

Retail versus CLOs

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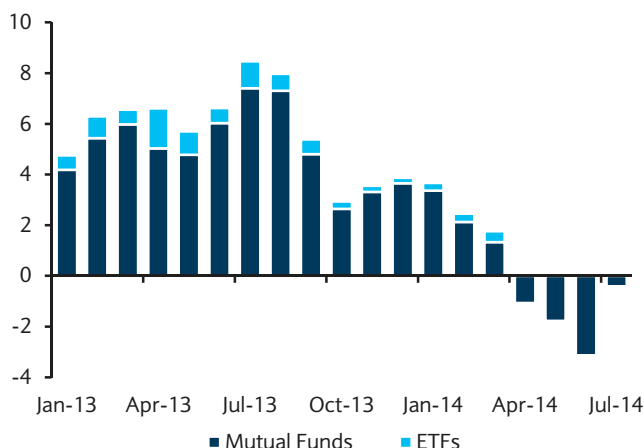
The long streak of outflows from U.S. high yield retail funds has been a focal point across global credit markets for several weeks now. Investors could therefore be forgiven for missing the break in the trend in loan demand. Following a steady progression of increasing outflows beginning in April, the negative technical appears to have abated somewhat in July (Figure 1).

Rewinding even further, loans were among the biggest beneficiaries of heightened duration fears following the Fed's tapering announcement last summer. Retail funds experienced a whopping \$61bn in inflows for the year in 2013, or approximately 90% y/y growth. Demand abated somewhat in the first few months of this year, but remained a net tailwind until the current outflow streak began 16 weeks ago. We believe the current trend is at least in part due to unfulfilled expectations for higher rates, with 10y Treasuries frustrating the widely held consensus by declining 45bp year-to-date.

As discussed in the high yield section, the price action in the bond market suggests that the institutional buyer base has been more willing to absorb the paper coming out of retail funds over the past few weeks. The loan market, meanwhile, benefits from the arguably much steadier hand of CLO managers. And this year has marked a continuation in the rebound in CLO supply: through Wednesday, CLO volume has reached \$74bn. While the new deal total annualizes to nearly \$127bn, we expect the pace to moderate slightly, taking the full-year total to \$110-120bn (Figure 2). Meanwhile, we estimate \$50bn in CLO amortization for 2014 (see [Global Credit Outlook 2014](#) for more details). The net effect is positive loan demand on the order of \$60-70bn.

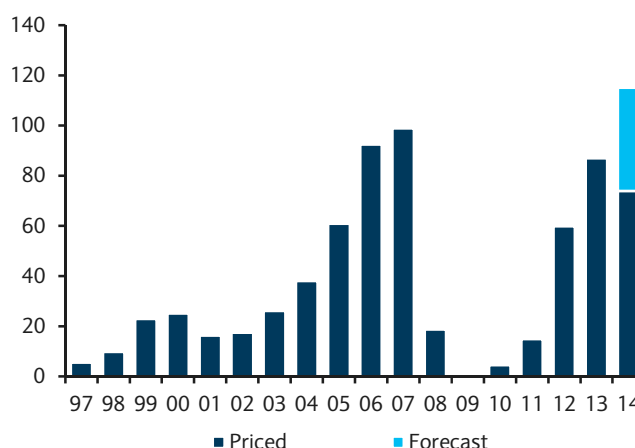
By comparison, outflows from loan retail funds in the past 16 weeks total \$8.3bn, according to Lipper. Admittedly, the two numbers are not directly comparable given that the estimated demand from CLOs is for the full year, but the relative magnitude helps explain why loans have held up so well despite the shift in retail sentiment.

FIGURE 1
Monthly Fund Flows into Retail Loan Funds (\$bn)



Note: Daily, weekly, and monthly reporters, except July (no monthly available).
Source: EPFR

FIGURE 2
Annual CLO Issuance (\$bn)



