

# Penn Capital Credit Month in Review

## Executive Summary

High yield (HY) bond returns remained positive in August while leveraged loans recorded slight declines. Falling rates, slowing global growth and escalating trade tensions all impacted returns. Year-to-date (YTD), HY returns (+10.56%) continued to best those of loans (+6.24%).

### Bonds

The HY bond asset class returned +0.22% in August as yields decreased 3bp while spreads rose 34bp, to end the month at 6.39% and 486bp, respectively. Returns were primarily driven by falling treasury yields that offset concerns over slowing global growth. Gross new issue activity of ~\$11b in August is down significantly month-over-month (m/m) and is well below the \$16.6b in volume August has averaged in the recent past. Refinancings continue to represent a significant portion of the new issue market with August refi volumes equaling 95% of total issuance. YTD, refinancing activity totaled ~\$120b, or 68% of total issuance. Including distressed exchanges, the US HY bond default rate stands at 2.77% at the end of August, up 42bp m/m.

### Loans

Leveraged loans returned -0.22% in August against the backdrop of continued retail outflows and falling rates. New issue activity totaled ~\$29b in August, up slightly m/m, but below typical August volumes of ~\$32.5b. Acquisition financing deals led the way in August by representing ~41% of new issuance volume. YTD, acquisition financing now represents 53% of total volume and remains the largest driver of the new issue market. Gross US collateralized loan obligation (CLO) volume of ~\$11b in August also remains well below the \$20b of monthly CLO issuance the market has averaged over the last 2 years. Of that ~\$11b in August volumes, 31% was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended August at 1.81%.

Source: JP Morgan

### Bonds

#### Best performing Industries during the month:

- Cable & Satellite (+1.64%)
- Utility (+1.63%)
- Broadcasting (+1.49%)

#### Largest Industry underperformers during the month:

- Energy (-2.60%)
- Telecommunications (-0.79%)
- Retail (-0.69%)

#### Best performing Industries YTD:

- Cable & Satellite (+14.92%)
- Housing (+14.19%)
- Financial (+13.98%)

#### Largest Industry underperformers YTD:

- Energy (+3.02%)
- Media (+7.58%)
- Telecommunications (+9.26%)

#### Performance ranked by ratings during the month:

- BB-rated bonds (+1.09%)
- B-rated bonds (+0.26%)
- CCC-rated bonds (-1.24%)

#### Performance ranked by ratings YTD:

- BB-rated bonds (+12.30%)
- B-rated bonds (+10.86%)
- CCC-rated bonds (+7.78%)

### Loans

#### Best performing Industries during the month:

- Media (+0.36%)
- Housing (+0.34%)
- Gaming & Leisure (+0.26%)

#### Largest Industry underperformers during the month:

- Metals & Mining (-2.89%)
- Energy (-2.52%)
- Retail (-1.11%)

#### Best performing Industries YTD:

- Broadcasting (+8.24%)
- Cable & Satellite (+8.12%)
- Housing (+7.76%)

#### Largest Industry underperformers YTD:

- Metals & Mining (-0.98%)
- Energy (+2.43%)
- Consumer Products (+4.75%)

#### Performance ranked by ratings during the month:

- BB-rated loans (+0.21%)
- B-rated loans (-0.34%)
- Split B/CCC-rated loans (-2.87%)

#### Performance ranked by ratings YTD:

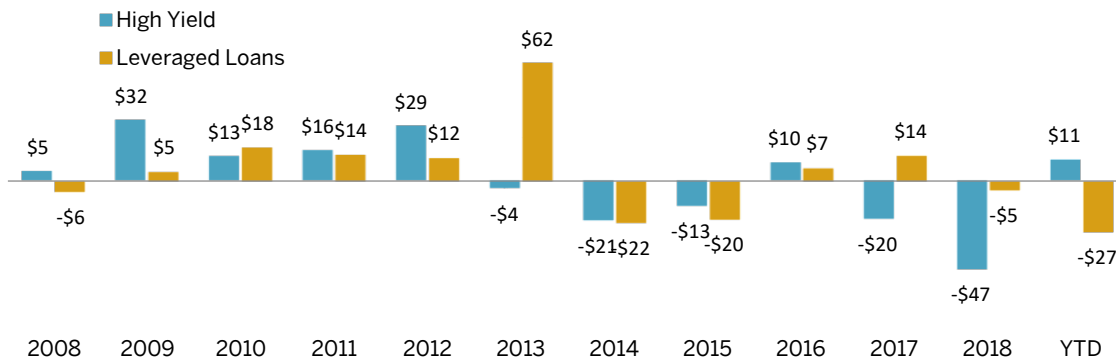
- BB-rated loans (+7.36%)
- B-rated loans (+5.84%)
- Split B/CCC-rated loans (+1.28%)

