with the understanding that the lowest quartile, with its hairier deals is perhaps unlikely to receive interest in the syndicated market. We focus on deals issued in the period since 2021 which represented the last tights in loan issuance cycle. In the last 2 years, we find that the top quartile does not have a high enough spread to warrant a conversion. Issuers need to able to save a certain minimum spread for their economics to work after factoring in the costs associated with the conversion.

Exhibit 7: Median margins by quartile by year within Direct Lending

Middle-two margin quartiles across Direct Lending market are ripe for BSL take-outs



Source: BofA Global Research, DLD

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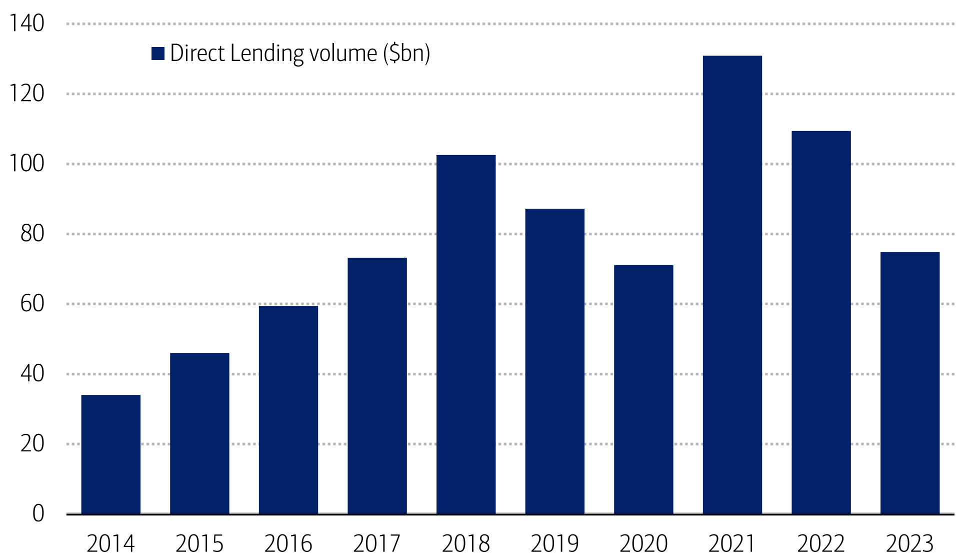
We estimate this threshold to be 550bps for 1Ls (750bps for 2Ls) in the DL market - a regular way issuer with margins above this threshold and loans outside noncall period should be the lowest hanging fruit for such conversions. As such the middle-two quartiles, or ~50% of DL deals done over the past two years represent the larger opportunity set for private to public conversions. This roughly translates to ~$100bn, given the annual volumes in the DL primary (Exhibit 8). We whittle down the subset further by removing loans issued in 2H '23 and presumably still in their non-call period, as well as those issued in 1H'22 when private markets had still not sustained the post-war blowout in spreads. This gets us to an "easy" $40bn of deals that could be ripe for BSL takeouts.

Exhibit 8: Direct Lending volumes by year

A total of $190bn was issued over the last two years across Direct Lending platforms



Source: BofA Global Research, Refinitiv

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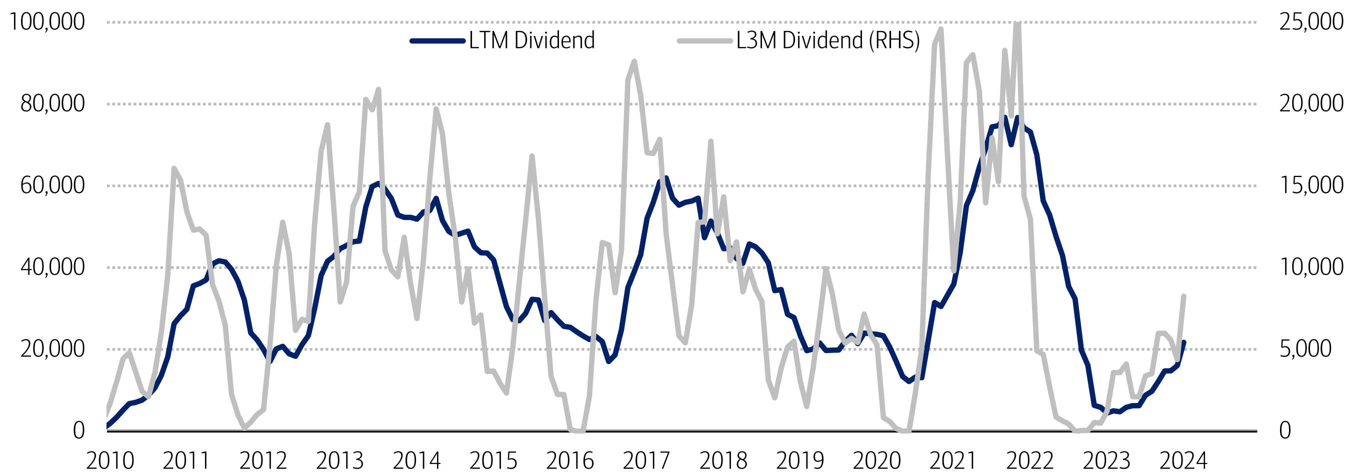
Dividend deals stage a comeback; LBO/M&A remains muted

Another area of increasing sponsor interest is dividend deals which have been steadily picking up since summer last year. LTM dollar value of loan deals used to fund dividends stands at $22bn, the highest since Sep '22. The tally over the last 3 months has reached $8.3bn, highest in 2 years.

