

Executive Summary

High yield (HY) bond returns outpaced those of leveraged loans in December. Improved sentiment from a phase-one China trade deal, a nascent energy sector recovery, and lighter month-over-month (m/m) issuance all impacted returns. For the full year 2019, strong HY returns of +14.08% bested those of loans which still returned a solid +8.64%.

High Yield Bond Summary & Performance

Source: JP Morgan

The HY bond asset class returned +2.29% in December as yields and spreads decreased 44 bp and 46 bp, respectively, to end the month at 5.91% and 424 bp. Optimism around the phase-one China trade deal and improved energy sector sentiment all impacted returns. Gross new issue activity of ~\$20b in December marked a substantial decline from November's year high issuance volume of \$37b but remains above the ~\$16b in volume the market has averaged during the month in the recent past. Refinancings continued to represent a significant portion of the new issue market with December refi volumes equaling 62% of total issuance. Refinancing activity totaled ~\$193b, or 67%, of total issuance in 2019. Including distressed exchanges, the US HY bond default rate ended 2019 at 2.86%, down 9 bp m/m but up 98 bp year-over-year.

Best Performing Industries MTD:

- Energy (+5.97%)
- Retail (+3.55%)
- Media (+2.57%)

Best Performing Industries YTD:

- Housing (+18.84%)
- Consumer Products (+17.89%)
- Financials (+17.38%)

Worst Performing Industries MTD:

- Food & Beverages (+0.87%)
- Gaming, Lodging, Leisure (+0.93%)
- Broadcasting (+1.07%)

Worst Performing Industries YTD:

- Energy (+4.71%)
- Media (+8.17%)
- Telecommunications (+11.75%)

Performance by Ratings MTD:

- CCC-rated bonds (+5.09)
- B-rated bonds (+2.36%)
- BB-rated bonds (+1.37%)

Performance by Ratings YTD:

- B-rated bonds (+15.69%)
- BB-rated bonds (+15.61%)
- CCC-rated bonds (+11.25%)

Floating Rate Loan Summary & Performance

Source: JP Morgan

Leveraged loans returned +1.65% in December. This marked the strongest returns by the asset class since January and was driven in part by improved energy & trade sentiment. New issue activity totaled ~\$38b in December, down ~33% m/m, but above typical December volumes of ~\$33b. Refinancing & repricing deals continued to lead the way in December by representing ~87% of new issuance volume. For the full year 2019, refinancing and repricing transactions made up 51% of new issuance while acquisition financing made up a substantial 40% of new volume. Gross US CLO (collateralized loan obligation) volume of ~\$9b in December marked the fifth consecutive month that volume has been below YTD averages. Only 8% of December CLO volumes were used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended 2019 at 2.06%.

Best Performing Industries MTD:

- Energy (+4.49%)
- Metals & Mining (+2.91%)
- Retail (+2.64%)

Best Performing Industries YTD:

- Retail (+11.39%)
- Housing (+11.19%)
- Cable & Satellite (+10.71%)

Worst Performing Industries MTD:

- Broadcasting (+0.44%)
- Gaming, Lodging, Leisure (+0.92%)
- Cable & Satellite (+1.03%)

Worst Performing Industries YTD:

- Metals & Mining (-5.51%)
- Energy (+0.09%)
- Consumer Products (+6.61%)

Performance by Ratings MTD:

- Split B/CCC-rated loans (+5.04%)
- B-rated loans (+1.98%)
- BB-rated loans (+0.85%)

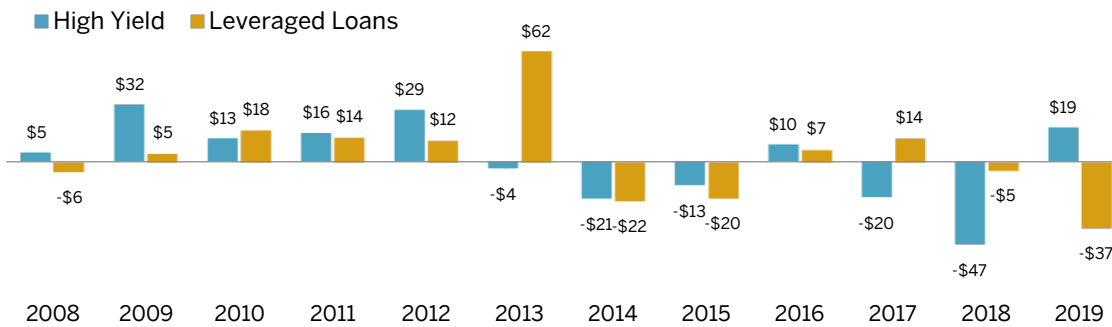
Performance by Ratings YTD:

- BB-rated loans (+9.50%)
- B-rated loans (+8.78%)
- Split B/CCC-rated loans (+1.45%)

