

# Updated Loan Market Impact

- COVID-19 pandemic-induced volatility continues to impact the Loan Market. Issuers at the higher end of the credit spectrum find general support from investors, albeit at higher price points. The leveraged loan market did see a couple of issuers make an attempt last week. However, with mounting pressure on downgrades and continued outflows from retail funds, the market remains muted for levered issuers
  - Investors across the ratings spectrum are requesting LIBOR floors in amended facilities as well as new facilities and,
  - Investor analysis remains focused on case by case of the impact issuers may face from a sustained economic disruption
- The two instances of primary issuance at the lower end of the credit spectrum last week were liquidity enhancing and advertised at extreme price points
- The secondary market was in recovery mode, seeing high quality names firm in the 98 – 100 area with some opportunistic offers at higher prices. The next rung of high single-B names moved firmly into the mid-high 90s price context while the largest move was in deeply discounted credits as investors continued chasing price upsides
  - Selling pressure remains on the retail or mutual funds having to generate reserves ahead of future redemptions and,
  - While CLOs have been the better buyers, demand from credit opportunity, high-yield funds as well as other non-traditional loan buyers seek quality names where they see value

	4/9/2020	3/9/2020	Change (3/9 to 4/9)	2/12/2020	Change (2/12 to 4/9)	1/21/2020	Change (1/21 to 4/9)
DJIA	23,719.37	23,851.02	-0.6%	29,551.42	-19.7%	29,196.04	-18.8%
S&P 500	2,789.82	2,746.56	1.6%	3,379.45	-17.4%	3,320.79	-16.0%
NASDAQ	8,153.58	7,950.68	2.6%	9,725.96	-16.2%	9,370.81	-13.0%
WTI Crude	22.76	31.13	-26.9%	51.17	-55.5%	58.34	-61.0%
LSTA 100 Price Index	90.27	92.09	-181.8 bps	98.03	-776.4 bps	98.77	-850.2 bps
LSTA 100 Weighted Average Yield	7.56%	7.85%	-29.0 bps	5.58%	198.0 bps	5.55%	201.0 bps
S&P/LSTA U.S. Leveraged Loans Index	85.32	91.47	-615.0 bps	96.70	-1138.0 bps	97.34	-1202.0 bps
S&P European All Loans Index	85.70	94.89	-919.2 bps	98.51	-1281.0 bps	98.58	-1288.3 bps
3 Month LIBOR	1.22%	0.77%	45.1 bps	1.70%	-48.5 bps	1.81%	-58.7 bps
SOFR	0.01%	1.09%	-108.0 bps	1.57%	-156.0 bps	1.54%	-153.0 bps
30 Year Treasury	1.34%	1.00%	34.8 bps	2.09%	-74.6 bps	2.24%	-89.2 bps
10 Year Treasury	0.72%	0.54%	17.8 bps	1.63%	-91.4 bps	1.77%	-105.5 bps
5 Year Treasury	0.41%	0.48%	-7.4 bps	1.45%	-104.6 bps	1.58%	-117.1 bps
2 Year Treasury	0.23%	0.38%	-15.6 bps	1.44%	-121.8 bps	1.53%	-130.5 bps
5-year Swaps	0.55%	0.56%	-1.3 bps	1.46%	-91.1 bps	1.59%	-104.5 bps
7-year Swaps	0.68%	0.59%	9.5 bps	1.51%	-82.3 bps	1.65%	-96.4 bps
Markit CDX NA HY Index 5 Year (Price)	98.55	97.98	0.6 pts	109.48	-10.9 pts	109.34	-10.8 pts
Markit CDX NA IG Index 10 Year (Spread)	111.45	135.16	-23.7 bps	89.05	22.4 bps	90.37	21.1 bps

Sources: KeyBanc Capital Markets, Bloomberg, LCD, Refinitiv  
 3/9/20: Market closed post failed OPEC negotiations  
 2/12/20: Equity market reached all-time high  
 1/21/20: Bloomberg Newsroom started tracking COVID-19 globally confirmed cases



