

# Penn Capital Credit Month in Review

## Executive Summary

Leveraged loans and high yield bonds (HY) remained under pressure in November as concerns over trade, global growth, and oil prices lingered in the market. HY performance (-0.78%) was marginally better than that of leveraged loans (-0.83%) for the month, but year-to-date (YTD) loan returns remain above that of HY (now by +341bp).

### Bonds

The HY bond asset class returned -0.78% in November. Yields increased 33 bp and spreads increased 45 bp to end the month at 7.46% and +464 bp, respectively. Returns were pressured by further weakness in oil prices and continued trepidation over the outlook for global growth. Gross new issue activity remained light in November with only ~\$6b worth of bonds pricing during the month. This is well below the ~\$27b of new issuance typically seen during the month. Of this new issuance, refinancing transactions accounted for 37% (~\$2bn) of total volume in November. YTD, gross HY new-issue volume now stands at ~\$187b, down 39% year-over-year. Refinancings continue to represent a majority (~\$114b) of this volume with net new issuance only representing 36% of YTD new-issue volume. Including distressed exchanges, the US HY bond default rate is now 1.89%, down 17 bp month-over-month.

### Loans

November leveraged loan returns of -0.83% marked the largest loss the asset class has seen since November '16. The percentage of loans trading above par in the market now sits at only ~4%, a 29-month low. New issue activity was slightly higher than the 3Q18 average with ~\$36b of new deals pricing in November. Acquisition financing drove the majority of issuance with only ~\$11b of volume (31%) related to refi/repricings. YTD however, refi/repricings still comprise ~57% of loan new issue volume. Gross US collateralized loan obligation (CLO) volume of ~\$25b in November was the 12<sup>th</sup> highest total on record. This brings YTD US CLO volumes to ~\$270bn. Of that total, ~\$144bn or 53% of US CLO volume was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended November at 1.60% (-37 bp).

Source: JP Morgan

### Bonds

#### Best performing Industries during the month:

- Media (0.34%)
- Utility (0.33%)
- Cable & Satellite (0.32%)

#### Largest underperformers during the month:

- Energy (-3.20%)
- Chemicals (-1.06%)
- Telecommunications (-1.02%)

#### Best performing Industries YTD:

- Healthcare (+3.78%)
- Telecommunications (+3.05%)
- Retail (+2.68%)

#### Largest underperformers YTD:

- Automotive (-6.89%)
- Housing (-3.14%)
- Energy (-2.11%)

#### Performance ranked by ratings during the month:

- BB-rated bonds (-0.11%)
- B-rated bonds (-0.75%)
- CCC-rated bonds (-2.19%)

#### Performance ranked by ratings for YTD:

- CCC-rated bonds (+1.86%)
- B-rated bonds (+1.18%)
- BB-rated bonds (-0.80%)

### Loans

#### Best performing Industries during the month:

- Transportation (-0.48%)
- Chemicals (-0.51%)
- Utility (-0.55%)

#### Largest underperformers during the month:

- Energy (-1.68%)
- Retail (-1.46%)
- Media (-1.18%)

#### Best performing Industries YTD:

- Retail (+6.38%)
- Metals & Mining (+5.55%)
- Transportation (+5.43%)

#### Largest underperformers YTD:

- Media (+1.06%)
- Paper & Packaging (+2.37%)
- Housing (+2.40%)

#### Performance ranked by ratings during the month:

- B-rated loans (-0.72%)
- BB-rated loans (-0.86%)
- Split B/CCC loans (-2.24%)