Dividend deals have gained ground amongst investors as a way to boost ROI across deals that are in exit-limbo. The situation for exits though improving, is still problematic within LevFin issuers as equity valuations amongst small cap issuers has remained depressed compared to their large cap counterparts as a result of their high interest burden, earnings challenges, and limited ways of raising capital. Note that this maneuver only works for a select group of target companies – which are otherwise well liked and be cashflow positive, in addition to having spare secured and RP capacity.

The pickup has been notable only in the loan market given the preference of sponsors to operate here- bond deals for funding dividends remain few and far between. In 2021- the most recent high-water mark of issuance, dividend deals totaled $6bn in HY bond primary vs %74bn in the loan primary. We think interest in dividend loan deals will continue to build as sponsors wait for equity valuations to catch a tailwind on the back of decreasing rates, increasing earnings, or a combination of both.

Exhibit 9: LTM loan new issuance to fund dividends
Dividend deals have been steadily picking up since last summer



Source: BofA Global Research, LCD

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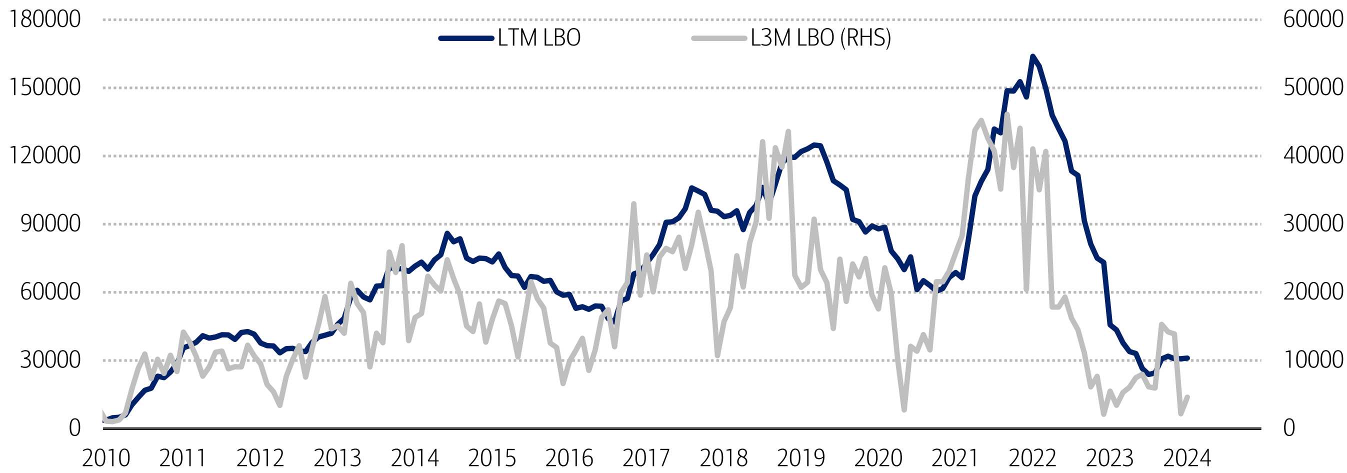
LBO and M&A activity remains subdued

Event-driven activity however has remained on the sidelines as sponsors and issuers remain wary of investing in growth given economic and political uncertainty domestically. Exhibit 9 shows how LTM and L3M LBO levels remain historically depressed.

Whatever limited LBO activity we have seen remains limited to high quality deals. Exhibit 11 shows the breakdown of LBO deals by loan rating and how far we are from the heydays of B2/B3 led LBO activity registered in 2021. The lifeblood of LBOs are B2/B3 rated loans given the ability to pile on leverage in such deals juicing up sponsor returns. However, the B3/CCC loan primary has been largely shut especially on the context of new LBOs. There has been only 1 B3 LBO deal of meaningful size done recently – Shearer foods – which was eventually reverse flexed, suggesting the market may not yet be ripe for regular way B3 LBOs.

Exhibit 10 LTM loan new issuance to fund LBOs
LTM and L3M LBO levels remain depressed



