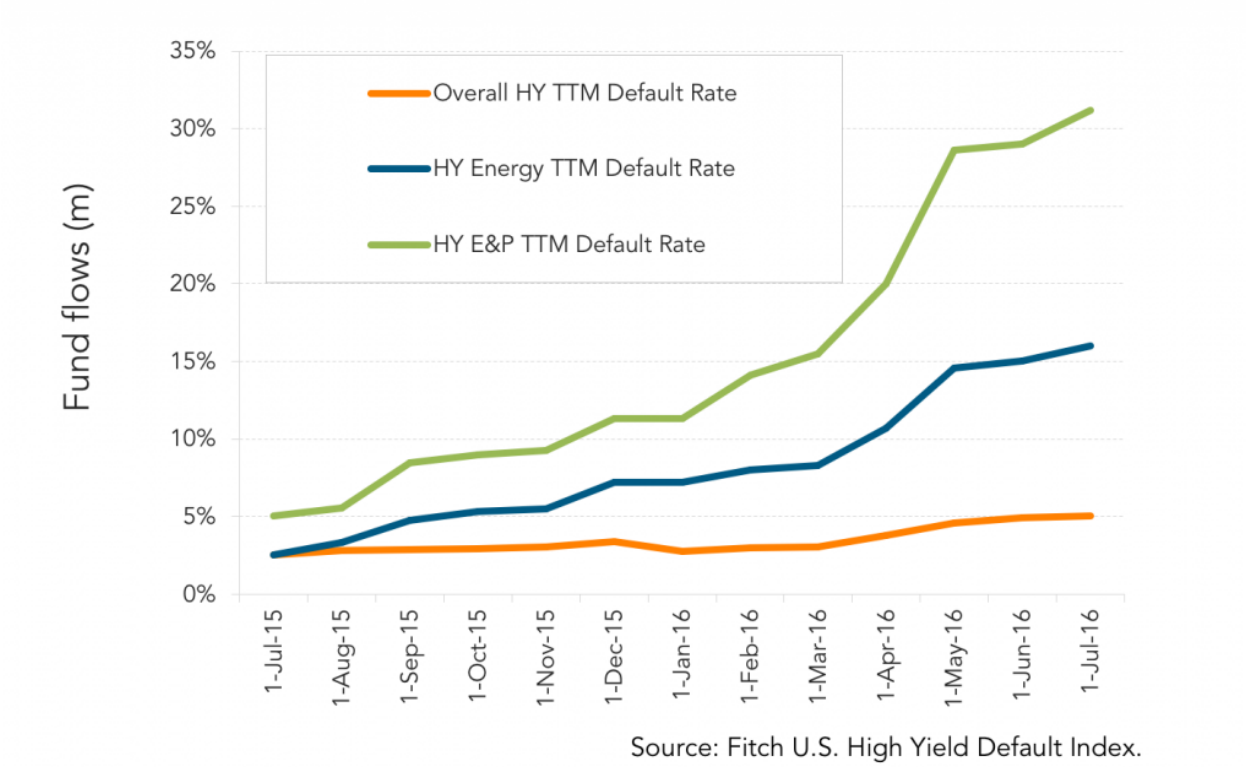
Leveraged Loan Insight & Analysis – 8/15/2016

LSEG | August 18, 2016

HY E&P Trailing 12-month default rate surpasses 31%

There was $5.2 billion of U.S. high yield bond default volume in July, pushing the trailing 12-month (TTM) rate to 5.1% from 4.9% at the end of June, according to Fitch Ratings. Halcon Resources Corp.'s long-awaited bankruptcy comprised nearly half of the July default total. The E&P company completed three distressed debt exchanges (DDE) in 2015 before filing on July 27. The market registered $39.9 billion of defaults over the past four months, with the energy sector comprising 67% of the total, led by Linn Energy LLC, SandRidge Energy Inc. and Energy XXI Ltd. Energy makes up $258 billion, or 17%, of the outstanding universe.



Source: Fitch U.S. High Yield Default Index.

Meanwhile, TTM energy defaults were $45.5 billion and 60% of the $55.4 billion YTD overall total. The July energy TTM default rate reached 16% while the E&P subsector rate climbed to 31.2%. Bankruptcies compose the majority of the sector's volume; however, there have been more DDEs done this year in number. Nearly half the names on Fitch's *Bonds of Concern* table are from the energy sector, with several candidates likely defaulting before the end of the year. Fitch Ratings expects the energy default rate to reach 20% during the year before settling at 16%–18% by year end.

Contact: Ioana Barza
ioana.barza@tr.com