

Penn Capital Credit Month in Review

Executive Summary

Leveraged loans and high yield bonds (HY) both snapped back quickly in January from the sell-off they both experienced the end of December. Helping drive this move higher was a more dovish Fed, improved US/China trade talks, and a recovery in oil prices. Very strong HY returns (+4.57%) bested those of leveraged loans (+2.42%) so far in 2019.

Bonds

The HY bond asset class returned 4.57% in January, the strongest performance posted by the asset class since March 2016. Yields and spreads decreased 100 bp and 93 bp, respectively, to end the month at 7.23% and 473 bp. This strong performance was driven in part by a more dovish outlook from the Fed, recovering oil prices, and improving US/China trade talks. Gross new issue activity totaled \$17.6b in January, light from a historical perspective (January has averaged ~\$27b the past nine years) but higher than November and December's volumes combined. Refinancings continue to represent a significant portion of the new issue market with January refi volumes equaling 44% of total volume. Acquisition financing (41%) and general corporate purposes (15%) represented the balance of volumes for the month. Including distressed exchanges, the US HY bond default rate stands at 1.83% at the start of the year.

Loans

January leveraged loan returns of 2.42% quickly reversed the December sell-off which saw loans decline 2.31%. New issue activity totaled \$14b in January, up 69% month-over-month but below typical volume of ~\$29b. Refi/repricings represented \$5.8b of volume during the month. Gross US collateralized loan obligation (CLO) volume of ~\$7b in January was the lowest total since July 2016. Of that total, ~\$1.8b or 26% of US CLO volume was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate started the year at 1.42%.

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Energy (+6.32%)
- Healthcare (+5.54%)
- Telecommunications (+4.96%)

Largest underperformers during the month:

- Transportation (+2.06%)
- Media (+2.58%)
- Broadcasting (+2.77%)

Best performing Industries YTD:

- Energy (+6.32%)
- Healthcare (+5.54%)
- Telecommunications (+4.96%)

Largest underperformers YTD:

- Transportation (+2.06%)
- Media (+2.58%)
- Broadcasting (+2.77%)

Performance ranked by ratings during the month:

- B-rated bonds (+4.74%)
- BB-rated bonds (+4.44%)
- CCC-rated bonds (+4.40%)

Performance ranked by ratings for YTD:

- B-rated bonds (+4.74%)
- BB-rated bonds (+4.44%)
- CCC-rated bonds (+4.40%)

Loans

Best performing Industries during the month:

- Broadcasting (+3.01%)
- Retail (+2.92%)
- Gaming/Leisure (+2.87%)

Largest underperformers during the month:

- Media (+1.31%)
- Consumer Products (+1.95%)
- Metals & Mining (+1.98%)

Best performing Industries YTD:

- Broadcasting (+3.01%)
- Retail (+2.92%)
- Gaming/Leisure (+2.87%)

Largest underperformers YTD:

- Media (+1.31%)
- Consumer Products (+1.95%)
- Metals & Mining (+1.98%)

Performance ranked by ratings during the month:

- BB-rated loans (+3.07%)
- B-rated loans (+2.13%)
- Split B/CCC loans (+1.29%)

Performance ranked by ratings for YTD:

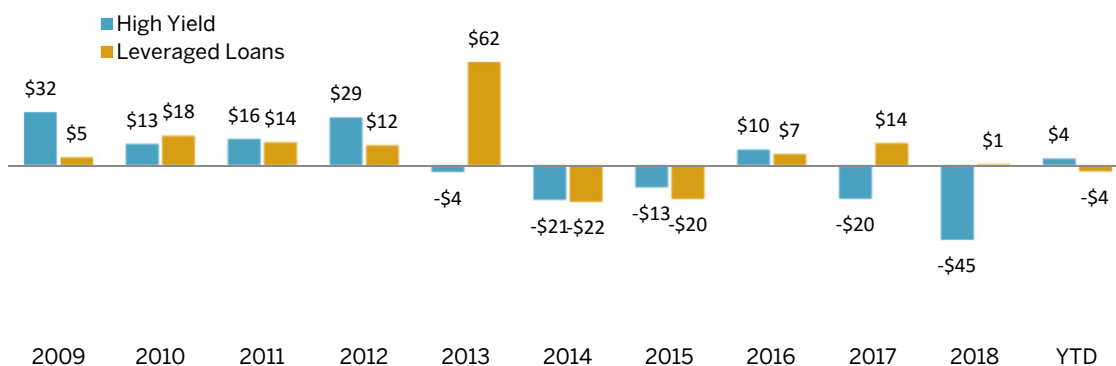
- BB-rated loans (+3.07%)
- B-rated loans (+2.13%)
- Split B/CCC loans (+1.29%)

