

## Executive Summary

Both high yield (HY) bonds and leveraged loans continued recovering lost ground in May as further policy support and the gradual lifting of some COVID-19 related business restrictions bolstered sentiment. Year-to-date (YTD) leveraged loan returns of -5.64% best those of HY bonds which have returned -7.05% so far.

## High Yield Bond Summary & Performance

Source: JP Morgan

The HY bond asset class returned +4.73% in May as yields and spreads decreased 129 bp and 116 bp, respectively, to end the month at 7.62% and 724 bp. Strong retail inflows, continued governmental policy support and the easing of certain COVID-19 related restrictions all helped drive the continued recovery. Given the further improvement in market sentiment, new issuance activity climbed to ~\$47b in May, well above the ~\$32b in volume the month has averaged in the recent past. Refinancing volume recovered sharply in May, with \$24b or 51% of volume directed to refinancing deals. YTD, refinancings remain the main driver of issuance by representing 56% of volume. Including distressed exchanges, the US HY bond default rate stands at 5.05%, up 19 bp month-over-month and 352 bp year-over-year (“y/y”). This increase in y/y defaults has been driven in large part by continued Energy sector distress.

<b>Best Performing Industries MTD:</b> <ul style="list-style-type: none"> <li>Energy (+14.90%)</li> <li>Automotive (+7.31%)</li> <li>Broadcasting (+6.94%)</li> </ul>	<b>Best Performing Industries YTD:</b> <ul style="list-style-type: none"> <li>Utility (+0.88%)</li> <li>Technology (+0.51%)</li> <li>Paper &amp; Packaging (+0.16%)</li> </ul>
<b>Worst Performing Industries MTD:</b> <ul style="list-style-type: none"> <li>Transportation (-0.34%)</li> <li>Cable &amp; Satellite (+1.31%)</li> <li>Utility (+1.97%)</li> </ul>	<b>Worst Performing Industries YTD:</b> <ul style="list-style-type: none"> <li>Transportation (-23.66%)</li> <li>Energy (-23.61%)</li> <li>Gaming + Leisure (-10.90%)</li> </ul>
<b>Performance by Ratings MTD:</b> <ul style="list-style-type: none"> <li>B-rated bonds (+5.94%)</li> <li>CCC-rated bonds (+5.53%)</li> <li>BB-rated bonds (+3.76%)</li> </ul>	<b>Performance by Ratings YTD:</b> <ul style="list-style-type: none"> <li>BB-rated bonds (-3.59%)</li> <li>B-rated bonds (-6.76%)</li> <li>CCC-rated bonds (-10.40%)</li> </ul>

## Floating Rate Loan Summary & Performance

Source: JP Morgan

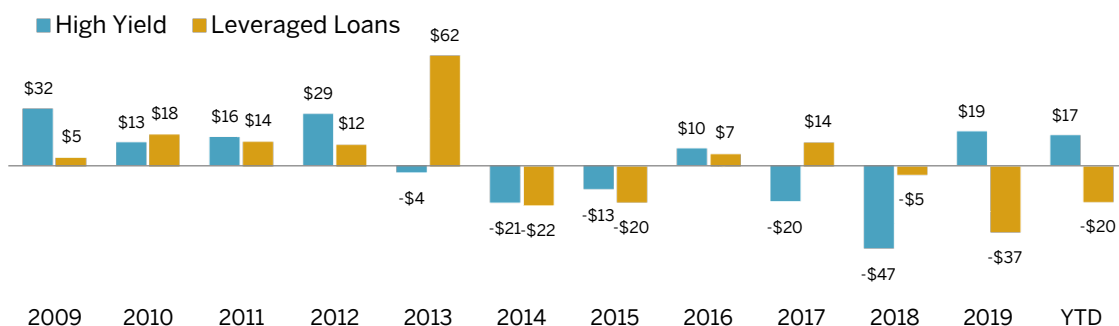
Leveraged loans returned +3.87% in May as the US economy inched further toward re-opening. The recovery in loan primary markets continued to lag that of HY however as only \$9.4b of loans priced in the month of May. This is well below typical May volumes of \$49b as issuers continue to favor the high yield market for raising debt. Acquisition financing was the main driver of issuance for the month again, but refinancing and repricing deals remain the main driver YTD by representing 72% of total issuance. Gross US CLO (“collateralized loan obligation”) volume of ~\$6b in May showed improvement from April but remains well below normal volumes for the month. Net new issue activity, at 53% of total issuance YTD, is now the largest driver of CLO volumes due to the lack of refinancings over the past two months. Including distressed exchanges, the leveraged loan default rate stands at 3.51%.

