

Penn Capital Credit Month in Review

Executive Summary

High yield bonds (HY) and leveraged loans both provided solid gains in April as a strong start to earnings and better global growth helped improve market sentiment. HY returns (YTD +8.81%) continued to best those of loans (YTD +5.54%) despite slight loan outperformance vs. HY during the month.

Bonds

The HY bond asset class returned +1.44% in April as yields and spreads decreased 30bp & 31bp, respectively, to end the month at 6.53% and 421bp, respectively. Gains were driven primarily by a good start to 1Q earnings, an accommodative Fed & improving global growth. Gross new issue activity of ~\$18b in April remains well below historical average volumes of ~\$26b. Refinancings continue to represent a significant portion of the new issue market with April refi volumes equaling 86% of total issuance. YTD, refinancing activity totaled \$56b, or 67% of total issuance. Including distressed exchanges, the US HY bond default rate stands at 1.38% at the end of April, up 35bp month-over-month (m/m).

Loans

Leveraged loans returned 1.59% in April against the backdrop of slightly lighter outflows and continued CLO demand. This marks the first time in 2019 that monthly loan returns outpaced those of HY. New issue activity totaled \$24b in April, down 14% m/m and below typical April volume of ~\$41b. Refinancing deals lead the way in April (~45% of total volume) but acquisition financing remained a robust 44% of volume for the month. YTD acquisition financing totals 60% of total volume. Gross US collateralized loan obligation (CLO) volume of ~\$20b in April was significantly higher than March volumes and is closer to the \$22b of CLO issuance the market has averaged over the last 2 years. Of that ~\$20b, \$4b or 20% of US CLO volume, was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended April at 1.31%.

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Retail (+3.42%)
- Automotive (+2.32%)
- Consumer (+1.86%)

Largest Industries underperformers during the month:

- Utilities (+0.66%)
- Telecom (+0.72%)
- Paper & Packaging (+0.82%)

Best performing Industries YTD:

- Retail (+11.95%)
- Consumer Products (+10.23%)
- Healthcare (+9.59%)

Largest Industries underperformers YTD:

- Media (+6.14%)
- Transportation (+6.20%)
- Paper & Packaging (+6.57%)

Performance ranked by ratings during the month:

- CCC-rated bonds (+2.32%)
- B-rated bonds (+1.54%)
- BB-rated bonds (+1.13%)

Performance ranked by ratings YTD:

- CCC-rated bonds (+9.27%)
- B-rated bonds (+9.04%)
- BB-rated bonds (+8.52%)

Loans

Best performing Industries during the month:

- Retail (+2.60%)
- Housing (+2.13%)
- Cable & Satellite (+2.09%)

Largest Industries underperformers during the month:

- Metals & Mining (+0.66%)
- Energy (+0.98%)
- Technology (+1.26%)

Best performing Industries YTD:

- Retail (+7.73%)
- Housing (+6.41%)
- Broadcasting (+6.41%)

Largest Industries underperformers YTD:

- Consumer Products (+4.10%)
- Media (+4.18%)
- Metals & Mining (+4.46%)

Performance ranked by ratings during the month:

- Split B/CCC loans (+1.75%)
- B-rated loans (+1.70%)
- BB-rated loans (+1.42%)

Performance ranked by ratings YTD:

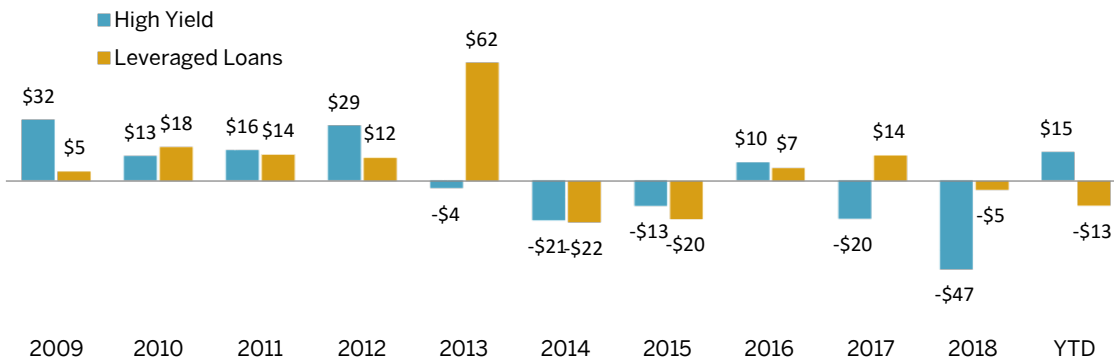
- BB-rated loans (+5.93%)
- B-rated loans (+5.41%)
- Split B/CCC loans (+5.18%)