# COVID-19 Impact on Pro Rata Loan Market

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- Whereas the institutional loan market has seen a more direct impact from the global outbreak of COVID-19, the high grade / pro rata bank market has remained relatively insulated with regard to primary activity
- Amid the choppiness experienced across the markets, high grade and pro rata issuers across the credit spectrum remain active and investor appetite has remained somewhat uninterrupted as Companies shore up their liquidity
  - Primary activity continues to center around those repeat issuers who are looking to increase Revolvers, add Delayed Draw Term Loans or Short-Dated Funded Loans in addition to tapping the bond markets
  - Varies by investor, but some investors are choosing to forego new issuer requests in order to meet the needs of their current and long-standing relationships
  - Some middle-market issuers are finding their existing bank group plus a few new banks supporting smaller previously stalled M&A transactions
- Analysis has turned inward as portfolio managers look to understand the specific impact on issuers' operations as uncertainty is higher than normal
- Issuers and investors are looking for more transparency between the two parties. More frequent and formal communication among investor groups has been met with support and flexibility
- With the precipitous fall of LIBOR, investors are, in most cases, asking Arrangers to add LIBOR floors; prior to the crisis the document standard was at least zero; with each passing day more deals now include a floor of 75 – 100 bps
- Based on where higher-rated issuers have been transacting, pressure will continue on spreads as investors price in the relative risk

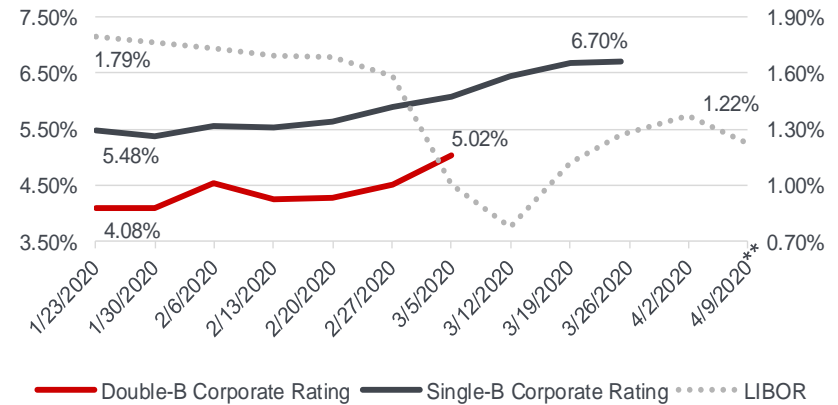


# COVID-19 Impact on Institutional Loan Market – Technical Conditions

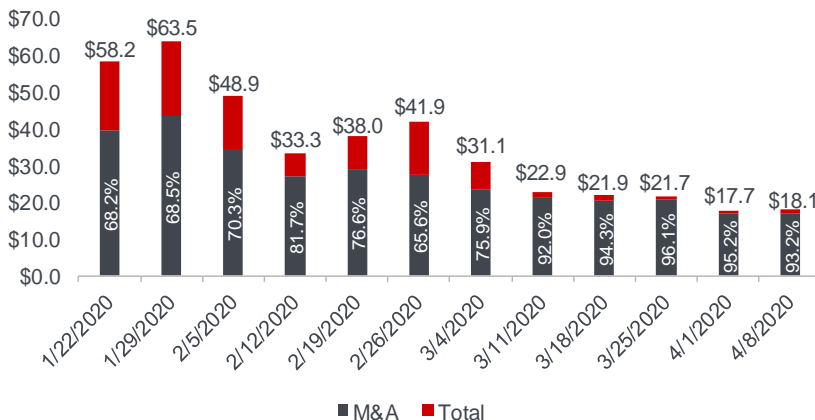
## Commentary

- For the most part, issuers remain sidelined amid the uncertainty of the pandemic's time horizon and consequent impact on corporate earnings
- The forward calendar remains steady despite a few issuers attempting to price liquidity facilities
- The first two deals last week tapped the institutional market. Other issuers have looked to the pro rata market as an avenue to offset higher yields
- The secondary market experienced several days of stability so prices started to recover throughout the short trading week
- The S&P-LSTA Leveraged Loan 100 Index stands at 90.27 with loan returns for the year falling to -10.19% as of 4/9/2020

