

Penn Capital Credit Month in Review

Executive Summary

High yield bonds (HY) and leveraged loans both posted negative returns in May as increasing trade tensions and deteriorating global growth weighed on market sentiment. Year-to-date (YTD), HY returns (+7.42%) continued to best those of loans (+5.29%) despite another month of loan outperformance vs. HY.

Bonds

The HY bond asset class returned -1.27% in May as yields and spreads increased 48bp and 81bp, respectively, to end the month at 7.01% and 502bp, respectively. Declines were driven primarily by a rise in trade tensions, lower economic growth and falling oil prices. Gross new issue activity of ~\$28b in May marked a 14-month high, but was still below historical average volumes of ~\$32b for the month. Refinancings continue to represent a significant portion of the new issue market with May refi volumes equaling 59% of total issuance. YTD, refinancing activity totaled \$72.5b, or 65% of total issuance. Including distressed exchanges, the US HY bond default rate stands at 1.53% at the end of May, up 15bp month-over-month (m/m).

Loans

Leveraged loans only declined -0.24% in May despite a slower economic growth outlook and reduced chances of interest rate hikes. New issue activity totaled \$30b in May, up 25% m/m, but below typical May volumes of ~\$49b. By volume, acquisition financing deals led the way in May by representing ~54% of new issuance. YTD acquisition financing also remains the largest driver of volume with deals equaling 59% of the new issue market. Gross US collateralized loan obligation (CLO) volume of ~\$15b in May marked a retreat from April's ~\$19b in volume and is well below the \$21b of CLO issuance the market has averaged over the last 2 years. Of that ~\$15b, \$5b or 33% of US CLO volume, was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended May at 1.35%.

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Media (+0.38%)
- Transportation (+0.01%)
- Telecom (-0.03%)

Largest Industry underperformers during the month:

- Energy (-3.17%)
- Metals & Mining (-2.83%)
- Automotive (-2.00%)

Best performing Industries YTD:

- Retail (+11.53%)
- Consumer Products (+9.43%)
- Housing (+8.62%)

Largest Industry underperformers YTD:

- Metals & Mining (+4.96%)
- Energy (+5.95%)
- Automotive (+5.96%)

Performance ranked by ratings during the month:

- BB-rated bonds (-1.01%)
- CCC-rated bonds (-1.34%)
- B-rated bonds (-1.34%)

Performance ranked by ratings YTD:

- CCC-rated bonds (+7.81%)
- B-rated bonds (+7.58%)
- BB-rated bonds (+7.42%)

Loans

Best performing Industries during the month:

- Utility (+0.05%)
- Transportation (+0.05%)
- Broadcasting (+0.00%)

Largest Industry underperformers during the month:

- Metals & Mining (-0.86%)
- Retail (-0.79%)
- Telecom (-0.74%)

Best performing Industries YTD:

- Retail (+6.89%)
- Broadcasting (+6.41%)
- Housing (+6.25%)

Largest Industry underperformers YTD:

- Metals & Mining (+3.57%)
- Consumer Products (+3.85%)
- Media (+3.98%)

Performance ranked by ratings during the month:

- BB-rated loans (-0.17%)
- B-rated loans (-0.24%)
- Split B/CCC-rated loans (-0.45%)

Performance ranked by ratings YTD:

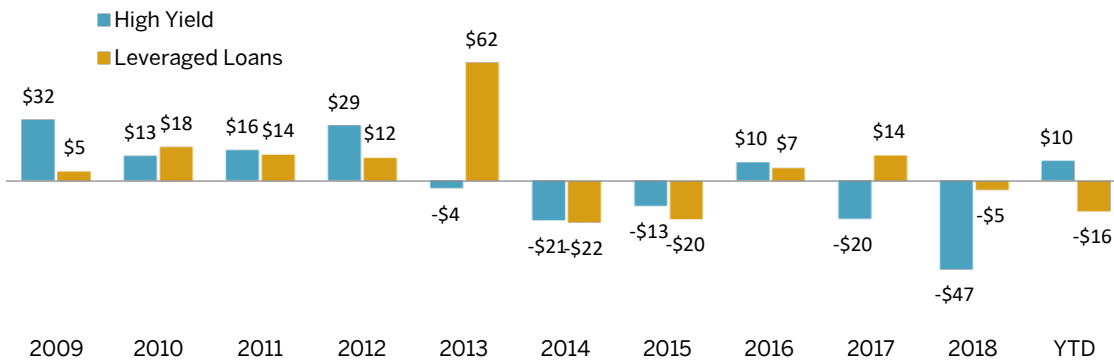
- BB-rated loans (+5.75%)
- B-rated loans (+5.15%)
- Split B/CCC-rated loans (+4.71%)

