Leveraged Loan Insight & Analysis -9/26/2016

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The secondary market has continued to climb as the combined impact of robust demand for paper and the lack of sufficient net new deal flow puts upward pressure on loan bids. Steady CLO issuance and money entering retail funds have provided the impetus on the demand side. Month to date CLO issuance is at $7.1 billion, the highest monthly figure this year. Retail loan funds have turned the corner recently, adding $1.7 billion so far this quarter as expectations once again of higher interest rates attracts investors.

sept-26-2016-trOn the supply side, talk of a larger M&A pipeline has yet to translate into a significant jump in new deal flow, though the size of the institutional loan market has edged up $1.8 billion this month. The net impact is that the average bid on institutional term loans has increased to nearly 96 after a 30 bps increase so far in September and is up 550 bps from the February bottom. Another indicator of the strength of the market is that the share of par-plus loans has increased to 40%. The gains in the secondary market have helped buoy loan returns which are now up 7.5% year to date, according to the S&P/LSTA leveraged loan index.

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