Secondary loan market softens in face of coronavirus fears

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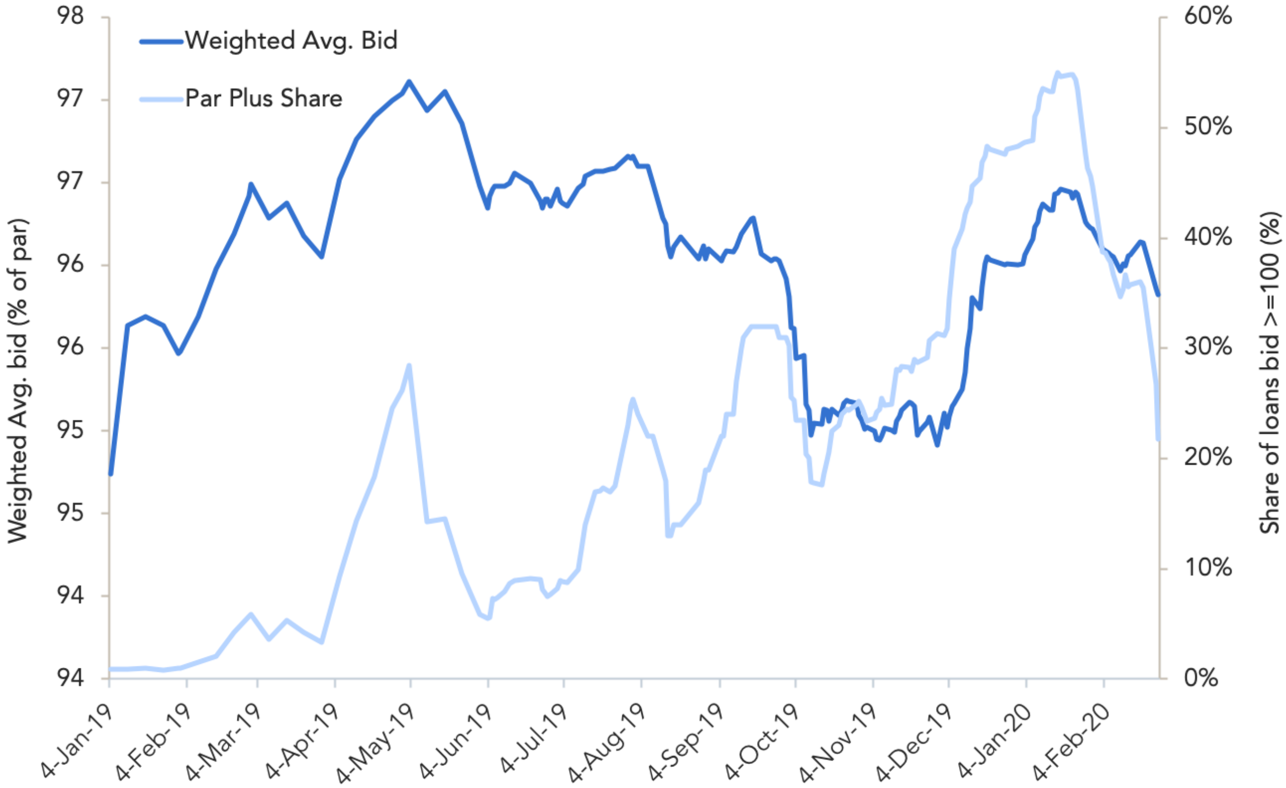

Source: Debtwire Par, Markit

With fears around the spread of the coronavirus growing, loan investors are faced with the decision to reduce risk or buy the recent dip in the secondary market. After several months defined by repricings, tightening spreads, and elevated secondary market pricing, the weighted average bid hit a recent high at 96.46 with a par plus share in the 55% area in mid-January. Investors are now weighing the impact of the coronavirus on corporate earnings, as the share of loans bid above par in the secondary market has more than halved to 22%, while the average bid has dipped to 95.82.

Though the impact has largely been seen across the board, sources have noted the travel and tourism industries are particularly at risk in the short term. Indeed, the weighted average bid has slipped to 99.29 from 100.15 in the gaming and hotel sector. Cracks have also begun to show at the lower end of the market, where distressed energy names have struggled.

While secondary prices have softened, the primary loan market has held up relatively well, with nearly USD 3bn of institutional loans allocating so far this week. Recent equity market losses have eclipsed those in the loan market, however the dip in loan prices has still allowed some buysiders the opportunity to gain precious yield in an otherwise tight market.

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