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Cracks begin to show in primary market amid tight pricing

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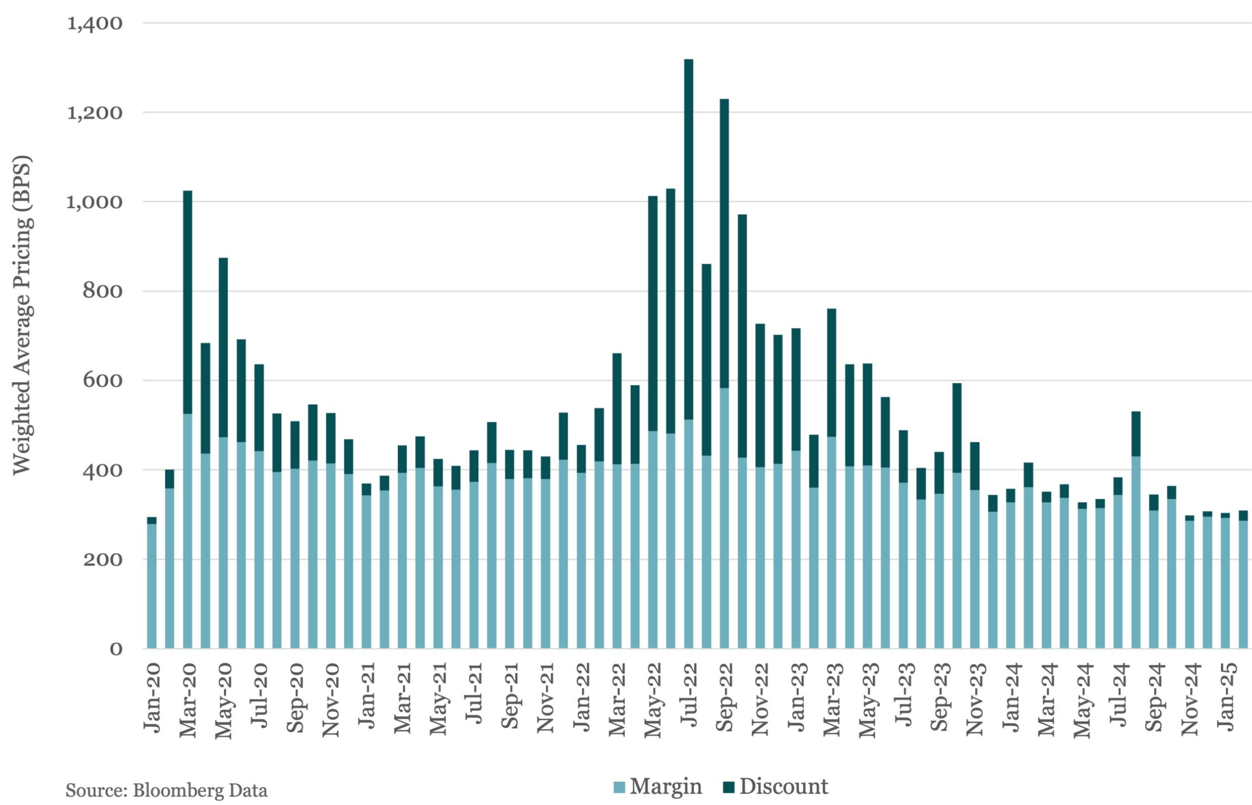

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The average all-in spread for 1st lien leveraged loans for the 3-month period ending in January was 313 bps, down 23 bps or 6.9% from the previous period, and marked the tightest spread on record since Bloomberg began tracking the data in 2013. So far in February, weighted average margins have continued to tighten, to 293 bps through 26 February.

That said, cracks are beginning to emerge as recent deals have been shelved or have been offered at steep discounts. Launches this February have totaled just over $90b, marking a significant slowdown from the $204.8b of launches seen last month, though notably remained the second busiest month of February since 2013, just behind the $123.3b launched in February 2021.

Four deals worth over $3.3b have been pulled from syndication this month in a first since last October, with three of the four being repricing transactions. With spreads at historically tight levels investors have become increasingly selective and pushed back on deals with unfavorable terms.

While the average discount this month has totaled just 23 bps as most loans have continued to reprice at par, New Fortress Energy tapped the market for a $425mm incremental first lien TL talked at SOFR+ 550 bps and a 92 original issue discount (OID) – the steepest discount offered since 2023 – and Townsquare Media priced its $470mm TLB at an OID of 95.

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