

Penn Capital Credit Month in Review

Executive Summary

High-yield bonds (HY) extended their early 2019 rally in March as progress on trade, better earnings, and a more patient Fed helped improve market sentiment. Leveraged loans on the other hand, gave back a sliver of their recent positive performance due in part to continued investor outflows. HY returns (YTD +7.27%) continued to best those of loans (YTD +3.89%).

Bonds

The HY bond asset class returned +0.88% in March, as yields decreased 10bp while spreads crept up 16bp to end the month at 6.83% and 452bp, respectively. Gains were driven primarily by the Fed's more dovish stance but better 4Q earnings and progress on trade talks also helped to improve market sentiment. Gross new issue activity totaled \$26.6b in March. This represents a 12-month high but is still well below historical issuance levels for the month. Refinancings continue to represent a significant portion of the new issue market with March refi volumes equaling 71% of total issuance. YTD, refinancing activity totaled \$40.4b, or 62% of total issuance. Including distressed exchanges, the US HY bond default rate stands at 1.02% at the end of March, down 23bp month over month (m/m).

Loans

Leveraged loan returns of -0.16% in March were driven in large part by continued outflows from loan funds as investors digest new rate expectations. New issue activity totaled \$28.6b in March, up 15% m/m but below typical volume of ~\$49b. Acquisition financing (~54% of total March volume) continued to be the primary use of proceeds for the month with refinancings representing only 30% of March volume and 20% of loan new-issue volume YTD. Gross US collateralized loan obligation (CLO) volume of just under \$16b in March was only slightly lower than Feb. volumes. Of that ~\$16b, \$4.7b or 30% of US CLO volume, was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended March at 1.02%.

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Utility (+1.80%)
- Broadcasting (+1.71%)
- Telecommunications (+1.48%)

Largest Industries underperformers during the month:

- Metals & Mining (+0.09%)
- Media (+0.18%)
- Energy (+0.19%)

Best performing Industries YTD:

- Retail (+8.25%)
- Consumer Products (+8.23%)
- Healthcare (+8.04%)

Largest Industries underperformers YTD:

- Media (+4.68%)
- Transportation (+4.83%)
- Automotive (+5.67%)

Performance ranked by ratings during the month:

- BB-rated bonds (+1.09%)
- B-rated bonds (+0.77%)
- CCC-rated bonds (+0.54%)

Performance ranked by ratings YTD:

- B-rated bonds (+7.38%)
- BB-rated bonds (+7.30%)
- CCC-rated bonds (+6.80%)

Loans

Best performing Industries during the month:

- Energy (+0.58%)
- Metals & Mining (+0.38%)
- Transportation (+0.37%)

Largest Industries underperformers during the month:

- Cable & Satellite (-0.86%)
- Media (-0.77%)
- Consumer Products (-0.69%)

Best performing Industries YTD:

- Energy (+5.13%)
- Retail (+5.00%)
- Broadcasting (+4.68%)

Largest Industries underperformers YTD:

- Consumer Products (+2.39%)
- Media (+2.58%)
- Automotive (+3.01%)

Performance ranked by ratings during the month:

- Split B/CCC loans (+0.75%)
- BB-rated loans (-0.14%)
- B-rated loans (-0.21%)

Performance ranked by ratings YTD:

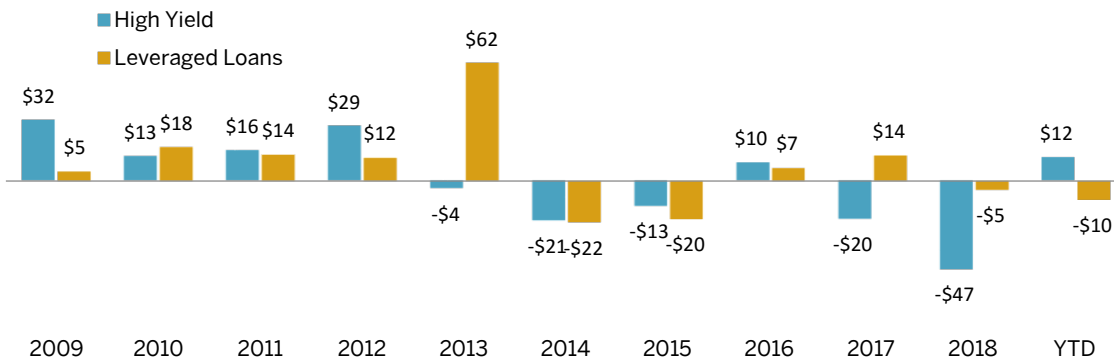
- BB-rated loans (+4.45%)
- B-rated loans (+3.65%)
- Split B/CCC loans (+3.38%)

