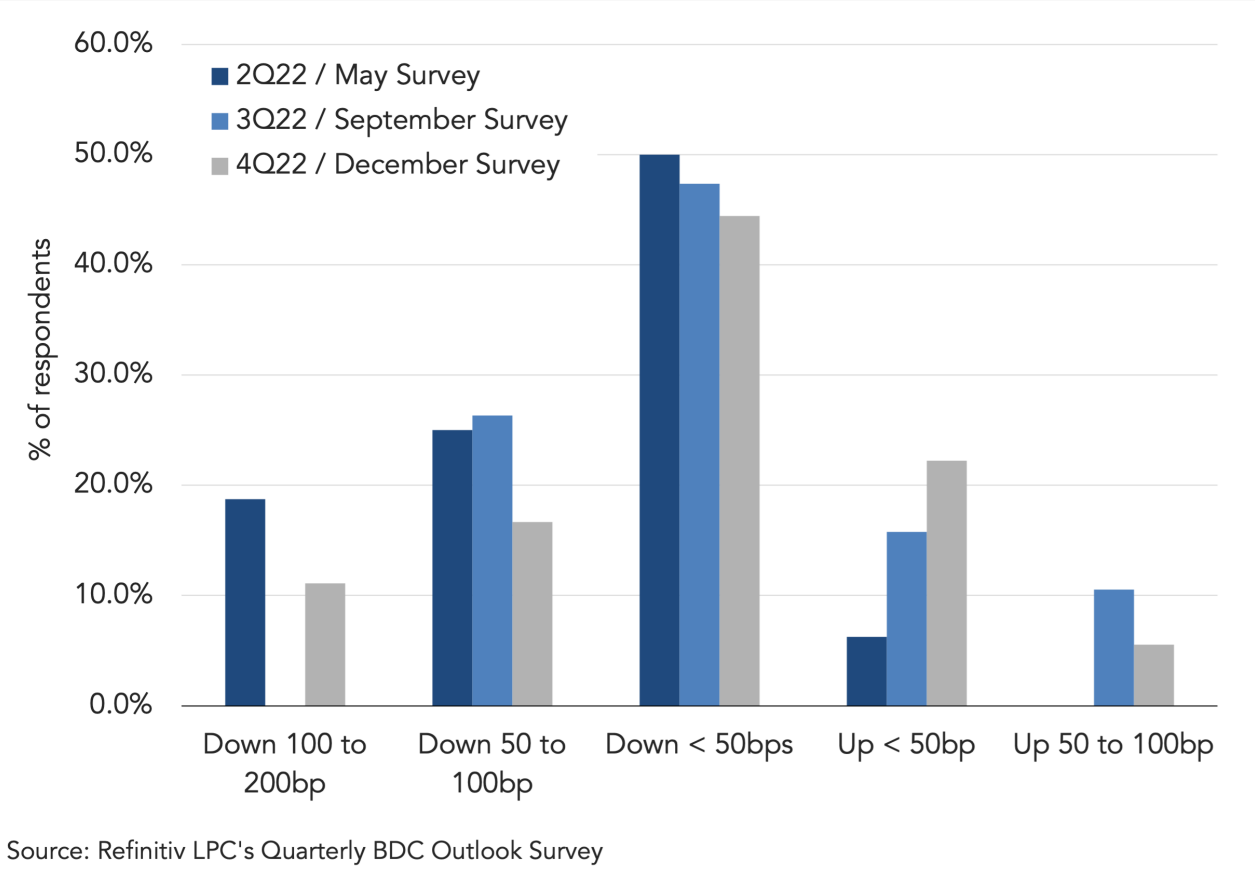
THE LEAD
https://theleadpc.com/leveraged-loan-insight-analysis-12-12-2022/

BDC portfolio marks expected to move moderately lower

LSEG | December 14, 2022



Source: Refinitiv LPC's Quarterly BDC Outlook Survey

BDCs navigated the most recent 3Q22 earnings season successfully, benefiting from the higher interest rate environment as rising base rates on their floating rate loans boosted interest income. At the same time, BDC net asset values declined modestly due to unrealized losses stemming from lower portfolio marks, caused by the widening in credit spreads and lower equity market prices. Looking ahead, the recent Refinitiv LPC BDC Outlook Survey shows that 72% of respondents are forecasting 4Q22 BDC portfolio marks will decline when valuations are published next year. The majority of survey participants (44%) are expecting a moderate pull back of less than 50bp, while another 28% expect a decline greater than 50bp. So far this year, BDC investments have been marked down on the back of wider credit spreads, more so than meaningful credit quality deterioration. Nevertheless, some degree of deterioration in credit quality is expected next year. According to the recent BDC Outlook Survey, roughly 70% of respondents expect credit losses to top 100bp in 2023, with the majority of those forecasting credit losses above 200bp.

(Past performance is no guarantee of future results.)