

# Penn Capital Credit Month in Review

## Executive Summary

High yield (HY) bonds outperformed leveraged loans in June, but both asset classes were able to post small gains. Volatility in equity, treasury, and oil markets, as well as trade war fears, all impacted returns.

### Bonds

The HY bond asset class returned +0.35% in June as yields and spreads increased 8 bp and 3 bp, respectively, to 6.72% and +406 bp. Returns gyrated throughout the month on trade-war fears, volatility in treasury rates and swings in oil prices. Gross new issue activity remained modest in June with volume totaling only ~\$16bn (-41% year-over-year & -2% month-over-month). This marks the third consecutive month of declining new issue volume. Of that new issuance, refinancing transactions accounted for ~48% (~\$8b) of the volume. Year-to-date (YTD), gross HY new issue volume reached ~\$126b; this volume level is 28% lower than the gross issuance amount we saw by this point last year. Including distressed exchanges, the US HY bond default rate decreased 28 bp to 2.06%.

### Loans

Leveraged loans produced lackluster +0.08% returns in June, underperforming HY bonds. That being said, loans have outperformed HY bonds eight times in the prior nine months. New issue activity totaled ~\$89b in June, down 13% month-over-month but up +2% year-over-year. Only 49% of June's volume was related to refinancings/repricings while YTD refinancings/repricings still comprise 67% of loan new issue volume. Gross US collateralized loan obligations (CLO) volume of ~\$31b in June was the third highest monthly total on record. This brings YTD US CLO volumes to ~\$149b. Of that total, ~\$79b or 53% of US CLO volume was used for refinancing/reset deals. Including distressed exchanges, the US Leveraged Loan default rate ended June down 14 bp to 2.04%.

Source: JP Morgan

### Bonds

<b>Best performing Industries during the month:</b> <ul style="list-style-type: none"> <li>Retail (+1.48%)</li> <li>Energy (+0.82%)</li> <li>Cable/Satellite (+0.67%)</li> </ul>	<b>Largest underperformers during the month:</b> <ul style="list-style-type: none"> <li>Automotive (-0.90%)</li> <li>Diversified Media (-0.45%)</li> <li>Broadcasting (-0.18%)</li> </ul>
<b>Best performing Industries YTD:</b> <ul style="list-style-type: none"> <li>Retail (+3.68%)</li> <li>Telecommunications (+2.58%)</li> <li>Healthcare (+1.36%)</li> </ul>	<b>Largest underperformers YTD:</b> <ul style="list-style-type: none"> <li>Automotive (-5.40%)</li> <li>Housing (-1.91%)</li> <li>Food &amp; Beverages (-1.77%)</li> </ul>
<b>Performance ranked by ratings during the month:</b> <ul style="list-style-type: none"> <li>CCC-rated bonds (+0.72%)</li> <li>B-rated bonds (+0.40%)</li> <li>BB-rated bonds (+0.18%)</li> </ul>	<b>Performance ranked by ratings for YTD:</b> <ul style="list-style-type: none"> <li>CCC-rated bonds (+2.97%)</li> <li>B-rated bonds (+1.26%)</li> <li>BB-rated bonds (-1.52%)</li> </ul>

### Loans

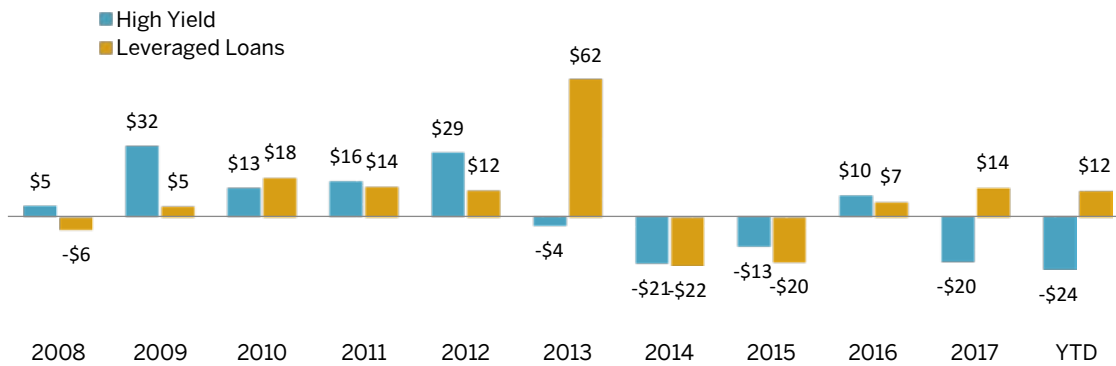
<b>Best performing Industries during the month:</b> <ul style="list-style-type: none"> <li>Retail (+1.27%)</li> <li>Energy (+0.60%)</li> <li>Utility (+0.40%)</li> </ul>	<b>Largest underperformers during the month:</b> <ul style="list-style-type: none"> <li>Automotive (-0.70%)</li> <li>Telecommunications (-0.19%)</li> <li>Chemicals (-0.13%)</li> </ul>
<b>Best performing Industries YTD:</b> <ul style="list-style-type: none"> <li>Retail (+5.05%)</li> <li>Energy (+4.75%)</li> <li>Metals &amp; Mining (+4.67%)</li> </ul>	<b>Largest underperformers YTD:</b> <ul style="list-style-type: none"> <li>Automotive (+0.80%)</li> <li>Diversified Media (+1.40%)</li> <li>Paper &amp; Packaging (+1.51%)</li> </ul>
<b>Performance ranked by ratings during the month:</b> <ul style="list-style-type: none"> <li>Split B/CCC loans (+0.91%)</li> <li>B-rated loans (+0.12%)</li> <li>BB-rated loans (-0.03%)</li> </ul>	<b>Performance ranked by ratings for YTD:</b> <ul style="list-style-type: none"> <li>Split B/CCC loans (+6.91%)</li> <li>B-rated loans (+2.44%)</li> <li>BB-rated loans (+1.71%)</li> </ul>