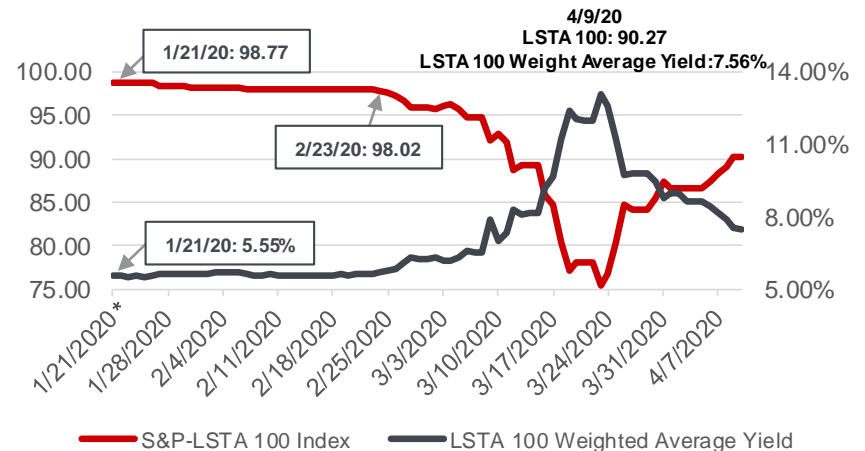
## Average New-Issue Yield Progression



## Forward Calendar



## S&P-LSTA Leveraged Loan 100 Index & Yield



Sources: KeyBank Capital Markets, Bloomberg, LCD, Refinitiv  
 \*Confirmed COVID-19 case counts compiled by Bloomberg Newsroom starting 1/21/2020  
 \*\*There were no new single-B or double-B issuances last month

# Institutional Loan Market Activity Since Market Correction

- The primary market for most syndicated transactions remains closed. Those few issuers attempting both institutional and pro rata solutions are finding it expensive
  - The net forward calendar increased to \$16.0 billion
  - A couple large previously announced deals continue to sit idle and will be watched. Those are:
    - Eldorado – Caesars (NasdaqGS:ERI) and Thyssenkrupp<sup>[1]</sup> (XTRA:TKA)
- The secondary market showed some continued stability this week but rating agency downgrades put pressure on an unprecedented number of names
  - From a retail flow perspective, we saw another \$1.6 billion of outflows this past week
- The hard hit sectors remain Tourism and Hospitality, Airlines, Oil and Gas
- Amid the turmoil experienced since mid-February, nearly \$17.6 billion of opportunistic issuance has been pulled from the institutional loan market

## US Institutional Forward Calendar

Issuer	Sponsor	Industry	Use of Proceeds	CRPR		Deal Size (in millions)	LEAD AGENT
				Moody's	S&P		
Caesars Entertainment Inc	Not Sponsored	Gaming & Hotel	Merger	Ba3	B+	2400.00	J.P. Morgan
Eldorado Resorts	Not Sponsored	Gaming & Hotel	Merger	B1	B+	3000.00	J.P. Morgan
LogMeIn	Francisco Partners	Computers & Electronics	LBO	NR	NR	3300.00	Barclays
Apergy Corporation	Not Sponsored	Computers & Electronics	Merger	Ba3	BB-	537.00	Bank of America
Xperi Corporation	Not Sponsored	Computers & Electronics	Merger	B1	BB-	1100.00	Bank of America
AVI-SPL Inc	Marlin Capital Partners	Computers & Electronics	LBO	B2	B	370.00	Bank of America
RSA	Symphony Technology Group	Computers & Electronics	LBO	NR	NR	1350.00	UBS
SnapAV	Hellman & Friedman	Computers & Electronics	Acquisition	B3	NR	390.00	UBS
Cornerstone OnDemand	Not Sponsored	Computers & Electronics	Acquisition	NR	NR	985.00	Morgan Stanley
Culligan Holding S àr L	Advent International	Manufacturing & Machinery	Acquisition	B3	B-	500.00	Morgan Stanley
Cincinnati Bell Inc	Macquarie	Telecom	LBO	B2	B	1350.00	Goldman Sachs
Revlon Consumer Products Corp	Not Sponsored	Consumer Nondurables	Refinancing	NR	CCC-	850.00	Jefferies
US Foods Inc	Not Sponsored	Food & Beverage	Acquisition	NR	NR	700.00	Citi
Atlas Technical Consultants	Bernhard Capital Partners	Building Materials	Merger	NR	B	281.00	Macquarie
Century Casinos	Not Sponsored	Gaming & Hotel	Acquisition	B3	B-	170.00	Macquarie
Cott Beverages	Not Sponsored	Food & Beverage	Acquisition	B1	B	400.00	Deutsche Bank