Source: BofA Global Research, LCD

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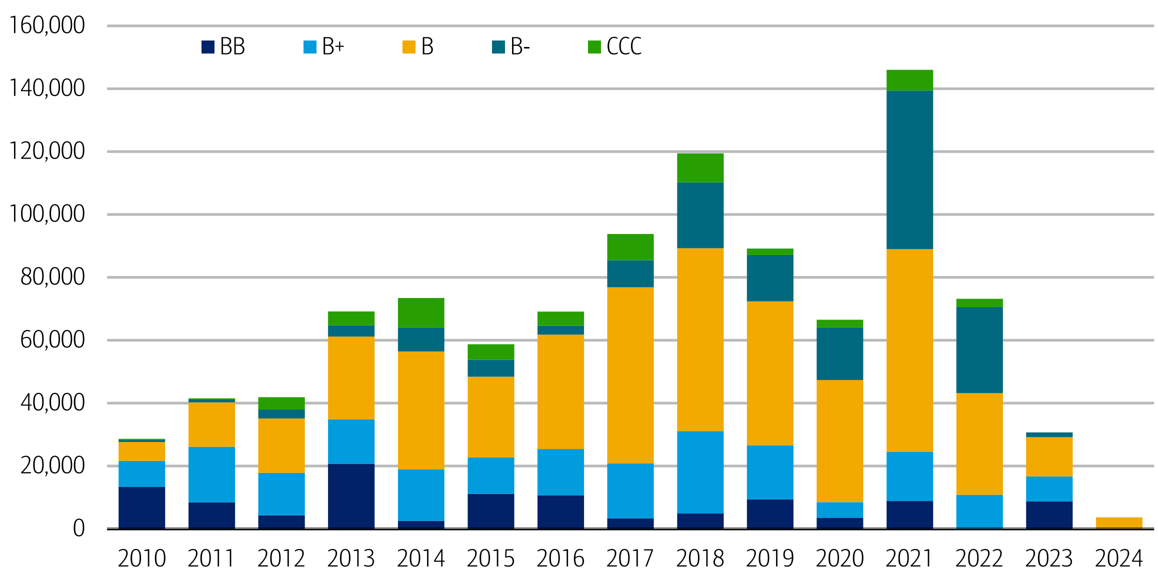
M&A activity also remains low on an LTM basis, though it has picked up over the last 3 months given the more positive growth backdrop. However here too, companies need certainty of macro and rate environment to make meaningful strategic decisions- and grow organically (capex) or inorganically (M&A). Fed pivot may take until 2Q to materialize, and then we roll right into elections. As such M&A dealmaking could be light the entire year.

Exhibit 11: LBO new issuance breakdown by loan rating
B3/CCC loan primary activity is largely inactive hindering new LBO financing



Source: BofA Global Research

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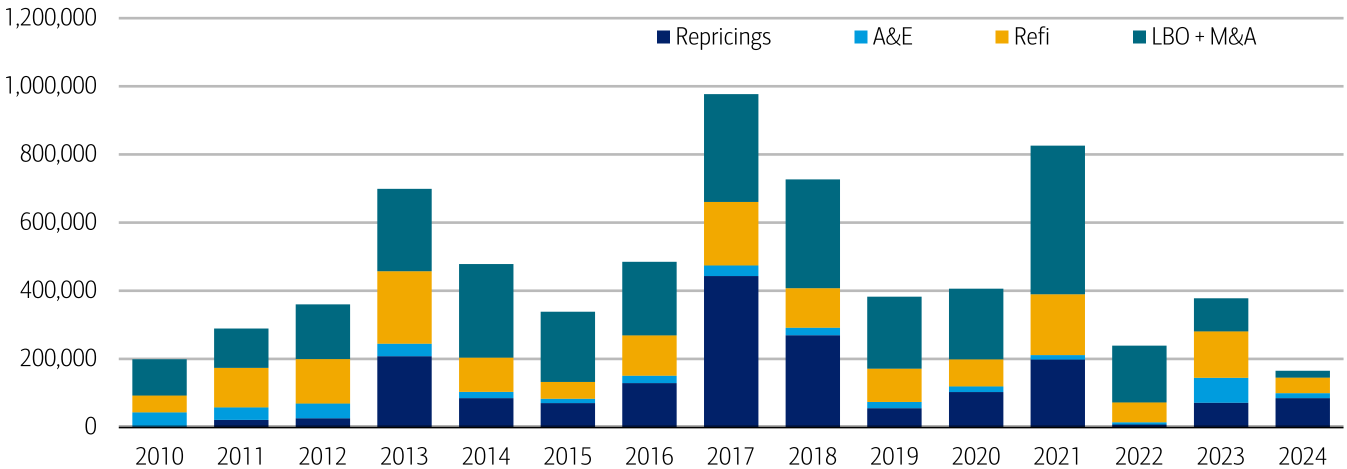
Repricings giving way to refinancings

Primary market activity has surged this year but it's important to note that the increase has been on a gross basis and dominated by repricings and refinancings. YTD gross issuance totals $165bn across 142 deals, nearly half of all 2023 issuance. Of this repricings comprise $85bn (52%), refies $45bn (28%), $20bn (12%) are LBO+M&A and another $14bn (8%) are A&Es. Exhibit 12 shows this breakdown by UOPs in the context of total gross issuance on an annual basis. Seeing the same data in percentage format (Exhibit 13), really brings this point home and shows the minimal contribution of event-driven true “new money” dealmaking in loans for the last 2 years.

In Brace for a repricing wave, we mentioned repricings have dominated the loan market. The Dec rally pushed a staggering 40% of loans above par last month triggering the first mini-wave of repricings. YTD repricings have already surpassed all of 2023 repricings, and are second only to the $91bn seen in YTD 2017. That said, Powell’s recent more-hawkish-than-expected tone has put pressure on BB loans thereby pausing repricing activity. Note that while we expect more such mini-waves to materialize this year in periods of market strength, repricings are likely to give way to refinancings in the near-term.

