Institutional loan & HY bond default landscape improves dramatically year-over-year

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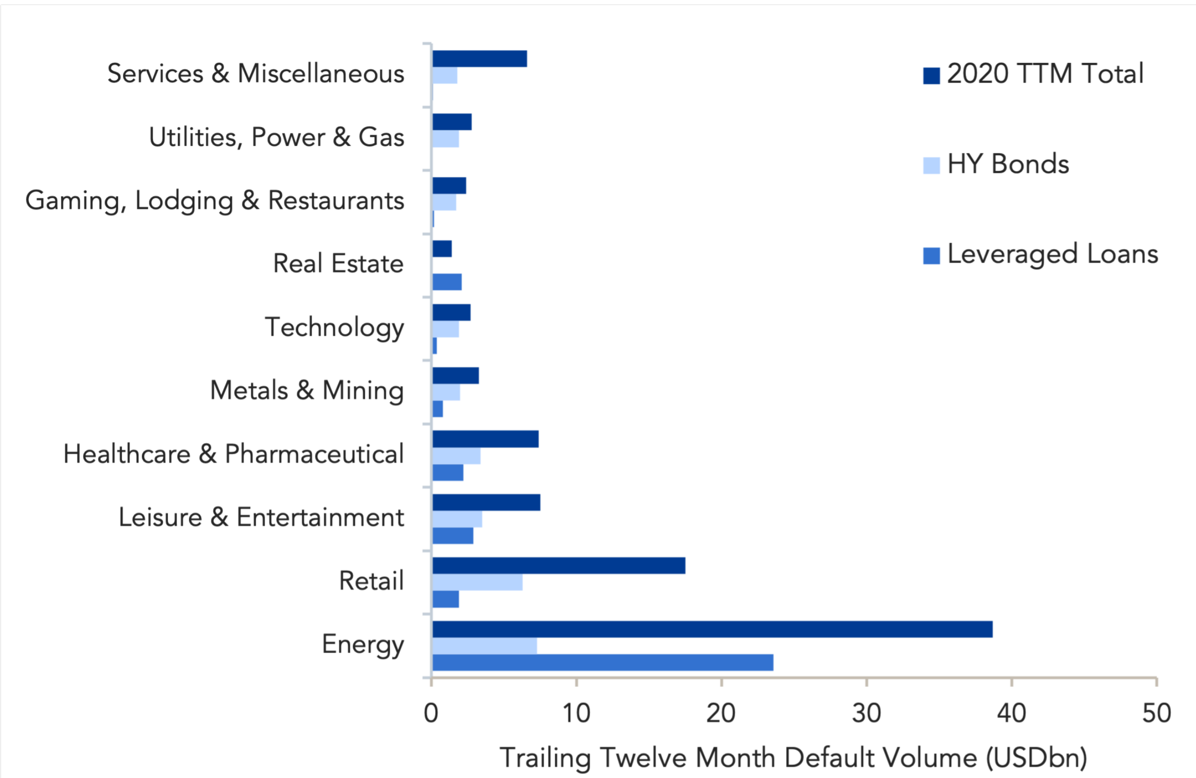

Source: Fitch Ratings, Debtwire Par

Defaults on institutional loan and high yield bond debt have subsided from elevated levels seen last year during the height of the coronavirus (COVID-19) pandemic, which shuttered many businesses under pressure to service debt agreements. Ending May at just 2.4%, the trailing twelve-month institutional loan default rate has improved dramatically from the 2020 high of 4.2%, according to Fitch. Similarly, high yield bond defaults have eased to 2.6% from a high of 5.7% last year. The decline in defaults is expected to continue into June, with Fitch predicting leveraged loan and high yield bond defaults to fall to 1.9% and 2.0%, respectively.

So far in 2021, just over USD 4.5bn in institutional loan debt has been defaulted on through May, compared to more than USD 35bn in defaults over the first five months of last year. A similar trend plays out in the high yield bond market, which saw an additional USD 36bn in defaults last year-to-date, versus just over USD 4bn this year. The wave of refinancing transactions to sweep the leveraged debt market since the start of the year has allowed many companies to extend maturities and address near-term financing concerns.

This will come as welcome news to energy and retail sector investors, who have seen an outsized share of defaults over the last year. The energy sector alone accounts for 43% of all TTM loan and bond defaults, though the amount of defaulted debt outstanding has eased as energy defaults including **Fieldwood Energy**'s USD 1.64bn missed payment last April, and **Ultra Resources** USD 966m Chapter 11 filing last May exit the TTM sample. In the bond market, sizeable defaults in the retail sector for **Neiman Marcus Group** (USD 2.1bn Chapter 11 filing) and **JC Penney** (USD 2.2bn Chapter 11 filing) filed last May were removed from the sample, improving the current picture.

The only company to default on a loan in May was **Healogics**, with a USD 420m distressed exchange. In the bond market, **Basic Energy Services** was the sole defaulter in May, missing a payment on a USD 300m facility. In recent months, the pace of defaults has subsided, with no bond defaulted in February, and no loan defaulted in March. As a result of the improving landscape, Fitch has revised their YE 2021 HY default rate prediction to 1% from 2%, while the leverage loan prediction was revised to 1.5% from 2.5% previously. The YE 2022 forecast for both loans and bonds is expected to creep up into the 2.5%-3.5% range.

With more large June 2020 defaults for **Chesapeake Energy** (USD 4.5bn), **Extraction Oil & Gas** (USD 1.1bn) and **Serta Simmons** (USD 1.3bn) on deck for removal from the TTM figure, defaults look set to continue to decline as businesses operating in pandemic-affected sectors like leisure & entertainment begin to reopen their doors after weathering a long year of uncertainty.

(Past performance is no guarantee of future results.)