Source: JP Morgan

As of January 31, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	0.70%	0.70%	---	---	---	2.6%	2.6%
Bloomberg Barclays US Aggregate Bond Index	1.06%	1.06%	59 bp	-7 bp	\$100.95	3.2%	3.2%
JP Morgan BB/B Loan Index	2.89%	2.89%	415 bp	-83 bp	\$97.07	6.2%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	2.34%	2.34%	278 bp	-106 bp	\$100.71	5.2%	5.6%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	4.37%	4.37%	352 bp	-80 bp	\$98.37	6.0%	6.2%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	4.43%	4.43%	374 bp	-89 bp	\$97.75	6.3%	6.4%
ICE BofA Merrill Lynch US High Yield Constrained Index	4.59%	4.59%	445 bp	-94 bp	\$96.05	6.9%	7.1%

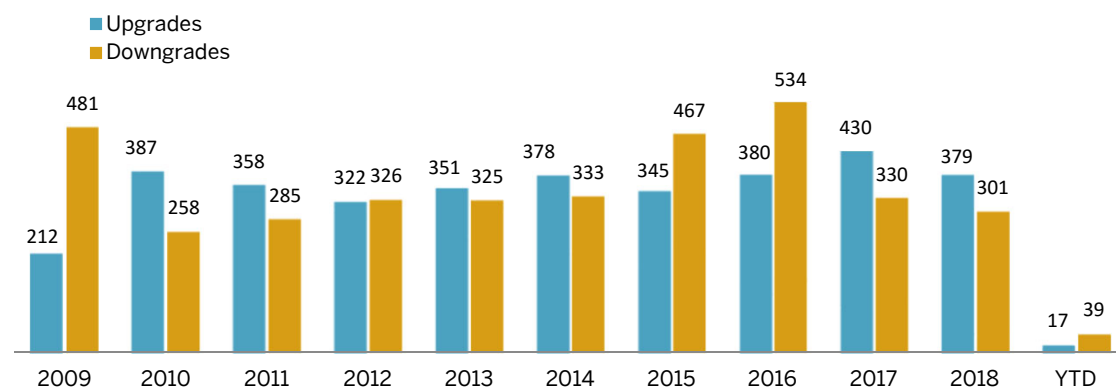
Sources: Barclays, BofA Merrill Lynch, JP Morgan. Past performance is no guarantee of future results.

Mutual Fund Flows (\$ billion)



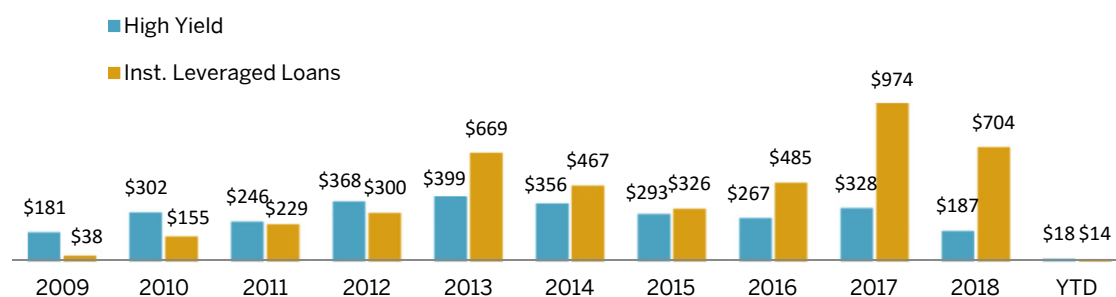
PETER DUFFY, CFA
Senior Portfolio Manager,
Senior Partner

High Yield Upgrades/Downgrades (Issuer)



DAVID JACKSON, CFA
Senior Portfolio Manager,
Senior Partner

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	374 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	284 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	479 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	962 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%	1.8%

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

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