Exhibit 12: Annual gross issuance ($) breakdown by UoP
YTD repricings are at $85bn, already surpassing the total repricings in 2023



Source: BofA Global Research, LCD

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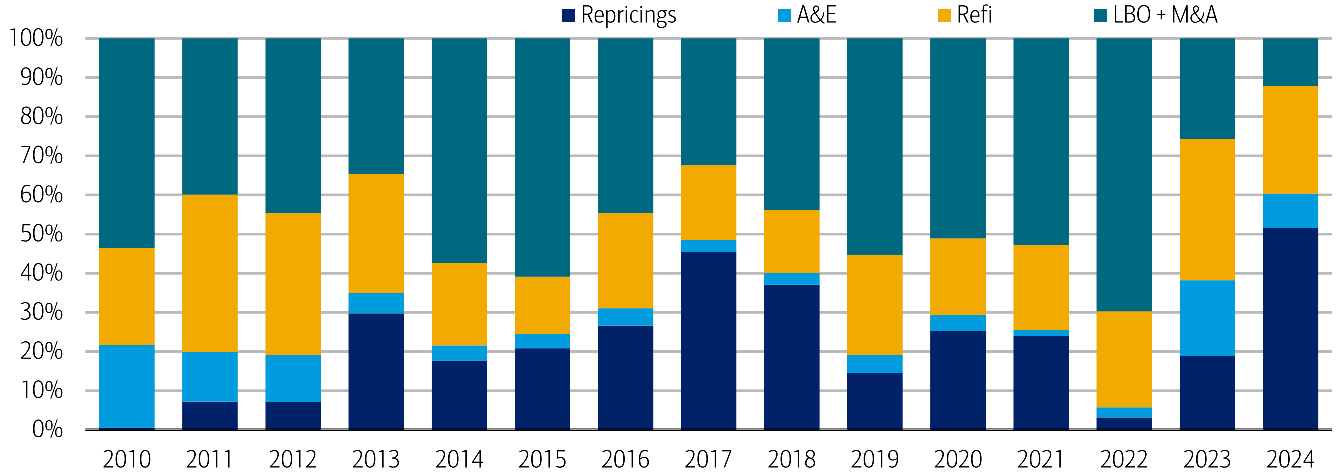
YTD loan refinancings have given a second order of boost to gross issuance after repricings. Of the $65bn in new money issuance, $45bn (70%) has been used by issuers for refinancing, whereas only $20bn (30%) is used for true new capital purposes such as LBOs, Dividend, GCP, etc. Issuers facing higher borrowing costs are more incentivized to limit borrowing suppressing any discretionary uses of capital. Focus has squarely been on refinancing existing debt for lower quality issuers, and repricing recently placed debt for higher quality issuers.

While repricings have tempered, we expect refinancings to remain front and center across bonds and loans. Exhibit 14 and Exhibit 15 show the percentage of loan and HY bond index that will mature in the next 2 and 3 years. Within loans, maturity walls remain elevated despite a 120% jump in refis in 2023. The issue is more pressing in HY market as the percentage of bonds due over next 2 and 3 years remains at post-GFC highs.

Exhibit 13: Annual gross issuance (%) breakdown by UoP
YTD repricings, refinancings account for 52% and 28% of gross issuance respectively



Source: BofA Global Research, LCD

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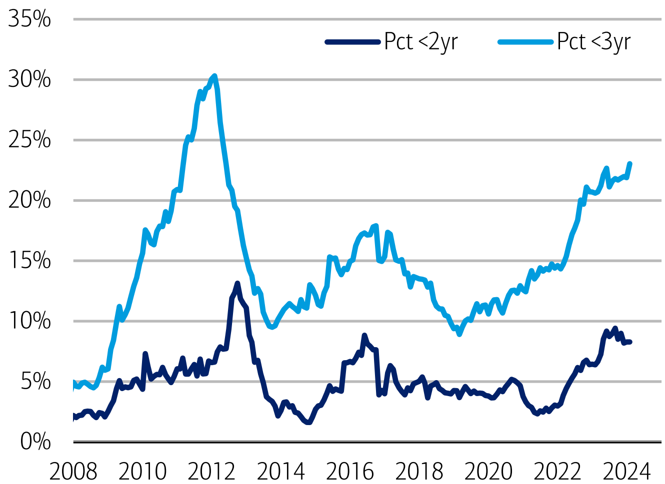
Last year bond issuers collectively delayed accessing the primary markets, waiting for better refi entry points, which led to the buildup in maturities seen below. The first such entry point to materialize was short-lived. In Jan as primary markets were thrown wide open in the context of goldilocks credit conditions, HY issuers rushed to refinance ~$16bn of bonds, a third of all of 2023's total bond refis done. However, with Fed's pushback and the repricing of the rates curve, the window has since narrowed, leaving only a minor dent in the HY wall. Now, most of these HY maturities are higher rated diminishing the extent of potential liquidity issues. However, we expect the bond refi floodgates to open later this year when refinancing outstanding bonds becomes more of a compulsion, leading to some technical indigestion and spread woes.

