

Executive Summary

Leveraged loan returns outpaced those of high yield (HY) bonds in January. Coronavirus fears late in the month detracted from gains produced by both asset classes in the early days of the year. Leveraged loans were still able to preserve +0.53% gains for the month while HY bond returns (-0.02%) dipped into negative territory.

High Yield Bond Summary & Performance

Source: JP Morgan

The HY bond asset class returned -0.02% in January as yields and spreads increased 21 bp and 50 bp, respectively, to end the month at 6.12% and 474 bp. Bond spreads started the year tightening only to see these gains unravel by the end of the month due to rising coronavirus fears. Gross new issue activity of ~\$38.5b was the second highest amount recorded for the month of January. This issuance was substantially higher than the ~\$28b in volume the market has averaged during the month in the recent past. Refinancings were the major driver of issuance for the month as they represented 83% of new issue volume. Including distressed exchanges, the US HY bond default rate started 2020 at 2.89%, up 3 bp month-over-month and up 102 bp year-over-year.

Best Performing Industries MTD:

- Automotive (+1.53%)
- Retail (+1.37%)
- Media (+0.90%)

Best Performing Industries YTD:

- Automotive (+1.53%)
- Retail (+1.37%)
- Media (+0.90%)

Worst Performing Industries MTD:

- Energy (-2.16%)
- Industrials (-0.43%)
- Cable & Satellite (-0.39%)

Worst Performing Industries YTD:

- Energy (-2.16%)
- Industrials (-0.43%)
- Cable & Satellite (-0.39%)

Performance by Ratings MTD:

- BB-rated bonds (+0.28)
- CCC-rated bonds (+0.20%)
- B-rated bonds (-0.18%)

Performance by Ratings YTD:

- BB-rated bonds (+0.28)
- CCC-rated bonds (+0.20%)
- B-rated bonds (-0.18%)

Floating Rate Loan Summary & Performance

Source: JP Morgan

Leveraged loans returned +0.53% in January against the backdrop of heavy repricing activity and late month coronavirus fears. New issue activity totaled a record high ~\$123b during the month, well above typical January volumes of ~\$29b. Refinancing & repricing deals fueled this record issuance level by representing ~86% of January volumes. Gross US CLO (collateralized loan obligation) volume of ~\$8b in January marked a ~6% decline from December volumes but is higher than the \$7b in issuance the market has averaged in January during the recent past. Including distressed exchanges, the leveraged loan default rate began 2020 at 2.13%.

Best Performing Industries MTD:

- Metals & Mining (+1.10%)
- Utility (+0.90%)
- Automotive (+0.89%)

Best Performing Industries YTD:

- Metals & Mining (+1.10%)
- Utility (+0.90%)
- Automotive (+0.89%)

Worst Performing Industries MTD:

- Cable & Satellite (+0.23%)
- Gaming, Lodging, Leisure (+0.25%)
- Media (+0.32%)

Worst Performing Industries YTD:

- Cable & Satellite (+0.23%)
- Gaming, Lodging, Leisure (+0.25%)
- Media (+0.32%)

Performance by Ratings MTD:

- Split B/CCC-rated loans (+1.45%)
- B-rated loans (+0.64%)
- BB-rated loans (+0.28%)

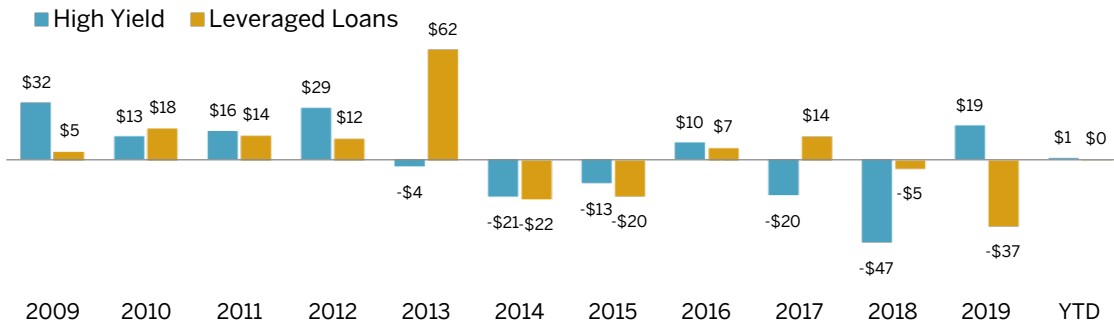
Performance by Ratings YTD:

- Split B/CCC-rated loans (+1.45%)
- B-rated loans (+0.64%)
- BB-rated loans (+0.28%)

