

# Penn Capital Credit Month in Review

## Executive Summary

High yield (HY) bonds and leveraged loans both posted positive returns in June against the backdrop of easing trade tensions and more dovish Fed sentiment. Year-to-date (YTD), HY returns (+9.88%) continued to best those of loans (+5.58%).

### Bonds

The HY bond asset class returned +2.29% in June as yields and spreads decreased 54bp and 40bp, respectively, to end the month at 6.46% and 461bp. Returns were driven primarily by dovish Fed sentiment and higher expectations for a US-China trade deal. Gross new issue activity of ~\$29b in June marked a 17-month high and represented a significant increase in volume vs. historical averages for the month. Refinancings continue to represent a significant portion of the new issue market with June refi volumes equaling 74% of total issuance. YTD, refinancing activity totaled ~\$94b, or 67% of total issuance. Including distressed exchanges, the US HY bond default rate stands at 1.55% at the end of June, up 2bp month-over-month (m/m).

### Loans

Leveraged loans only gained a modest +0.28% in June as demand for floating rate products continued to wane against the backdrop of falling rates. New issue activity totaled ~\$37b in June, up 21% m/m, but below typical June volumes of ~\$47b. Refinancing deals led the way in June by representing ~55% of new issuance volume. YTD however, acquisition financing still remains the largest driver of volume with deals equaling 53% of the new issue market. Gross US collateralized loan obligation (CLO) volume of ~\$16b in June marked a slight increase from May's \$15b in volume but remains well below the \$21b of monthly CLO issuance the market has averaged over the last 2 years. Of that ~\$16b in June volume, 35% was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended June at 1.38%.

Source: JP Morgan

### Bonds

#### Best performing Industries during the month:

- Metals & Mining (+3.48%)
- Chemicals (+3.43%)
- Cable & Satellite (+3.35%)

#### Largest Industry underperformers during the month:

- Retail (+1.22%)
- Media (+1.24%)
- Energy (+1.42%)

#### Best performing Industries YTD:

- Retail (+12.89%)
- Consumer Products (+12.37%)
- Cable & Satellite (+11.97%)

#### Largest Industry underperformers YTD:

- Energy (+7.46%)
- Transportation (+7.81%)
- Media (+7.88%)

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

- BB-rated bonds (+2.87%)
- B-rated bonds (+2.22%)
- CCC-rated bonds (+0.91%)

#### Performance ranked by ratings YTD:

- BB-rated bonds (+10.51%)
- B-rated bonds (+9.97%)
- CCC-rated bonds (+8.79%)

### Loans

#### Best performing Industries during the month:

- Cable & Satellite (+0.66%)
- Media (+0.63%)
- Broadcasting (+0.56%)

#### Largest Industry underperformers during the month:

- Metals & Mining (-1.41%)
- Energy (-0.85%)
- Retail (+0.13%)

#### Best performing Industries YTD:

- Retail (+7.03%)
- Broadcasting (+7.00%)
- Cable & Satellite (+6.64%)

#### Largest Industry underperformers YTD:

- Metals & Mining (+2.10%)
- Consumer Products (+4.18%)
- Auto (+4.54%)

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

- BB-rated loans (+0.49%)
- B-rated loans (+0.16%)
- Split B/CCC-rated loans (-0.69%)

#### Performance ranked by ratings YTD:

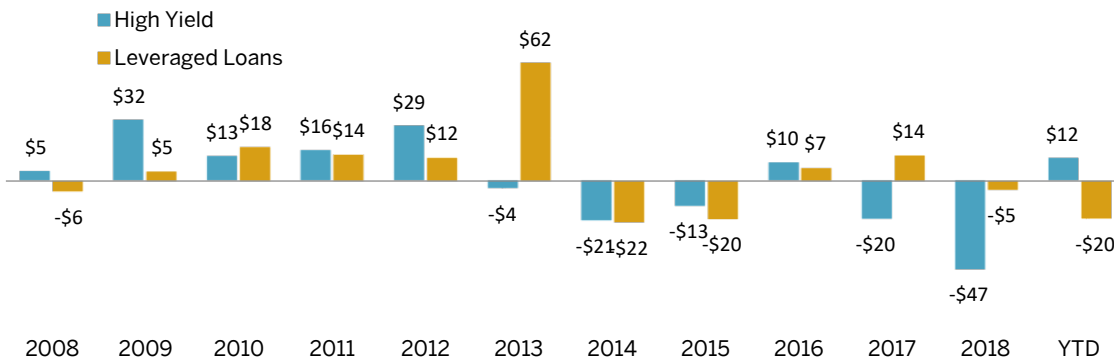
- BB-rated loans (+6.26%)
- B-rated loans (+5.31%)
- Split B/CCC-rated loans (+3.99%)