Exhibit 14: Percentage of loan Index maturing next 2 and 3 yrs
US loan maturities remain elevated



Source: BofA Global Research, Markit

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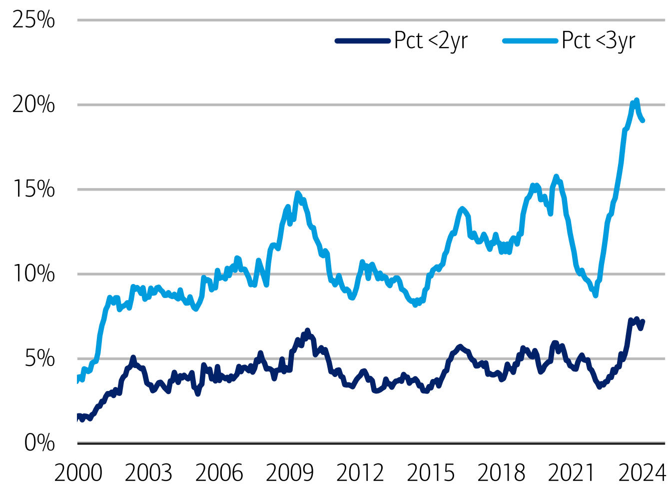
Exhibit 15: Percentage of HY Index maturing next 2 and 3 yrs
US HY maturities are at post-GFC highs



Source: BofA Global Research, ICE

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Market Technicals

In the three weeks ending Feb 2nd, demand for loans totaled $19.5bn, increasing from the $9bn of demand seen in the prior three weeks ending Jan 5th. The increase in demand was mainly driven by $9bn increase in CLO issuance followed by $2bn increase in coupon payments. Retail flows decreased by $430mn respectively between the two three-week periods. YTD net demand has trailed supply by ($27.2bn) versus the $15.2bn 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 2/2/2024	2/2/24	1/26/24	1/19/24	1/12/24
Retail flows (a)	718	-168	396	-62	348
CLO creation (b)	12,119	6,747	2,774	1,312	1,286
Coupons (c)	13,390	4,676	2,123	1,801	1,563
Demand (a+b+c)	26,227	11,255	5,293	3,051	3,197
Issuance Ex-repricings (d)	71,821	15,040	19,760	17,139	15,609
Repayments (e)	18,466	6,072	3,971	424	2,098
Supply (d-e)	53,355	8,968	15,789	16,715	13,511
Demand net of Supply	-27,128	2,287	-10,496	-13,664	-10,314

Source: BofA Global Research, LCD

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Rating Actions

In the past 30 days, we have seen rating actions across 18 distinct issuers. A total of 8 issuers were downgraded by 19 notches ($11.1bn total notional) and 10 issuers upgraded by 13 notches ($11.2bn 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, 35% was in Telecom followed by 20% in Real estate respectively. Of the upgrades, by notional amount, 26% was in Technology & Healthcare respectively. Eight distinct sectors experienced upgrades and eight distinct sectors experienced downgrades. Upgrades outweighed downgrades by $145 mn.

Exhibit 17: Recent downgrades and upgrades
There was net upgrade activity of $145mn

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
Anastasia Beverly Hills	ANABEV	375	616	8/11/2025	Retail	Downgrade	CCC	CCC+	-1
Cushman & Wakefield U.S. Borrower LLC	CWK	400	1,000	1/31/2030	Real Estate	Downgrade	BB-	BB	-1
Cushman & Wakefield U.S. Borrower LLC	CWK	325	995	1/31/2030	Real Estate	Downgrade	BB-	BB	-1
Cushman & Wakefield U.S. Borrower LLC	CWK	275	193	8/21/2025	Real Estate	Downgrade	BB-	BB	-1
Del Monte Foods	DELMFD	425	718	5/16/2029	Food Producers	Downgrade	B-	B	-1
GoTo Group, Inc.	LOGM	475	2,183	8/31/2027	Technology	Downgrade	CCC+	B-	-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
84 Lumber Company	LUMBER	275	450	11/29/2030	Real Estate	Upgrade	BB	BB-	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
Chobani LLC	CHBANI	375	550	10/25/2027	Food Producers	Upgrade	B	B-	1
Cinemark USA Inc	CNK	375	645	5/24/2030	Media	Upgrade	BB+	BB	1

Exhibit 17: Recent downgrades and upgrades
There was net upgrade activity of $145mn

Issuer	Ticker	Margin	Notional	Maturity	Sector	Rating Action	Current Rating	Previous Rating	Notches
Clarivate Analytics	CCC	300	1,235	10/30/2026	Technology	Upgrade	BB-	B+	1
Clarivate Analytics	CCC	300	963	10/30/2026	Technology	Upgrade	BB-	B+	1
LA Fitness International LLC	LAFTNS	225	736	1/8/2025	Travel	Upgrade	B+	B	1
LA Fitness International LLC	LAFTNS	325	325	4/18/2025	Travel	Upgrade	B+	B	1
NASCAR Holdings	NASCAR	250	398	10/19/2026	Technology	Upgrade	BBB	BBB-	1
System1 Group Inc	SYSTMO	475	365	7/27/2027	Technology	Upgrade	CCC+	CCC	1

Source: BofA Global Research, LCD

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Return Performance

Loans in the LCD index returned 0.27% in the three weeks ending Feb 2nd, down from the 0.74% cumulative return seen in the prior three weeks ending Jan 12th. Second Lien loans were the best performer during the three-week window returning 116bps and CCC's (104bps) outperformed both BB's (15bps) and B's (23bps) respectively. Across asset classes, YTD loan returns are at 0.9%, HY returns are at 0.1% and IG returns are at -0.7%.