Source: JP Morgan

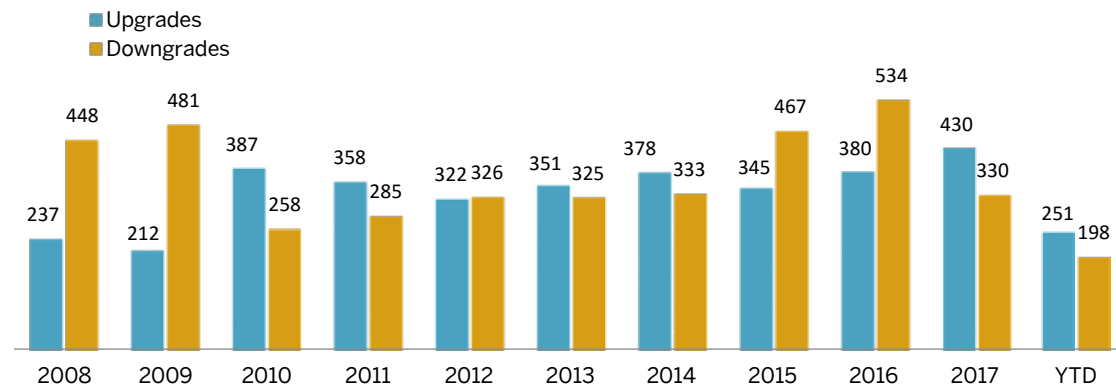
As of June 30, 2018	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	-0.01%	-2.70%	---	---	---	2.9%	2.9%
Bloomberg Barclays US Aggregate Bond Index	-0.12%	-1.62%	56 bp	7 bp	\$99.89	3.3%	3.3%
JP Morgan BB/B Loan Index	0.12%	1.93%	344 bp	10 bp	\$99.18	6.2%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	0.20%	1.46%	250 bp	31 bp	\$101.55	5.0%	5.2%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	0.21%	-0.62%	323 bp	39 bp	\$99.09	5.9%	6.1%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	0.23%	-0.47%	332 bp	35 bp	\$98.80	6.0%	6.2%
ICE BofA Merrill Lynch US High Yield Constrained Index	0.35%	0.08%	383 bp	10 bp	\$97.84	6.5%	6.7%

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

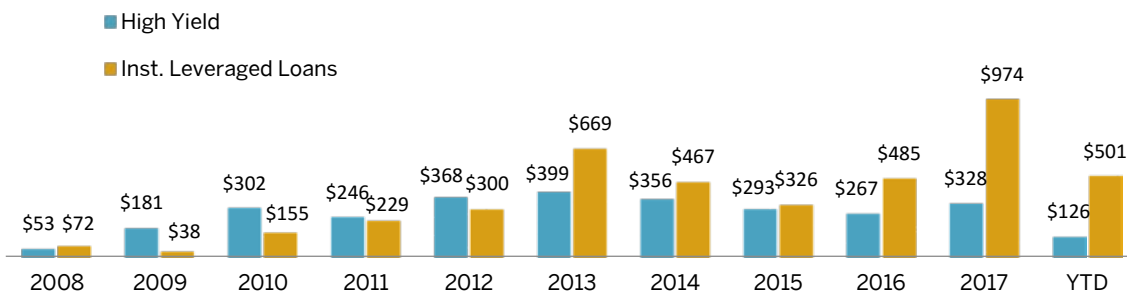
Mutual Fund Flows (\$ billion)



High Yield Upgrades/Downgrades (Issuer)



New Issuance Volume (\$ billion)



Source for Charts: JP Morgan



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Historical Spreads / Default Rates	2009	2010	2011	2012	2013	2014	2015	2016	2017	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	332 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	269 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	402 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	738 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%	2.0%

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

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