Source: JP Morgan

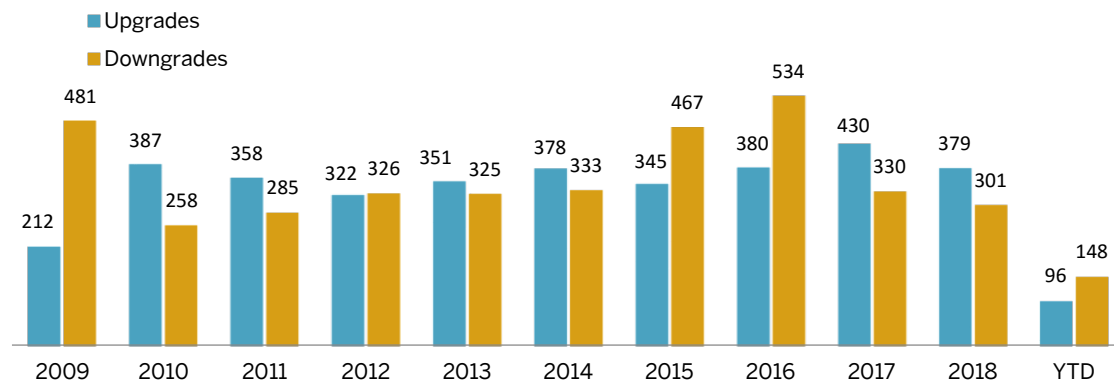
As of April 30, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	-0.60%	2.45%	---	---	---	2.5%	2.5%
Bloomberg Barclays US Aggregate Bond Index	0.03%	2.97%	56 bp	-10 bp	\$102.09	2.8%	2.8%
JP Morgan BB/B Loan Index	1.86%	6.06%	340 bp	-158 bp	\$98.73	5.7%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	0.77%	4.77%	223 bp	-161 bp	\$101.71	4.5%	5.2%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	1.26%	8.66%	302 bp	-130 bp	\$101.04	5.4%	5.7%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	1.28%	8.72%	321 bp	-142 bp	\$100.43	5.6%	5.9%
ICE BofA Merrill Lynch US High Yield Constrained Index	1.40%	8.90%	384 bp	-155 bp	\$98.70	6.2%	6.5%

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

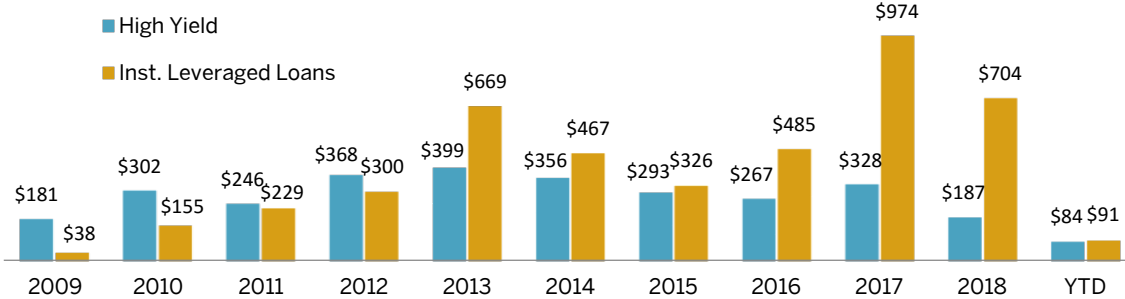
Mutual Fund Flows (\$ billion)



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	321 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	237 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	419 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	831 bp
J.P. Morgan's 12-Month Default Rate	10.3%	0.8%	1.7%	1.3%	0.7%	2.9%	1.8%	3.6%	1.3%	1.8%	1.3%

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

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