Exhibit 18: Total Returns (price plus coupon return) bps
Loans returned 5bps in the week ending Feb 2nd

	2/2/2024	1/26/2024	1/19/2024	1/12/2024
All Loans	5	13	10	20
BB	-4	6	13	16
B	2	14	7	21
CCC	45	50	9	55
2nd Lien	32	7	77	18
LL100	-8	10	3	13

Source: BofA Global Research, LCD

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Primary Activity

YTD global and US issuance totals $90bn and $80bn, with a total of 127 and 99 loans launched respectively in the primary market thus far. In comparison, YTD '23 brought in $29.6bn global issuance across 53 loans and $26bn US issuance across 38 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, 65% by notional amount was for Refinancing and 9% was for Dividend.

Exhibit 19: Recent new loan issues
The largest recent new issue came from UKG Inc $5.38bn deal

Launch Dt	Issuer	New Inst. Money	Moody's	S&P	ABL	Cov Lite	Proceeds	Sector	Country
2/7/2024	AssuredPartners Inc	500	B2	B	No	YES	Acquisition	Insurance	United States
2/7/2024	BrightSpring Health Services	2,566	B1	B+	No	YES	Refinancing	Healthcare	United States
2/7/2024	Constant Contact	300	B2	B-	No	YES	Repurchase equity	Computers & Electronics	United States
2/7/2024	Eleda	908	NR	NR		YES	LBO	Building Materials	Sweden
2/7/2024	Getty Images Inc	369	Ba3	BB-		YES	Refinancing	Services & Leasing	United States
2/7/2024	Getty Images Inc	980	Ba3	BB-	No	YES	Refinancing	Services & Leasing	United States
2/7/2024	Planet Payment	910	B3	B-		YES	Refinancing	Services & Leasing	Ireland
2/7/2024	Techem AG	355	B1	B+		YES	Refinancing	Computers & Electronics	Germany
2/6/2024	Service Logic	330	B2	B	No	YES	Refinancing	Manufacturing & Machinery	United States
2/6/2024	Trulite	400	NR	NR	No	NO	Acquisition	Building Materials	United States
2/6/2024	Nord Anglia Education Inc	600	B1	B	No	YES	Refinancing	Not for Profit	United Kingdom
2/6/2024	Ascensus Inc	300	B2	B-	No	YES	Refinancing	Services & Leasing	United States
2/6/2024	Alterra Mountain Company	200	B1	B+	No	YES	Acquisition	Entertainment & Leisure	United States
2/5/2024	PlayCore Holdings Inc	1,050	B2	B	No	YES	Dividend	Entertainment & Leisure	United States
2/5/2024	Genesys Telecommunications Laboratories Inc	800	B2	B	No	YES	Dividend	Computers & Electronics	United States
2/5/2024	Wella GmbH	100	B2	B		YES	Refinancing	Consumer Nondurables	Germany

Exhibit 19: Recent new loan issues
The largest recent new issue came from UKG Inc $5.38bn deal

Launch Dt	Issuer	New Inst. Money	Moody's	S&P	ABL	Cov Lite	Proceeds	Sector	Country
2/5/2024	Stow International NV	115	B3	B-		YES	Refinancing	Manufacturing & Machinery	France
2/1/2024	Vestis Corp	800	Ba2	BB+	No	YES	Refinancing	Textile & Apparel	United States
2/1/2024	Crosby Worldwide	1,000	B3	B	No	YES	Refinancing	Building Materials	United States
2/1/2024	Amer Sports	600	B2	B+		YES	Refinancing	Entertainment & Leisure	Finland
2/1/2024	Amer Sports	600	B2	B+	No	YES	Refinancing	Entertainment & Leisure	Finland
2/1/2024	Applied Systems Inc	565	Caa2	CCC	No	YES	Repurchase equity	Computers & Electronics	United States
2/1/2024	Applied Systems Inc	2,420	B2	B-	No	YES	Repurchase equity	Computers & Electronics	United States
2/1/2024	Ensono LP	100	B2	B	No	YES	GCP	Computers & Electronics	United States
2/1/2024	Consumer Cellular	500	B1	B-	No	YES	Dividend	Telecom	United States
1/31/2024	Core & Main	750	Ba3	BB-	No	YES	Acquisition	Building Materials	United States
1/31/2024	Inizio Group	150	B1	B	No	YES	Refinancing	Healthcare	United Kingdom
1/31/2024	Sharp Services LLC	150	B3	B-	No	YES	Refinancing	Chemicals	United States
1/30/2024	IFCO Systems NV	348	B2	B+		YES	Refinancing	Chemicals	Netherlands
1/30/2024	Consolidated Energy Limited	745	Ba3	BB-	No	YES	Acquisition	Chemicals	Barbados
1/30/2024	Cognita	100	B3	B-		YES	Refinancing	Not for Profit	United Kingdom
1/29/2024	Covanta Energy Corp	150	Ba2	BB	No	YES	Refinancing	Environmental	United States
1/29/2024	Deutsche Fachpflege Holding GmbH	440	B3	B		YES	Refinancing	Healthcare	Germany
1/29/2024	Duravant LLC	150	B1	B-	No	YES	Refinancing	Manufacturing & Machinery	United States
1/29/2024	Group.ONE	20	B2	B		NO	Refinancing	Computers & Electronics	Sweden
1/29/2024	Group.ONE	800	B2	B		YES	Refinancing	Computers & Electronics	Sweden
1/29/2024	Howden Group Holdings Ltd	900	B2	B		YES	Refinancing	Insurance	United Kingdom
1/29/2024	Howden Group Holdings Ltd	2,925	B2	B	No	YES	Refinancing	Insurance	United Kingdom
1/29/2024	TenCate Grass Holding BV	350	B2	B		YES	LBO	Chemicals	Netherlands
1/29/2024	TenCate Grass Holding BV	835	B2	B	No	YES	LBO	Chemicals	Netherlands
1/29/2024	United Rentals	1,000	Baa3	BBB-	No	YES	Refinancing	Services & Leasing	United States
1/29/2024	Waystar	2,200	B3	B-	No	YES	Refinancing	Computers & Electronics	United States
1/25/2024	Fairbanks Morse Defense	125	B3	B	No	YES	Refinancing	Manufacturing & Machinery	United States
1/25/2024	Artera Services LLC	930	B3	B-	No	YES	Bridge to IPO	Utilities	United States
1/24/2024	Argus Media	1,200	B2	B+	No	YES	Repurchase equity	Printing & Publishing	United Kingdom

