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Many BDCs still struggling to trade at book value and higher

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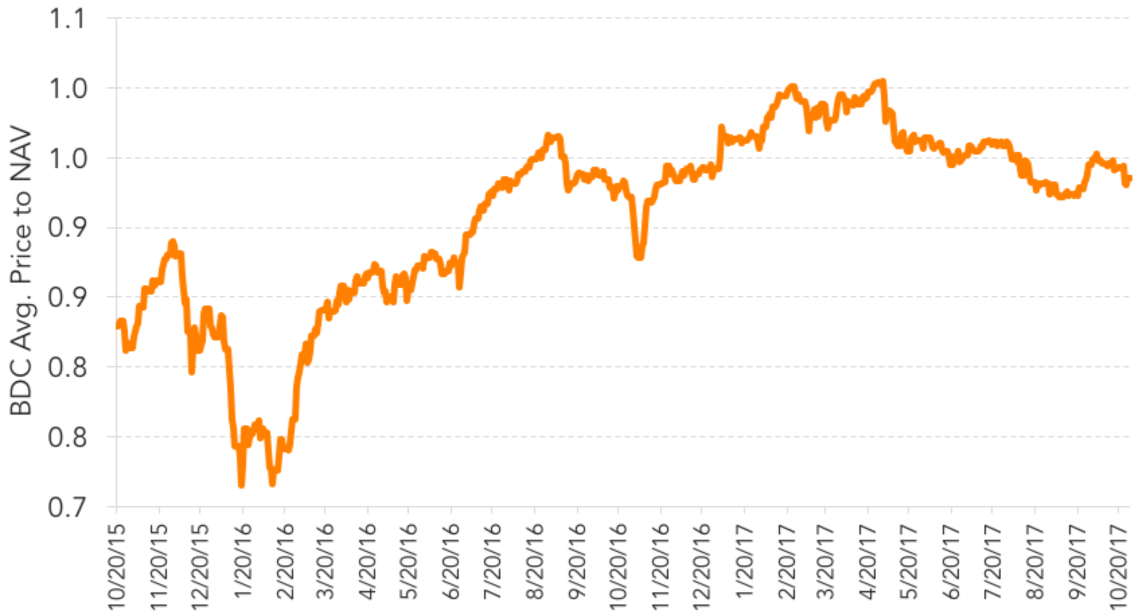

Investors are getting ready to parse through a slew of BDCs earnings, which will be released this week. Last quarter, many BDCs disappointed with announcements of rising non-accruals, dividend cuts, and declining yields which caused the average price to net asset value per share to trade down to as low as 0.92 times. This resulted in a very quiet summer for BDC equity issuance. PennantPark broke the trend last week, being the first BDC to issue equity in several months. After improving over the last few months, the average price to book value has softened again in the last week moving inversely with broader equities which have continue to move higher. The Wells Fargo BDC index has vastly underperformed this year, only returning 1.5% year to date compared to the S&P500 which has returned 15.3% during the same period. Given market conditions in the middle market have remained very competitive all year, it is unlikely that BDCs will report results vastly better than what was reported over the summer. Investors are expecting to hear more of the same, tough market conditions and yield pressure. However, the default environment has remained benign (with the exception of a few sectors) with Fitch reporting the large middle market default rate at only 1.9% through September. The average non-accrual rate as a percentage of cost for BDCs with an investment portfolio of at least $100M was 3.14% at 6/30/17.

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