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Loan secondary prices stumble as attention turns to the primary markets

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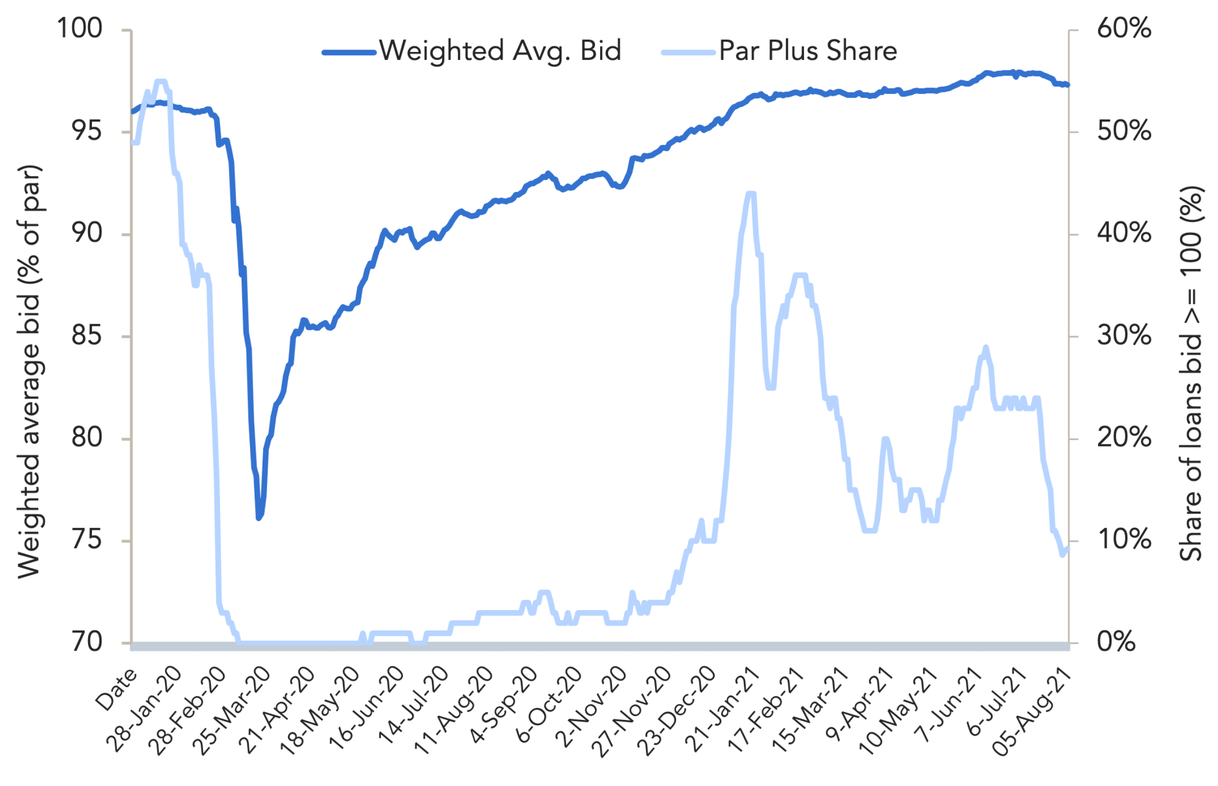

Source: Debtwire Par, Markit

The seemingly unrelenting secondary market rally hit a wall in July, with average bids in the loan secondary market falling 56bps during the month to 97.39, with the share of loans trading in the par-plus slice of the market falling to 11% from 24% as investors turn their attention, and capital, towards the robust primary market. Average bids have nonetheless gained 189bps year-to-date and remain well above the March 2020 trough of 76.1.

Institutional loan issuance was strong in July at USD 74.8bn, pushing year-to-date volume 87% higher than the year-ago level, to USD 599.3bn. In another sign of market strength, new money issuance outpaced refinancing and repricing activity for the second straight month, pushing the 2021 figure 61% higher than this time last year. Both M&A (USD 20.6bn) and buyout (USD 15bn) improved month over month, pushing yearly figures up 92% and 85%, respectively.

Large debt financings such as DirecTV Financing's USD 4.4bn loan supporting the carveout of AT&T assets DirecTV, U-Verse and the virtual MVPD business into a new joint venture between AT&T and TPG helped push monthly new money volume higher. The deal included a USD 3.9bn TLB due 2027, which priced at Libor+ 500bps with a 75bps floor and 99 OID (original issue discount) after tightening from initial talk. The term loan was accompanied by a USD 500m revolver and a USD 2.3bn 5.875% secured note due 2027.

The secondary market remains healthy however, with 83% of loans continuing to trade at a level of 98 or higher, compared to 85% last month. That said 83% of loans saw their prices slip from June highs. With fears of a Delta variant downturn on the horizon, it was entertainment & leisure (down 124bps), airlines (down 95bps) and oil & gas (down 166bps) sector borrowers that outpaced the overall market slump.

An additional USD 14.6bn of institutional loan debt has been completed through 9 August, with another USD 23.2bn working through syndication. Bids have continued to slide during this time, losing 5bps to land at 97.33,while the par-plus share of the market has fallen to 9%.

(Past performance is no guarantee of future results.)