Source: JP Morgan

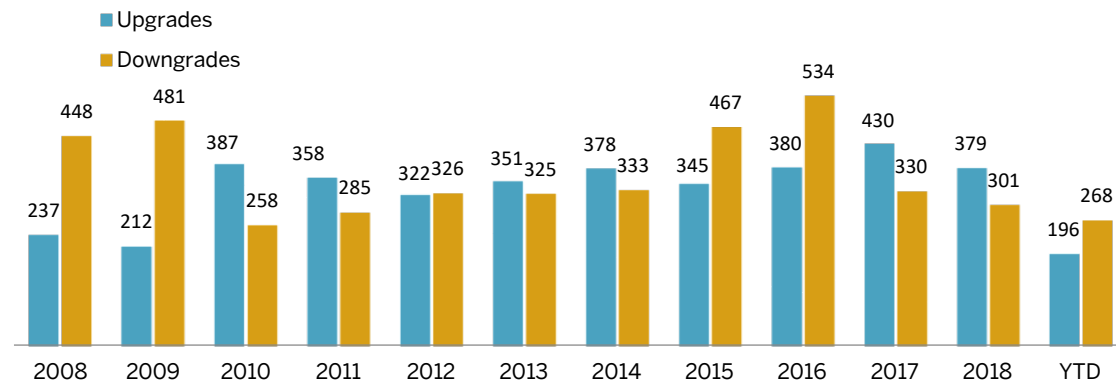
As of August 31, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasuries	4.84%	12.70%	---	---	---	1.5%	1.5%
Bloomberg Barclays US Aggregate Bond Index	2.59%	9.10%	59 bp	-7 bp	\$107.12	2.1%	2.1%
JP Morgan BB/B Loan Index	-0.10%	6.83%	341 bp	67 bp	\$97.67	5.6%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	0.53%	6.83%	285 bp	-99 bp	\$101.40	4.5%	5.2%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	0.88%	12.04%	319 bp	-113 bp	\$103.02	4.8%	5.3%
ICE BofA Merrill Lynch BB-B Rated US High Yield Cons. Index	0.73%	11.82%	352 bp	-111 bp	\$101.78	5.1%	5.6%
ICE BofA Merrill Lynch US High Yield Constrained Index	0.39%	11.15%	432 bp	-107 bp	\$99.30	5.9%	6.4%

Sources: Barclays, BofA Merrill Lynch, JP Morgan. Past performance is no guarantee of future results.

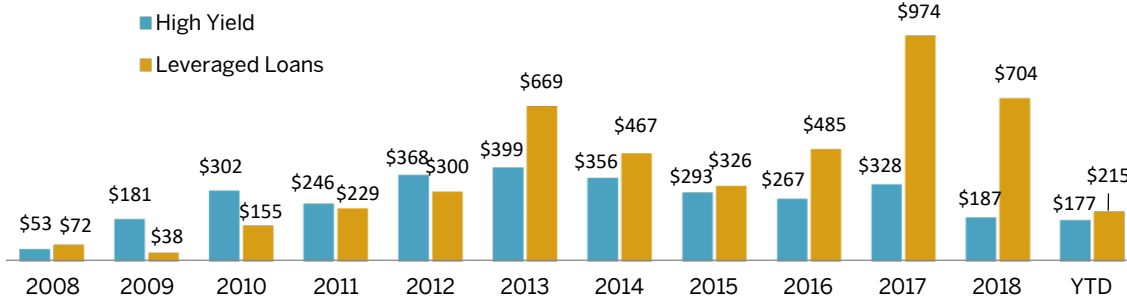
Mutual Fund Flows (\$ billion)



High Yield Upgrades/Downgrades (Issuer)



Gross New Issuance Volume (\$ billion)



Source for Charts: JP Morgan



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Historical Spreads / Default Rates	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
ICE BofA Merrill Lynch US BB-B Rated High Yield Index	521 bp	485 bp	612 bp	443 bp	344 bp	434 bp	558 bp	348 bp	297 bp	462 bp	352 bp
ICE BofA Merrill Lynch US BB Rated High Yield Index	445 bp	399 bp	503 bp	357 bp	281 bp	336 bp	427 bp	286 bp	228 bp	365 bp	259 bp
ICE BofA Merrill Lynch US B Rated High Yield Index	613 bp	573 bp	736 bp	524 bp	417 bp	549 bp	722 bp	432 bp	381 bp	578 bp	468 bp
ICE BofA Merrill Lynch US CCC Rated High Yield Index	980 bp	874 bp	1,262 bp	943 bp	766 bp	976 bp	1,648 bp	977 bp	843 bp	1,102 bp	1,064 bp
J.P. Morgan's HY 12-Month Default Rate (based on # of issuers)	10.3%	0.8%	1.7%	1.3%	0.7%	2.9%	1.8%	3.6%	1.3%	1.8%	3.1%