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Primary yields widen in 3Q18 to levels not seen in over two years

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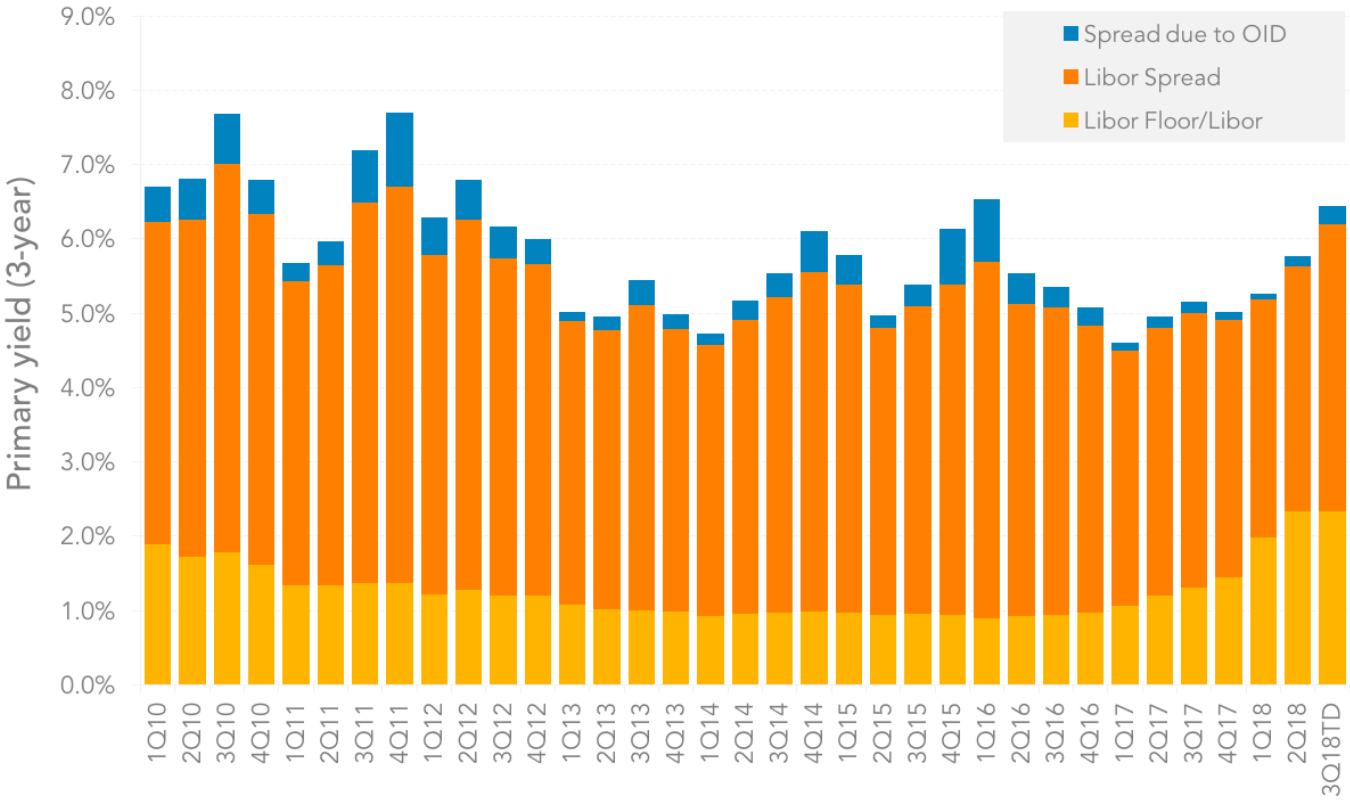

Average primary yields on first-lien institutional term loans in 3Q18 are at their highest levels since 1Q16. At 6.44%, the average yield assuming a three-year term to repayment on first-lien institutional term loans is 67bp higher than 2Q18's average. Unlike prior quarters, the increase in yields this quarter is due to higher spreads and wider OIDs and not from the increase in Libor rates. While the Libor rate has increased significantly since last week, the average for the quarter is still on par with 2Q18's level of 2.34%. Average spreads are 3.86% in 3Q18, up from 3.3% in 2Q18 and the average OID is currently at 99.33, wider than the 99.62 recorded in 2Q18. One reason behind increasing yields is the mix of deals, which has changed significantly from earlier this year, when refis and repricings dominated the institutional loan market. This quarter, 59% of the institutional term loans included in yield calculations back M&A activity, up from 35% in 2Q18 and 29% in 1Q18. However, the recent success of the jumbo buyout deals for Refinitiv and Akzo, which saw reverse price flexes, are evidence of the ample liquidity available in the market. In the absence of hefty new issue supply on the horizon, repricings have emerged and may gain traction.

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