Source: JP Morgan

As of May 31, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasuries	3.46%	6.00%	---	---	---	2.1%	2.1%
Bloomberg Barclays US Aggregate Bond Index	1.78%	4.80%	63 bp	-3 bp	\$103.66	2.7%	2.7%
JP Morgan BB/B Loan Index	-0.40%	5.64%	340 bp	66 bp	\$97.98	5.5%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	-0.34%	4.41%	316 bp	-68 bp	\$100.82	5.2%	5.5%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	-1.03%	7.54%	378 bp	-54 bp	\$99.77	5.8%	6.0%
ICE BofA Merrill Lynch BB-B Rated US High Yield Cons. Index	-1.05%	7.57%	405 bp	-58 bp	\$98.85	6.1%	6.3%
ICE BofA Merrill Lynch US High Yield Constrained Index	-1.27%	7.52%	473 bp	-66 bp	\$96.99	6.8%	6.9%

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

Mutual Fund Flows (\$ billion)

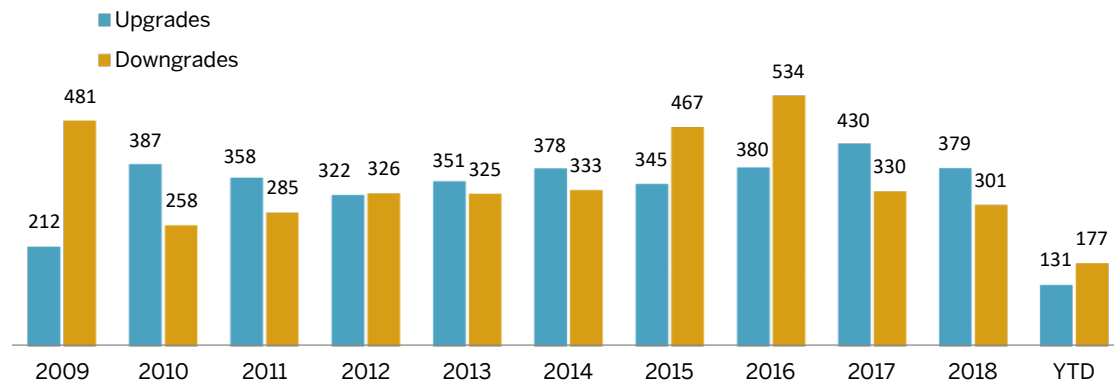


PETER DUFFY, CFA
Senior Portfolio Manager,
Senior Partner

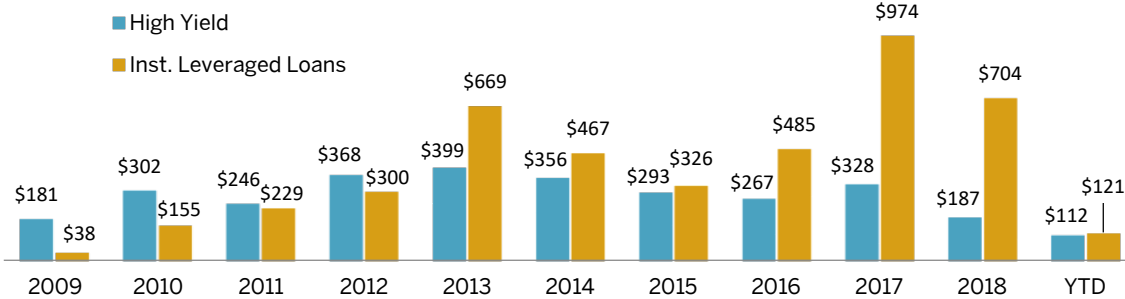


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High Yield Upgrades/Downgrades (Issuer)



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	405 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	310 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	518 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	996 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%	1.9%

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

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