As of January 31, 2020	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	Yield to Worst	Yield to Maturity
10-Year US Treasuries	3.72%	3.72%	---	---	---	1.5%	1.5%
Bbg Barclays Aggregate Bond Index	1.92%	1.92%	57 bp	+3 bp	\$107.36	2.0%	2.0%
JP Morgan BB-B Rated Loan Index	0.29%	0.29%	398 bp	0 bp	\$98.54	5.3%	---
ICE BofA 1-3 Year BB-B Rated Index	0.07%	0.07%	299 bp	+40 bp	\$101.63	4.4%	4.9%
ICE BofA BB-B Rated Non-Distressed Index	0.13%	0.13%	309 bp	+43 bp	\$103.91	4.5%	5.0%
ICE BofA BB-B Rated Index	0.07%	0.07%	332 bp	+49 bp	\$103.17	4.7%	5.2%
ICE BofA High Yield Index	0.00%	0.00%	420 bp	+48 bp	\$100.34	5.6%	6.1%

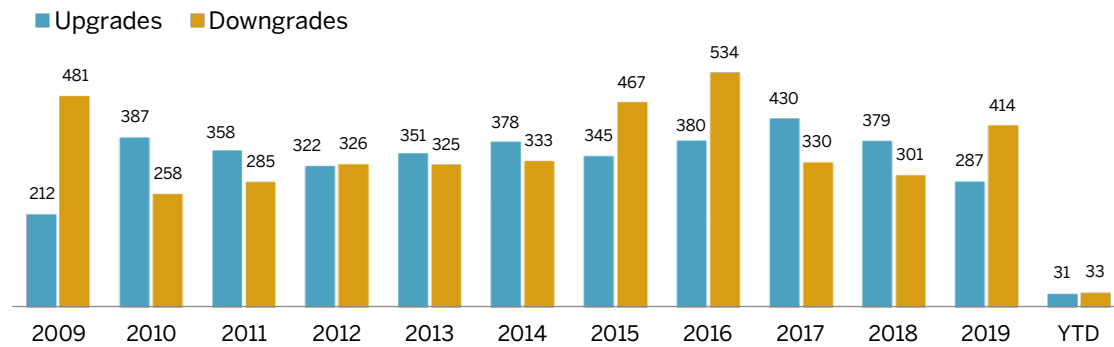
Mutual Fund Flows (\$Billion)

Source: JP Morgan



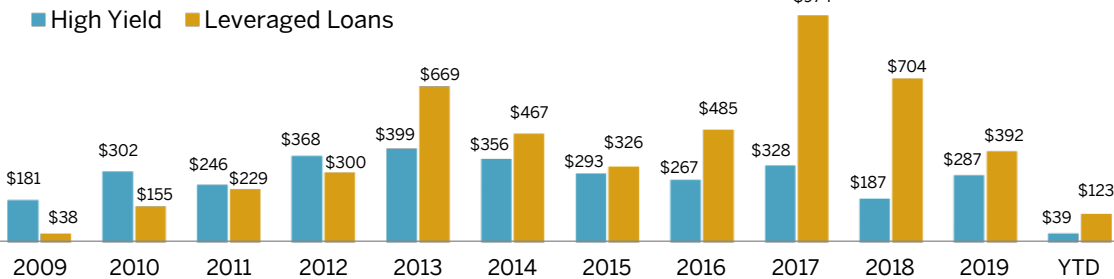
High Yield Upgrades/Downgrades (Issuer)

Source: JP Morgan



Gross New Issuance Volume (\$Billion)

Source: JP Morgan



Spreads / Default Rates

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
ICE BofA BB-B Rated Index	485 bp	612 bp	443 bp	344 bp	434 bp	558 bp	348 bp	297 bp	462 bp	283 bp	332 bp
ICE BofA BB Rated Index	399 bp	503 bp	357 bp	281 bp	336 bp	427 bp	286 bp	228 bp	365 bp	213 bp	258 bp
ICE BofA B Rated Index	573 bp	736 bp	524 bp	417 bp	549 bp	722 bp	432 bp	381 bp	578 bp	370 bp	426 bp
ICE BofA CCC Rated Index	874 bp	1,262 bp	943 bp	766 bp	976 bp	1,648 bp	977 bp	843 bp	1,102 bp	1,012 bp	1,056 bp
JPM HY Default Rate*	2.4%	2.2%	2.0%	2.1%	1.6%	2.8%	5.2%	2.5%	2.8%	3.2%	2.9%



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



DAVID JACKSON, CFA
Senior Portfolio Manager,
Senior Partner

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