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Leveraged Loan Insight & Analysis – 4/25/2016

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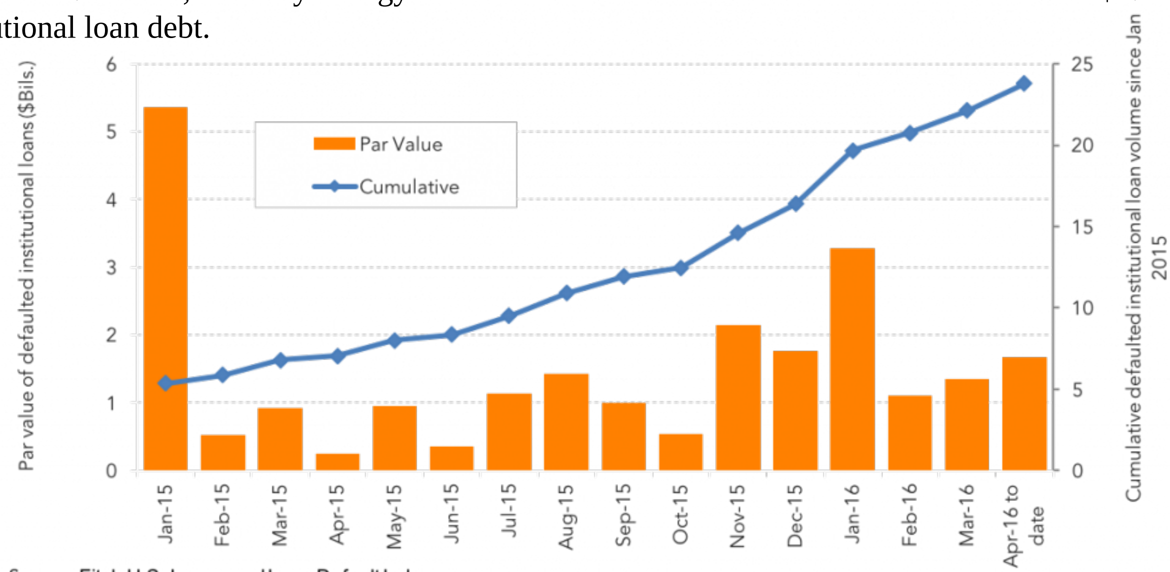
Credit concerns have increased this year as defaults, while still low by historical standards, continue to move higher. The U.S. leveraged loan default rate ended the first quarter at 2.8%, up from 2% in the previous quarter, and up from 1% a year ago, according to Moody’s. In the first quarter, $7.3 billion of leveraged loans defaulted. Since then Vertellus, Peabody Energy and Stallion Oilfield have defaulted this month with $1.7 billion of institutional loan debt.



Source: Fitch U.S. Leveraged Loan Default Index

Institutional loan defaults have amounted to $7.4 billion year to date and have totaled $23.8 billion since the beginning of 2015, according to Fitch. Portfolio managers say that overall fundamentals remain relatively strong with much of the risk concentrated in specific sectors. The energy and mining sectors have been at the forefront of recent defaults given the steep fall in oil and other commodity prices over the last eighteen months. Though the oil and gas and mining sectors represent a relatively small share of the institutional loan market (3.5% and 1.8% respectively), they have had an outsized impact on defaulted volume. Of the $17 billion in institutional loan defaults in the last twelve months, energy and metals & mining have accounted for nearly two-thirds of this volume (at $4.9 billion and $5.9 billion respectively).

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