Source: LCD

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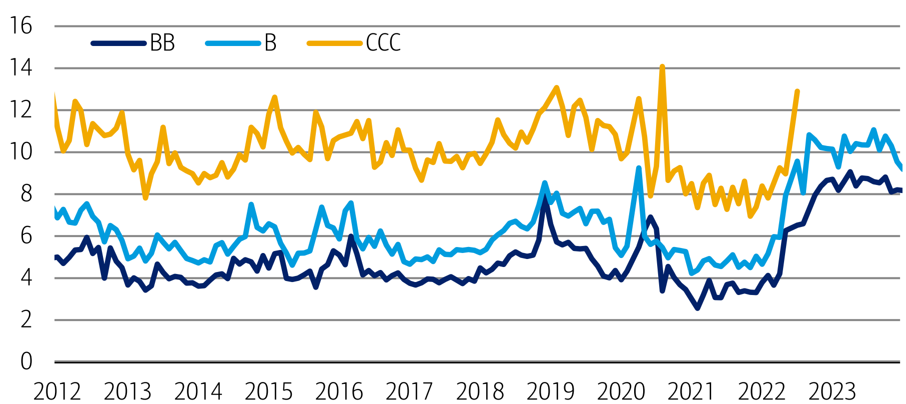
Exhibit 20: Average new issue yields by month
BB and B currently yield 8.18% and 9.18% respectively while there is not enough sample size for CCC



Source: LCD

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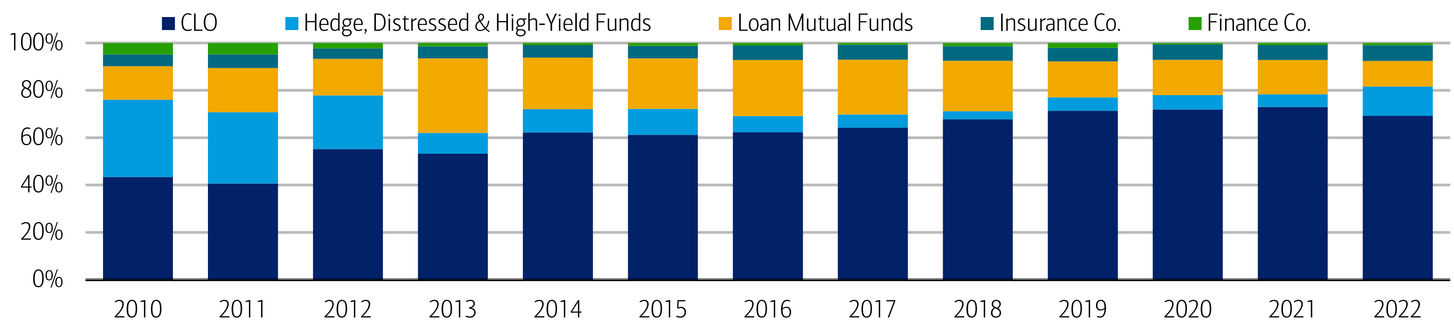
CLO Update