# High Grade and High Yield Bond Markets (as of 4/13/20)

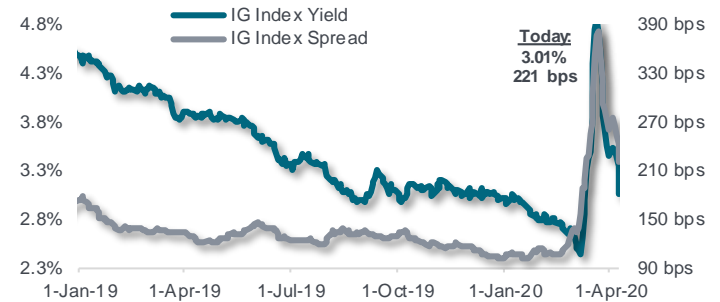
## High Grade

- The IG Spread Index has widened by +116 bps since the 2/12 low point; offset by a corresponding UST decline of -91 bps, the IG index is wider by +25 bps since 2/12
- IG credit yields and spreads each declined 45 bps last week. New Issue Concessions and order book size were 17 bps and 5.8x (from 42 bp and 4.3x, respectively)
- 15 business days' since 3/18 exceeds all of 1Q19, and 1Q20 IG issuance of \$494bn is more than 2x 1Q19
- The IG market is now open to all sectors, as last Thursday's line-up featured a Retailer, a Travel company, an Oil company, and a Utility with coal exposure; IG bond buying by the Fed is expected to tighten spreads and NICs

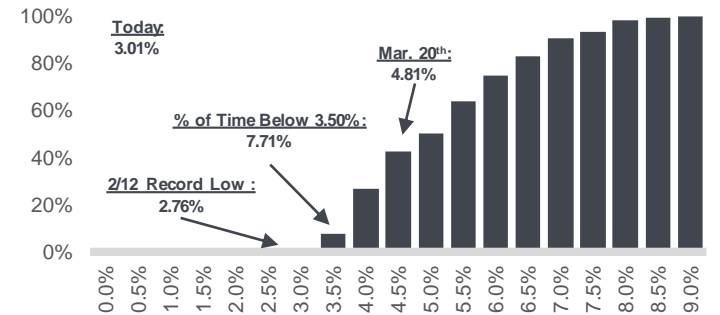
## High Yield

- Total HY index spread and yield have tightened 250bp and 248bp, respectively, since 3/23 after five of the six largest daily HY spread widenings on record between 3/4 – 3/19
- Last week saw an inflow of \$214mm in the HY market, following an inflow of \$7.1bn the week prior; Announced Fed buying of HY "fallen angels" and HY ETFs (e.g., JNK and HYG) pushed spreads tighter and prices up 2-5 points on recent new issues
- The HY Index yield sits at 9.45% -- down 250 bps from March 23<sup>rd</sup> but still up +363 bps from February lows
- The BB Index yield of 6.12% on 4/9 is up +223 bps from its record low of 3.89% in January 2020
- Deals for LifePoint, Wynn Resorts, NCR, Ardagh (add-on), Nordstrom (IG ratings) and Ferrelgas priced last week; NICs were > 100bps on all but Ardagh, but all were heavily subscribed and broke to trade above par; several new issuers announced this morning 4/13 (Burlington Coat Factory, Cinemark, Sabre, TransDigm add-on, Ferrelgas add-on)

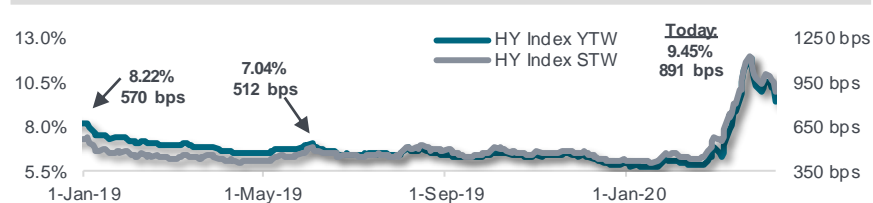
## IG Spreads & Yields (since Jan. '19)



## IG Yield Index Time Below (2000-Present)



## High Yield Index Yield & Spread (since Jan. '19)



## BB Index Yield (since 2010)