#### Performance ranked by ratings for YTD:

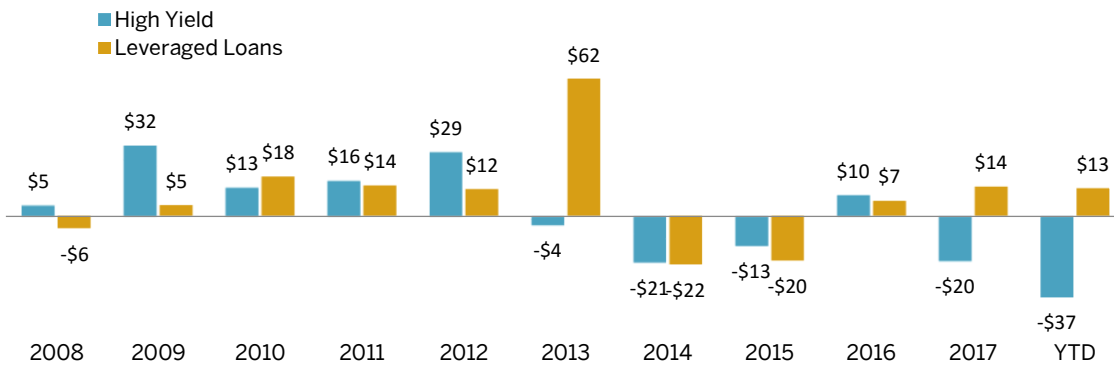
- Split B/CCC loans (+8.07%)
- B-rated loans (+3.79%)
- BB-rated loans (+2.54%)

Source: JP Morgan

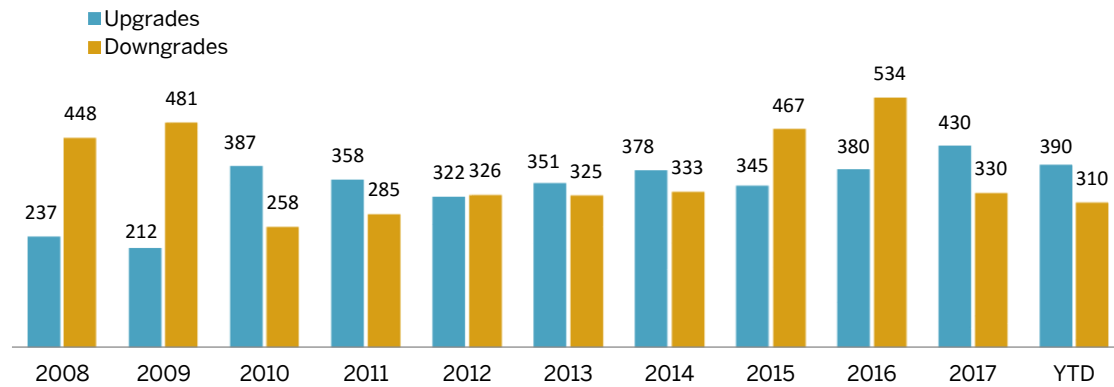
As of November 30, 2018	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	1.45%	-2.95%	---	---	---	3.0%	3.0%
Bloomberg Barclays US Aggregate Bond Index	0.50%	-1.30%	62 bp	13 bp	\$98.97	3.5%	3.5%
JP Morgan BB/B Loan Index	-1.07%	2.53%	388 bp	54 bp	\$97.93	6.5%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	0.02%	3.01%	276 bp	57 bp	\$100.50	5.5%	5.7%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	-0.53%	-0.20%	354 bp	70 bp	\$96.85	6.4%	6.5%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	-0.55%	-0.15%	371 bp	74 bp	\$96.38	6.6%	6.7%
ICE BofA Merrill Lynch US High Yield Constrained Index	-0.91%	-0.08%	437 bp	64 bp	\$94.93	7.3%	7.4%

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

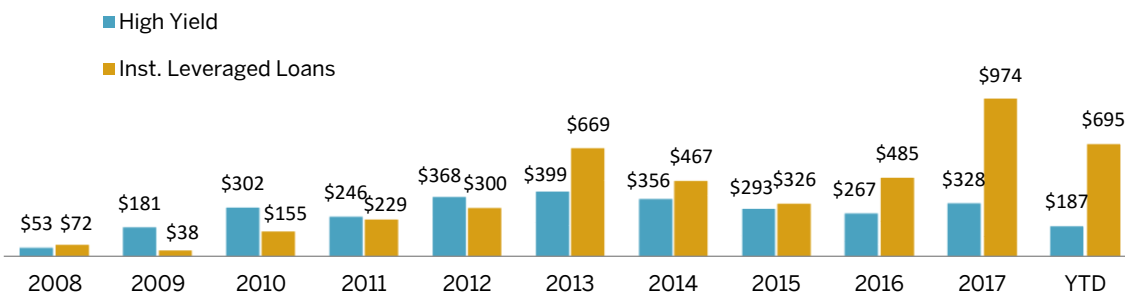
Mutual Fund Flows (\$ billion)



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	370 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	287 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	466 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	921 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%	1.9%

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

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