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

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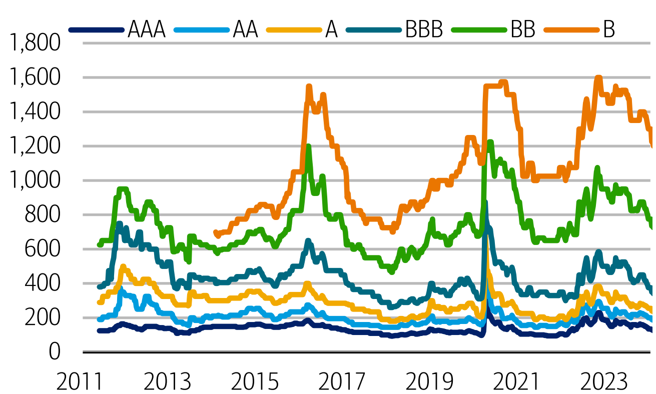
Exhibit 22 shows CLO spread levels by tranches. CLO arbitrage is a widely followed statistic in the loan market, and represents the theoretical spread that managers can capture by issuing CLOs. Exhibit 23 compares CLO asset (loan) spreads to the weighted average spreads of CLO liabilities. The difference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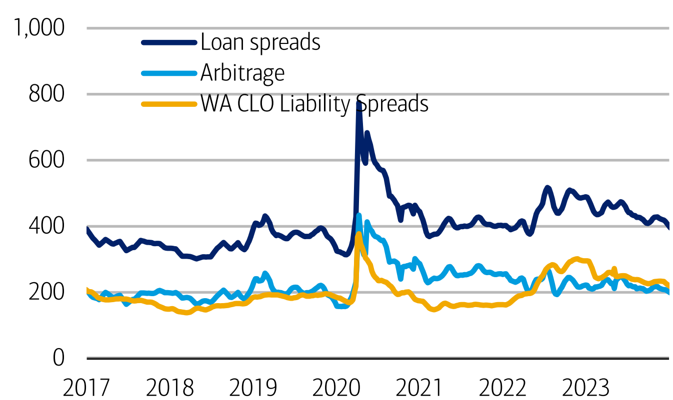
Exhibit 23: CLO Arbitrage (bps)

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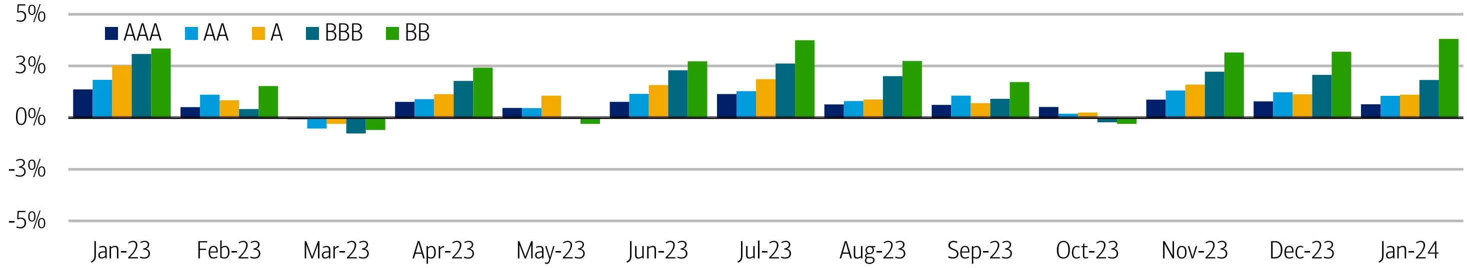
Exhibit 24 shows monthly CLO returns as defined by the Palmer Square CLO index (price plus coupon returns).

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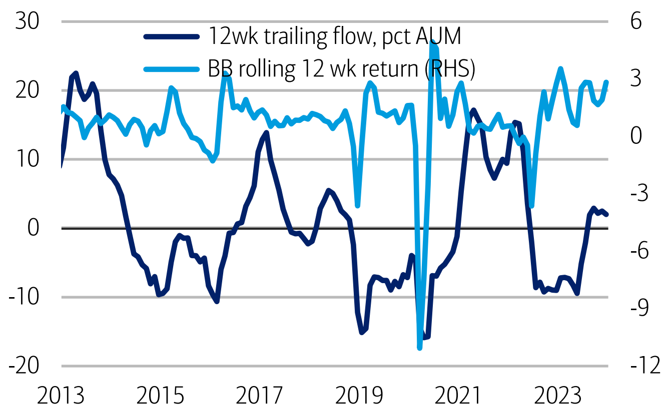
The following charts show demand trends within the loan market, correlated with returns within rating buckets. Exhibit 25 shows a measure of retail flows (12-week trailing retail flows as a percentage of outstanding AUM) vs monthly BB Loan total returns, while Exhibit 26 depicts monthly CLO issuance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

Exhibit 25: BB performance vs Loan retail flows

Currently BB rolling 12-week return is at 2.83% and 12-week trailing flow is 2.02% of outstanding AUM



Source: LCD, EPFR Global

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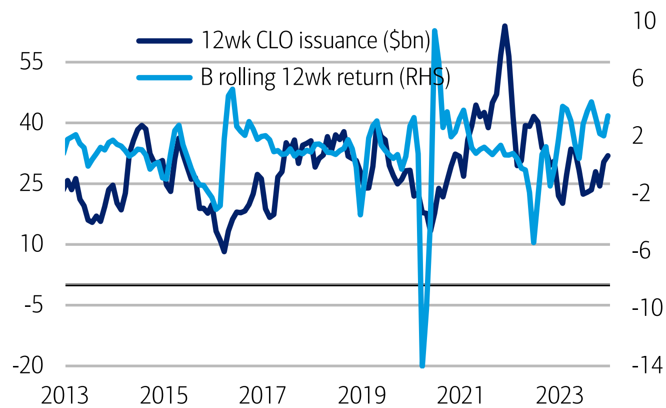
Exhibit 26: B performance vs CLO creation

For Bs, rolling 12 week return is at 3.44% while 12 week CLO issuance is $31.89bn



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

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

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