

Penn Capital Credit Month in Review

Executive Summary

Leveraged loans and high yield bonds (HY) both faced mounting pressure in December as concerns over trade, global growth, and oil prices led to significant withdrawals of money from both asset classes. Leveraged loan returns (-2.3%) were slightly better than that of HY (-2.5%) in December and for 2018 as a whole, leveraged loan returns outpaced those of HY by a significant 348 bp.

Bonds

The HY bond asset class returned -2.45% in December, the largest monthly decline since Dec-15. Yields increased 76 bp and spreads increased 103 bp to end the month at 8.23% and +567 bp, respectively. Returns were pressured by the continued slide in oil prices, disappointment in Fed messaging, and growing fears over global growth potential. Gross new issue activity was non-existent in December as no new deals were priced. This is the first time since Nov-08 the market went a month without any new issue activity. For 2018, gross HY new-issue volume was a meager ~\$187b. This was the lowest amount of yearly new issuance the market has seen since 2009 and represents a decline of 43% year-over-year. Refinancings were a majority (~\$114b) of this volume with net new issuance only representing 39% of 2018 new-issue volume. Including distressed exchanges, the US HY bond default rate was 1.87% at year-end, down 2 bp month-over-month but up 41 bp from year-end 2017.

Loans

December leveraged loan returns of -2.31% marked the largest loss the asset class has seen since Aug-11. New issue activity fell to a four year low with ~\$8b of new deals pricing in December. Acquisition financing drove the vast majority of issuance with only ~\$60mm of volume related to refi/repricings. For 2018 as a whole however, refi/repricings comprised ~57% of loan new issue volume. Gross US collateralized loan obligation (CLO) volume of ~\$8b in December was the lowest total since Aug-16. This brings YTD US CLO volumes to ~\$278b. Of that total, ~\$147b or 53% of US CLO volume was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended the year at 1.65%.

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Utility (-0.49%)
- Paper & Packaging (-0.66%)
- Industrials (-0.99%)

Largest underperformers during the month:

- Energy (-4.47%)
- Telecommunications (-3.81%)
- Retail (-3.69%)

Best performing Industries YTD:

- Utility (+1.68%)
- Transportation (+0.73%)
- Healthcare (+0.63%)

Largest underperformers YTD:

- Automotive (-8.11%)
- Energy (-6.49%)
- Housing (-4.49%)

Performance ranked by ratings during the month:

- BB-rated bonds (-1.60%)
- B-rated bonds (-2.57%)
- CCC-rated bonds (-4.53%)

Performance ranked by ratings for YTD:

- B-rated bonds (-1.42%)
- BB-rated bonds (-2.40%)
- CCC-rated bonds (-2.75%)

Loans

Best performing Industries during the month:

- Metals & Mining (-1.22%)
- Utility (-1.45%)
- Automotive (-1.51%)

Largest underperformers during the month:

- Telecommunications (-2.90%)
- Energy (-2.86%)
- Media (-2.73%)

Best performing Industries YTD:

- Metals & Mining (+4.26%)
- Retail (+3.88%)
- Transportation (+3.45%)

Largest underperformers YTD:

- Media (-1.70%)
- Housing (-0.17%)
- Paper & Packaging (-0.06%)

Performance ranked by ratings during the month:

- B-rated loans (-2.20%)
- BB-rated loans (-2.40%)
- Split B/CCC loans (-3.83%)

Performance ranked by ratings for YTD:

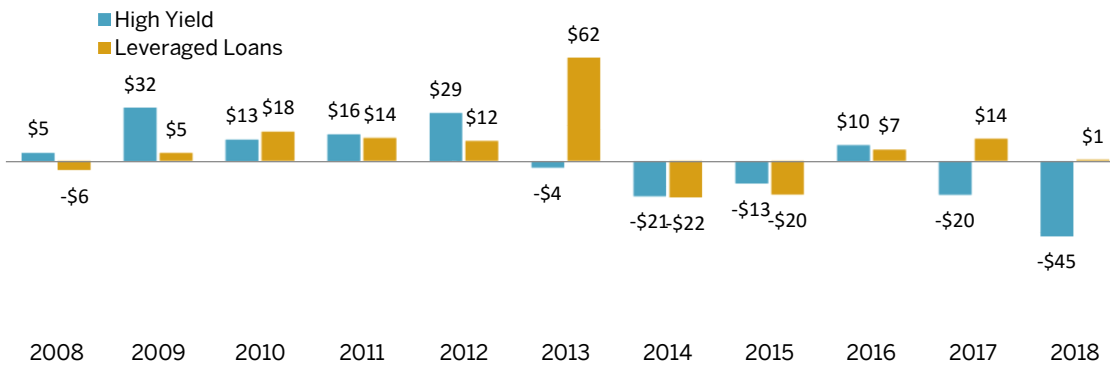
- Split B/CCC loans (+3.93%)
- B-rated loans (+1.51%)
- BB-rated loans (+0.08%)

