

Defaults are expected to face prolonged rise

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Source: Debtwire Par

Bubbling up: defaults continue year-long rise

Default rates have been increasing steadily month-on-month (MoM) from a low in February 2022 of only 0.4% to over 2% of the loan universe as of March 2023. Bond rates have similarly been on the rise over the same period, currently sitting at 1.8% and up from a low of 0.3% in February 2022, according to data from Fitch Ratings.

While the trajectories of these default rates are certainly elevated, the figures are well short of the spikes that some feared would be sparked by a significant recession or widespread banking crisis. The current rates are a far cry from the 5.7% bond defaults seen as recently as August 2020 and the 4.5% loan default rate in September 2020.

Loan defaults moved upward in March on the back of USD 7.8bn-worth of restructurings, Chapter 11 filings and distressed exchanges from **Bioplan**, **Loyalty Ventures**, **Yak Mat**, **Diamond Sports**, **Checkout Holding Corp (Catalina Marketing)** and **Travelport**.

The healthcare & pharmaceutical sector remains the largest defaulting category over the past 12 months for both bonds and loans, standing at USD 7.74bn and USD 6.7bn, respectively. Leisure & entertainment is a close second in the loan space, recording USD 6.2bn of missed payments and defaults.

The broadcast & media sector has been propelled into second place this month thanks to the addition of USD 4.8bn of notes from **Diamond Sports'** Chapter 11 filing and a missed payment by **National CineMedia** on its USD 230m bond. The banking sector has also had a significant increase following the addition of a Chapter 11 filing by **SVB Financial Group**, along with its USD 3.35bn notes.

Names to watch

Taking a look at Debtwire's 'Likely to Distress' (LTD) scores offers an insight into the development of distressed markers across the US.

A recent mover into the distressed lifecycle stage is infrastructure services provider **QualTek**, which missed the grace period deadline on its senior unsecured 2027 convertible note interest payment earlier this month. **Elevate Textiles**, which dropped down into the distressed stage this week, is expected to have its first-lien loan debtholders take equity in the fabric manufacturing firm. **Monitronics** (doing business as **Brinks Home Security**) is also on the verge of a Chapter 11 filing after difficulties with interest payments on its March 2024 loan.

The largest increase in *Debtwire's* LTD score over the past week came at **RealReal**, up 14 points to a score of 80. The rise follows the luxury apparel retailer's announcement of a negative USD 31m-35m adj. EBITDA expectation for 1Q23 during its earning call last week, alongside the closure of stores, offices and cutting 7% of its workforce. Another e-commerce company is among this week's largest movers – higher education software firm **2U's** score gained 11 points to reach 63 after management announced declining revenue of 6% in its 1Q23 operating results yesterday.

(Past performance is no guarantee of future results.)