Source: Creditflux, S&P LCD, Bloomberg, Barclays Research

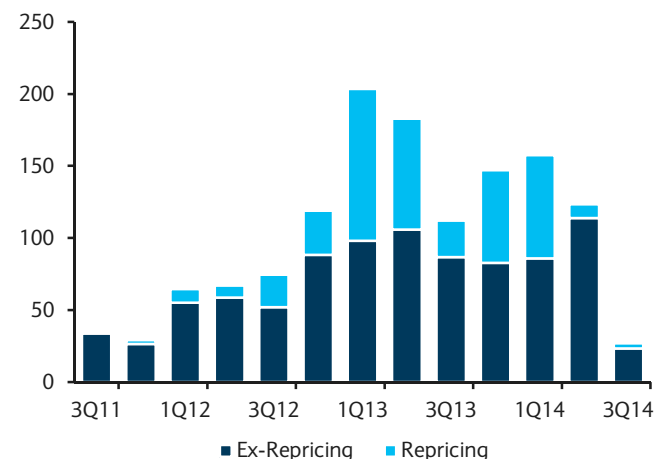
New Issue Volume

Institutional Leveraged Loans (as of July 30, 2014)	No. of Deals	Amt (\$bn)
Trailing 1m Launches	83	45.1
Forward Calendar	66	52.4
Year-to-Date Priced (ex-repricings)	520	223.2

CLOs (BSL and MM) (as of July 30, 2014)	No. of Deals	Amt (\$bn)
Forward Calendar	15	7.5
Year-to-Date	137	73.9

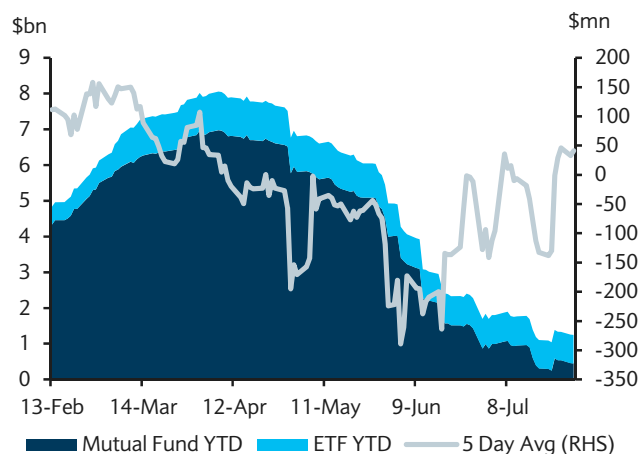
Source: Creditflux, Bloomberg, S&P LCD, Barclays Research

Quarterly Institutional Leveraged Loan Issuance (\$bn)



Source: S&P LCD, Barclays Research

Flows to Loan Mutual Funds and ETFs



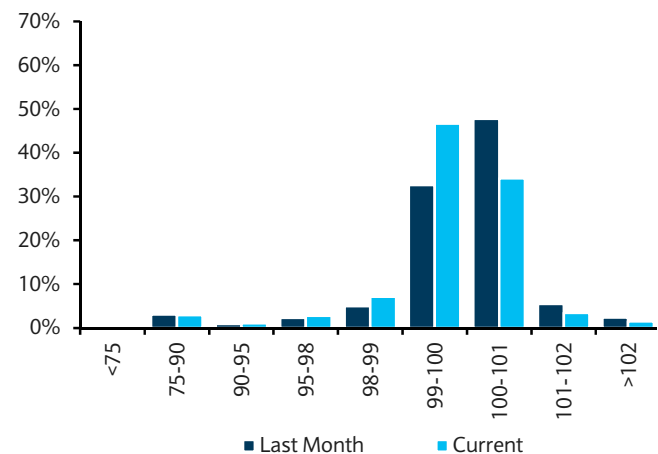
Source: EPFR

Barclays Performing Loan Index Yield and Spread



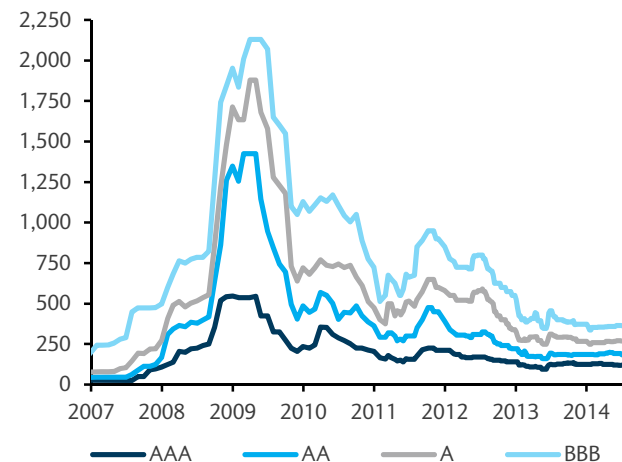
Note: Yield and spread calculation assumes a three-year paydown period, amortizing any premium or discount to par accordingly. Source: Barclays Research

Loan Index Price Distribution by Par



Source: Barclays Research

U.S. CLO Spread Performance by Rating (bp)



Note: Spread data from BWIC levels. Source: Moody's, Intex, Barclays Research

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