Feeling the pinch: loan margins and OIDs are tightening

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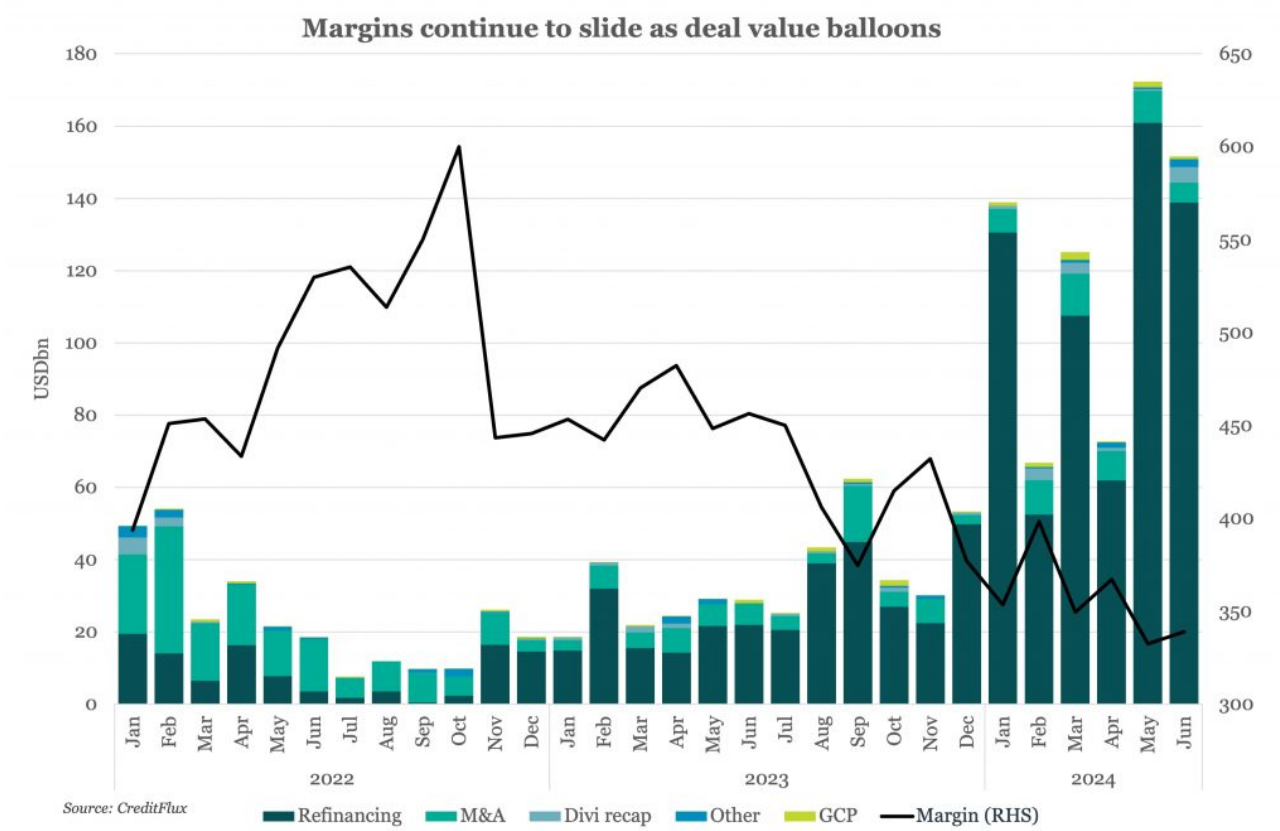

Despite a slight rebound in June, loan prices – both margins and original issue discounts (OIDs) – have continually tightened this year on the back of a record volume of deals pricing since January thanks to a surfeit of demand from investors.

After bursts of flying high in 2023, margins have been contracting in 2024 following exceptional demand for fresh deals. First-lien institutional loan margins reached a monthly average of 377 basis points (bps) at the end of last year. Moving into January, they remained high at an average of 354bps on low deal volume amid market uncertainty over a potential financial crisis, elevated inflation levels and peaking interest rates. These factors drove a majority of issuers away from the market, superseded by a 'watch and wait' approach to refinancing needs.

Sometimes, though, no news is good news. Although inflation has yet to reach a desired 2% target and the key rate remains high at 5.25-5.5%, issuers are returning to the market for refinancing deals that could no longer be postponed. The number of loans syndicated in 1Q24 soared to 338, totalling USD 331bn, triple 2023's quarterly average. In 2Q24, deal count spiked at 405, while volume climbed to near USD 400bn. As a result, average loan margins fell back to 398bps in February, 350bps in March, 367bps in April, and down to 333bps in May, coinciding with record-setting loan syndication volume. In June, the market appeared to be cooling off entering the summer season and margins rebounded slightly to 339bps.

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