Source: JP Morgan

As of March 31, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	2.84%	3.07%	---	---	---	2.4%	2.4%
Bloomberg Barclays US Aggregate Bond Index	1.92%	2.94%	58 bp	-8 bp	\$102.32	2.9%	2.9%
JP Morgan BB/B Loan Index	-0.47%	4.12%	372 bp	-126 bp	\$97.58	6.0%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	0.61%	3.97%	240 bp	-144 bp	\$101.43	4.7%	5.1%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	1.10%	7.32%	326 bp	-106 bp	\$100.23	5.6%	5.9%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	1.12%	7.34%	344 bp	-119 bp	\$99.66	5.8%	6.0%
ICE BofA Merrill Lynch US High Yield Constrained Index	0.98%	7.40%	417 bp	-122 bp	\$97.69	6.5%	6.7%

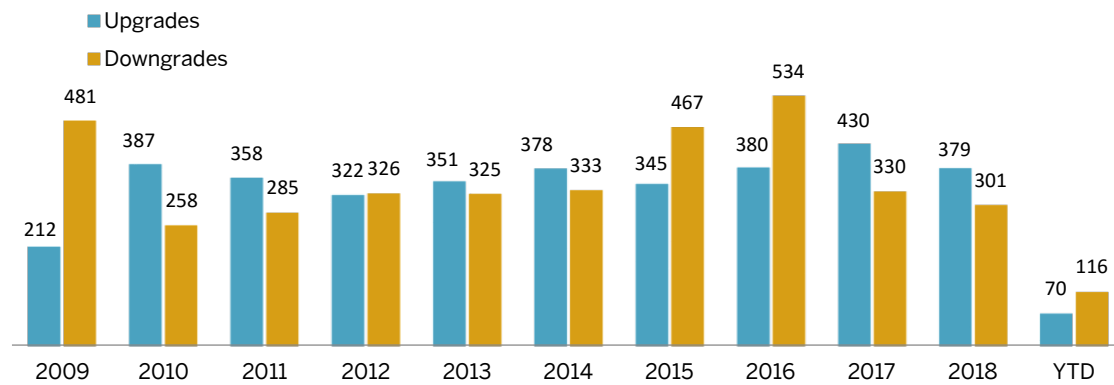
Sources: Barclays, BofA Merrill Lynch, JP Morgan. Past performance is no guarantee of future results.

Mutual Fund Flows (\$ billion)



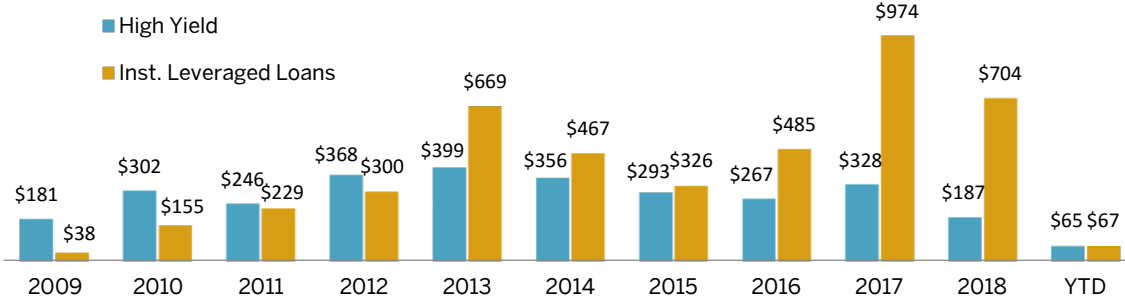
PETER DUFFY, CFA
Senior Portfolio Manager,
Senior Partner

High Yield Upgrades/Downgrades (Issuer)



DAVID JACKSON, CFA
Senior Portfolio Manager,
Senior Partner

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	344 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	255 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	448 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	938 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%	0.9%

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

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