<b>Best Performing Industries MTD:</b> <ul style="list-style-type: none"> <li>Energy (+11.27%)</li> <li>Metals &amp; Mining (+8.23%)</li> <li>Automotive (+6.09%)</li> </ul>	<b>Best Performing Industries YTD:</b> <ul style="list-style-type: none"> <li>Telecom (-1.85%)</li> <li>Cable &amp; Satellite (-2.09%)</li> <li>Paper &amp; Packaging (-2.47%)</li> </ul>
<b>Worst Performing Industries MTD:</b> <ul style="list-style-type: none"> <li>Transportation (+1.17%)</li> <li>Cable &amp; Satellite (+2.27%)</li> <li>Utility (+2.51%)</li> </ul>	<b>Worst Performing Industries YTD:</b> <ul style="list-style-type: none"> <li>Energy (-19.59%)</li> <li>Transportation (-14.38%)</li> <li>Retail (-12.56%)</li> </ul>
<b>Performance by Ratings MTD:</b> <ul style="list-style-type: none"> <li>Split B/CCC-rated loans (+5.16%)</li> <li>B-rated loans (+4.72%)</li> <li>BB-rated loans (+2.41%)</li> </ul>	<b>Performance by Ratings YTD:</b> <ul style="list-style-type: none"> <li>BB-rated loans (-4.39%)</li> <li>B-rated loans (-5.18%)</li> <li>Split B/CCC-rated loans (-20.38%)</li> </ul>

As of May 31, 2020	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	Yield to Worst	Yield to Maturity
10-Year US Treasuries	-0.01%	12.89%	---	---	---	0.6%	0.6%
Bbg Barclays Aggregate Bond Index	0.47%	5.47%	89 bp	+35 bp	\$110.10	1.3%	1.3%
JP Morgan BB-B Rated Loan Index	2.98%	-5.95%	602 bp	+204 bp	\$93.09	4.9%	---
ICE BofA 1-3 Year BB-B Rated Index	3.19%	-5.78%	609 bp	+350 bp	\$96.93	6.3%	6.4%
ICE BofA BB-B Rated Non-Distressed Index	3.42%	-3.95%	493 bp	+227 bp	\$99.61	5.3%	5.6%
ICE BofA BB-B Rated Index	4.38%	-4.24%	544 bp	+261 bp	\$98.19	5.8%	6.0%
ICE BofA High Yield Index	4.54%	-5.74%	658 bp	+286 bp	\$93.91	6.9%	7.2%

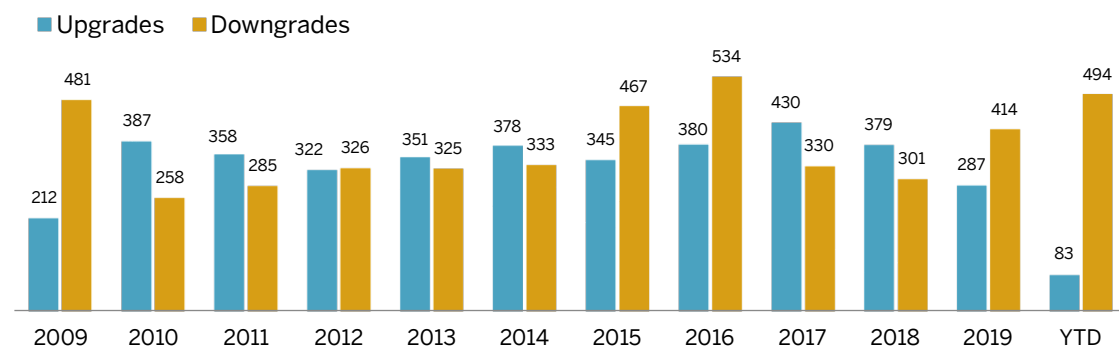
Mutual Fund Flows (\$Billion)

Source: JP Morgan



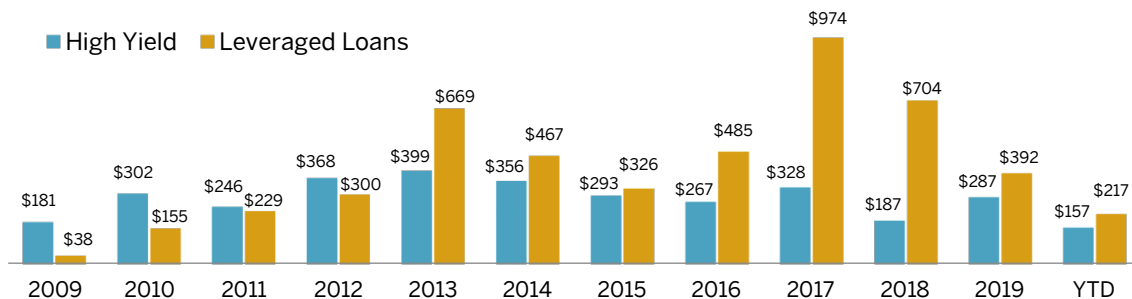
High Yield Upgrades/Downgrades (Issuer)

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	544 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	471 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	665 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	1,510 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%	4.0%



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