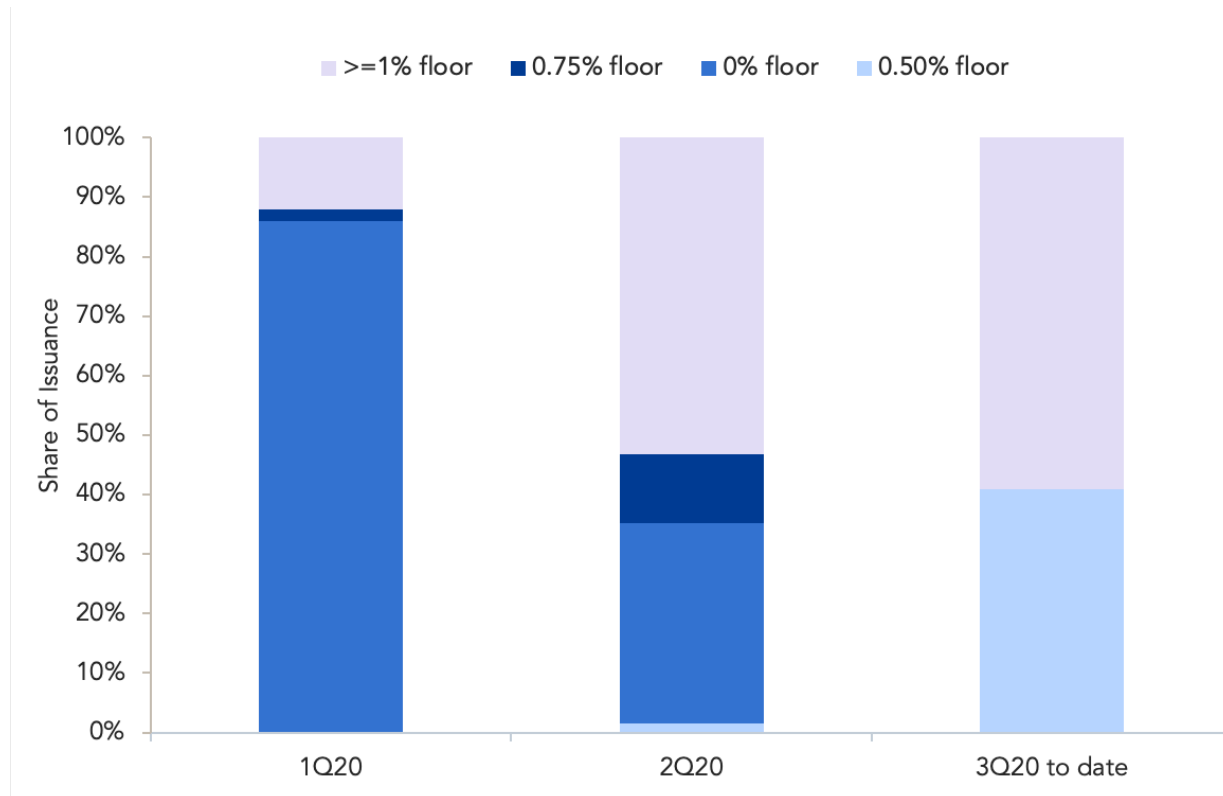


Market shifts to 1% LIBOR floors as key rates remain near zero

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Source: Debtwire Par

With the Federal Reserve cutting interest rates sharply in March, investors have preferred fixed-rate debt instruments in the last several months, as demonstrated by the recent proliferation of high yield bonds. High yield bond issuance soared in 2Q20, with June deal flow of USD 63.7bn setting a new monthly record and pushing 2Q20 volumes to USD 150bn.

Institutional loan issuance has seen a resurgence of late, albeit at significantly reduced levels from the USD 133bn issued in 1Q20 (excluding repricings). Roughly USD 37bn of institutional loans priced in June, up from just USD 13bn in April and May. July issuance has been slower to pick up, at just under USD 3bn month-to-date.

Demand for the floating-rate debt instruments remains, with 20 US CLOs totaling USD 7.9bn pricing in June, pushing the 2Q20 total to 17.7bn and surpassing the 15.7bn issued in the first quarter.

As such, lenders have taken necessary precautions to weather the low-rate environment, with the percentage of institutional loans issued with a 0% LIBOR floor declining to 34% in 2Q20 from 86% in 1Q20, and the share of

1% floors jumping to 53% of issuance from just 12% in the first quarter. The trend has continued into July, with all deals having a floor of 50bps or higher.

The London Interbank Offered Rate, or LIBOR, has declined significantly in 2020, with the three-month LIBOR rate now at 0.27%, down from 1.9% at the start of the year. With base rates so often tied to the metric, and the sharp decline since the onset of the coronavirus (COVID-19) pandemic, lenders have had to adjust or risk leaking yield.