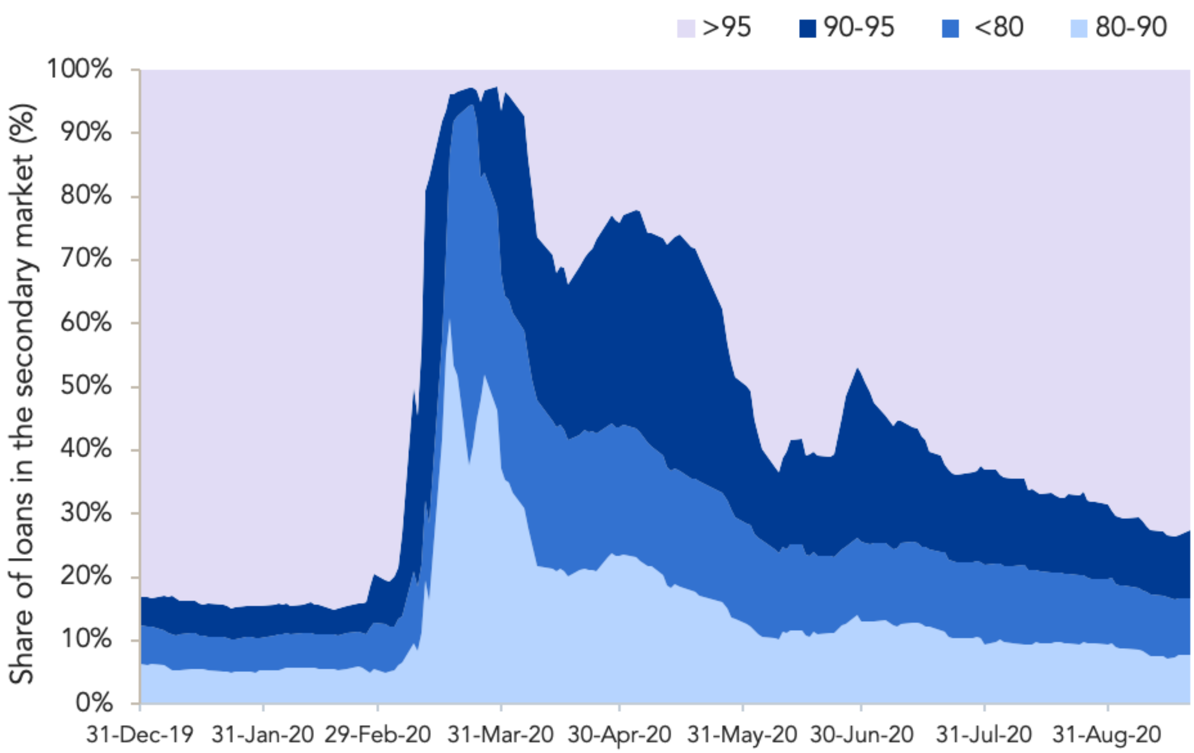
Loan secondary prices grind higher on limited new money deal flow

Debtwire | September 30, 2020



Source: Debtwire Par, Markit

Leveraged loans continue to grind higher in the secondary market, with limited new money issuance prompting investors to take a closer look at secondary market opportunities. The weighed average bid on term loans has added another 17 bps this month to reach 92.19. Looking more closely at the distribution of secondary market prices, the share of term loans bid in the 98 and above category is now at 46%, up from 36% at the end of August. Further down the market, the percentage of loans bid below 90 has declined to 17% from 20% in the same time period.

Current secondary market levels represent a sharp turnaround from the recent lows in March. After plummeting by 20 points in March, the secondary loan market has seen a huge rebound, gaining roughly 17 points over the last several months.

A lack of LBO and M&A deals and the resultant drop in new money loan issuance has helped support the secondary market. New money institutional loan issuance is down 25% year-over-year, with the drop even more pronounced in 3Q20. The lack of new loan supply combined with CLO appetite in 3Q20 has caused a supplydemand mismatch, helping to make it a borrower’s market relative to conditions in 2Q20, which has translated into a sharp jump in opportunistic deals like dividend recaps deals in recent weeks.