Source: JP Morgan

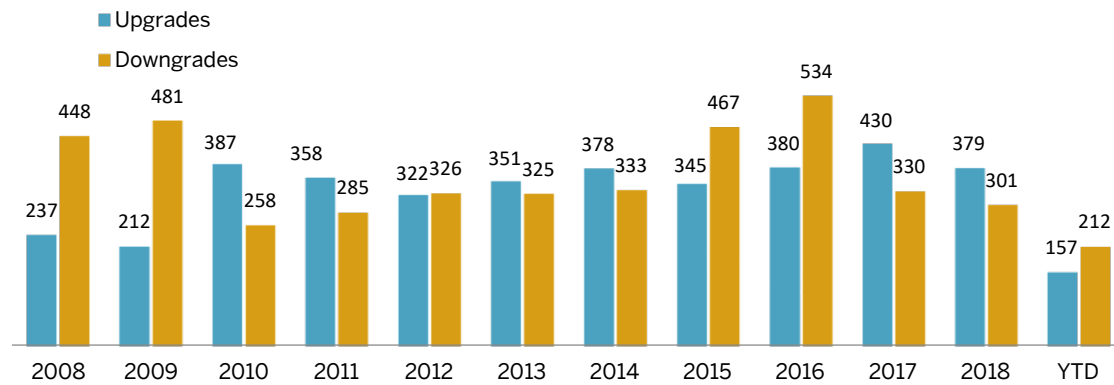
As of June 30, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasuries	1.42%	7.50%	---	---	---	2.0%	2.0%
Bloomberg Barclays US Aggregate Bond Index	1.26%	6.11%	61 bp	-5 bp	\$104.70	2.5%	2.5%
JP Morgan BB/B Loan Index	0.33%	5.99%	361 bp	87 bp	\$97.86	5.4%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	1.30%	5.77%	270 bp	-114 bp	\$101.87	4.6%	5.1%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	2.63%	10.37%	328 bp	-104 bp	\$101.89	5.1%	5.5%
ICE BofA Merrill Lynch BB-B Rated US High Yield Cons. Index	2.59%	10.36%	344 bp	-119 bp	\$101.37	5.3%	5.7%
ICE BofA Merrill Lynch US High Yield Constrained Index	2.45%	10.16%	421 bp	-118 bp	\$98.91	6.1%	6.5%

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

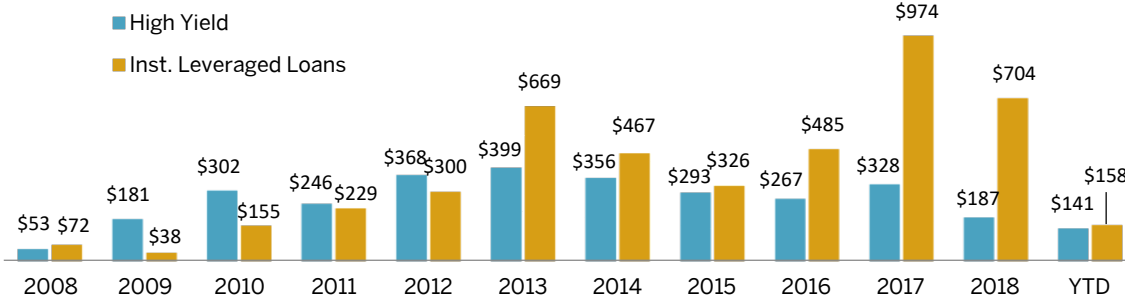
Mutual Fund Flows (\$ billion)



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	344 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	258 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	451 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	1102 bp	992 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%	2.6%