As of December 31, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	Yield to Worst	Yield to Maturity
10-Year Treasuries	-1.05%	9.19%	---	---	---	1.9%	1.9%
Bbg Barclays Aggregate Bond Index	-0.07%	8.72%	54 bp	2 bp	\$105.61	2.3%	2.3%
JP Morgan BB-B Loan Index	1.29%	9.04%	398 bp	124 bp	\$98.52	5.6%	---
ICE BofAML 1-3 Year BB-B Index	1.06%	8.84%	259 bp	-125 bp	\$102.00	4.2%	4.8%
ICE BofAML BB-B Non-Distressed Index	1.42%	15.33%	266 bp	-166 bp	\$104.16	4.4%	5.0%
ICE BofAML BB-B Index	1.62%	15.10%	283 bp	-180 bp	\$103.62	4.5%	5.2%
ICE BofAML High Yield Index	2.09%	14.41%	372 bp	-167 bp	\$100.74	5.4%	6.0%

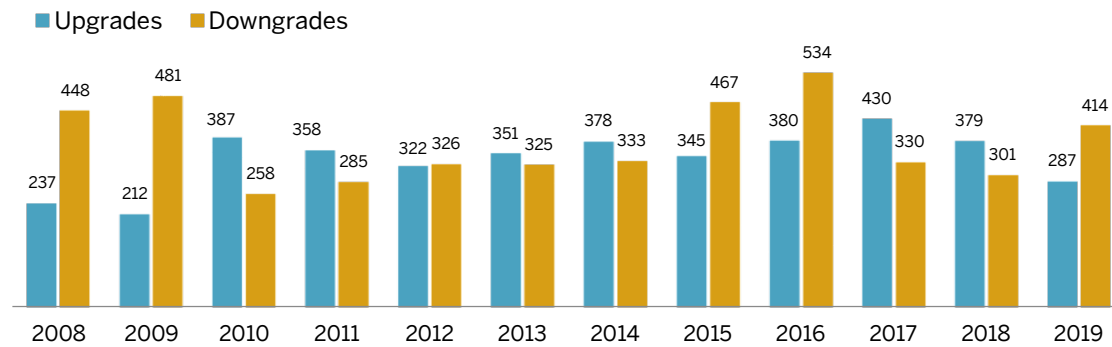
Mutual Fund Flows (\$Billion)

Source: JP Morgan



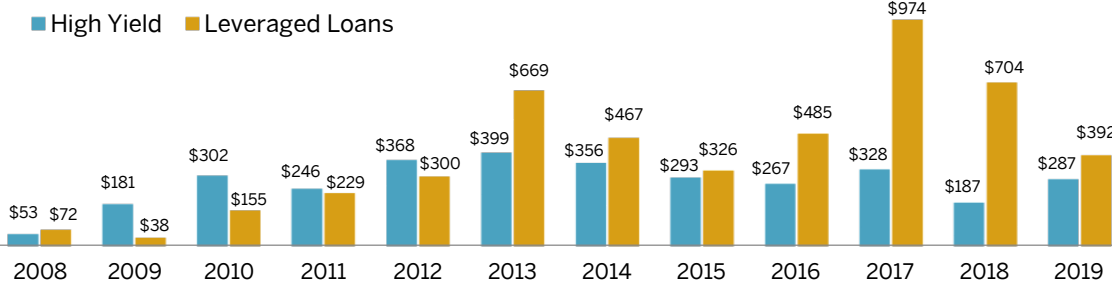
High Yield Upgrades/Downgrades (Issuer)

Source: JP Morgan



Gross New Issuance Volume (\$Billion)

Source: JP Morgan



PETER DUFFY, CFA
Deputy CIO – Credit,
Senior Portfolio Manager,
Senior Managing Partner



DAVID JACKSON, CFA
Senior Portfolio Manager,
Senior Partner

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Spreads / Default Rates	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
ICE BofAML BB-B Index	521 bp	485 bp	612 bp	443 bp	344 bp	434 bp	558 bp	348 bp	297 bp	462 bp	283 bp
ICE BofAML BB Index	445 bp	399 bp	503 bp	357 bp	281 bp	336 bp	427 bp	286 bp	228 bp	365 bp	213 bp
ICE BofAML B Index	613 bp	573 bp	736 bp	524 bp	417 bp	549 bp	722 bp	432 bp	381 bp	578 bp	370 bp
ICE BofAML CCC Index	980 bp	874 bp	1,262 bp	943 bp	766 bp	976 bp	1,648 bp	977 bp	843 bp	1,102 bp	1,012 bp
JPM HY Default Rate*	8.6%	2.4%	2.2%	2.0%	2.1%	1.6%	2.8%	5.2%	2.5%	2.8%	3.2%