Source: JP Morgan

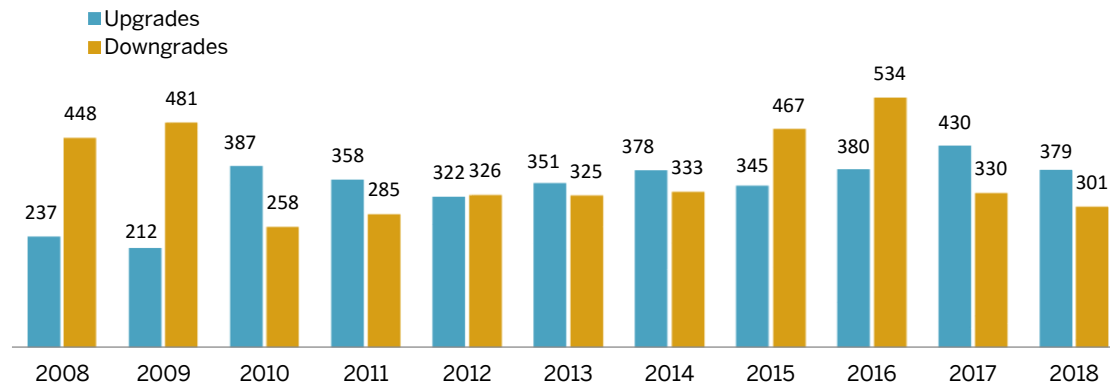
As of December 31, 2018	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	3.01%	-0.03%	---	---	---	2.7%	2.7%
Bloomberg Barclays US Aggregate Bond Index	1.84%	0.01%	66 bp	17 bp	\$100.09	3.3%	3.3%
JP Morgan BB/B Loan Index	-2.54%	-0.07%	499 bp	164 bp	\$95.21	6.8%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	-0.78%	2.21%	384 bp	165 bp	\$99.08	6.3%	6.5%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	-1.82%	-2.02%	432 bp	148 bp	\$94.92	6.9%	7.0%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	-1.89%	-2.04%	463 bp	166 bp	\$94.03	7.2%	7.3%
ICE BofA Merrill Lynch US High Yield Constrained Index	-2.19%	-2.27%	539 bp	166 bp	\$92.31	8.0%	8.0%

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

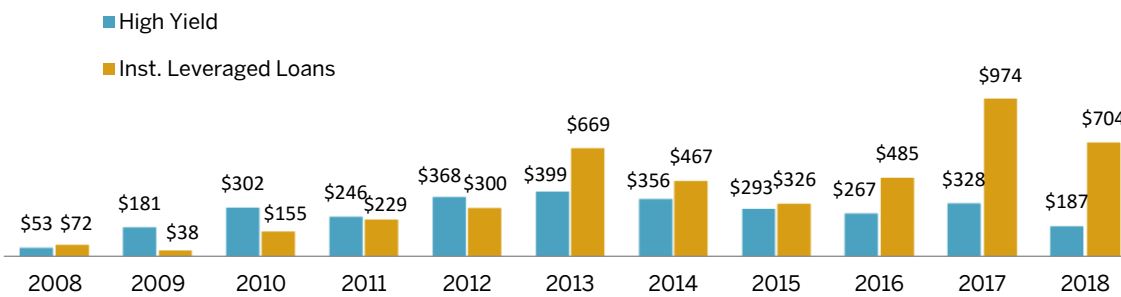
Mutual Fund Flows (\$ billion)



High Yield Upgrades/Downgrades (Issuer)



New Issuance Volume (\$ billion)



Source for Charts: JP Morgan



PETER DUFFY, CFA
Senior Portfolio Manager,
Senior Partner



DAVID JACKSON, CFA
Senior Portfolio Manager,
Senior Partner

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Historical Spreads / Default Rates	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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
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
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
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
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%

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

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