

Penn Capital Credit Month in Review

Executive Summary

Leveraged loans weathered a volatile October better than high yield (HY) bonds as trade war fears, a slow start to earnings & rising US Treasury yields all placed significant pressure on HY returns. Year-to-date (YTD) loan returns remain above that of HY (now by +349bp).

Bonds

The HY bond asset class returned -1.63% in October. Yields increased 60 bp while spreads increased 54 bp to end the month at 7.13% and +418 bp, respectively. Returns were pressured by further degradation of US-China trade relations, higher US Treasury yields & less than stellar initial 3Q earnings. Gross new issue activity totaled \$11b in October, well below the ~\$25b of new issuance typically seen during the month. Of this new issuance, refinancing transactions accounted for 62% (~\$7b) of the volume. YTD, gross HY new-issue volume now stands at ~\$179b, down 36% year-over-year. Refinancings continue to represent a majority (~\$112b) of this volume with net new issuance only representing 35% of YTD new-issue volume. Including distressed exchanges, the US HY bond default rate was unchanged at 2.04%.

Loans

Leveraged loans posted minimal losses in October as -0.04% returns compare favorably to returns provided by many other asset classes. The percentage of loans trading above par in the market fell to ~36% in October, lower than September levels but still almost double June lows. New issue activity hit a four month high of ~\$65b in October. Much of this volume (53%) was related to a ramp up in refi/repricings. YTD refi/repricings still comprise 59% of loan new issue volume. Gross US collateralized loan obligation (CLO) volume of ~\$26b in October was the 10th highest monthly total on record. This brings YTD US CLO volumes to ~\$245b. Of that total, ~\$113b or 46% of US CLO volume was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended October at 1.97% (+15bp).

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Transportation (-0.43%)
- Utility (-0.68%)
- Paper & Packaging (-1.01%)

Largest underperformers during the month:

- Energy (-2.43%)
- Housing (-2.39%)
- Retail (-2.33%)

Best performing Industries YTD:

- Telecommunications (+4.11%)
- Healthcare (+3.68%)
- Retail (+2.57%)

Largest underperformers YTD:

- Automotive (-6.13%)
- Housing (-2.84%)
- Food & Beverages (-1.21%)

Performance ranked by ratings during the month:

- BB-rated bonds (-1.45%)
- B-rated bonds (-1.57%)
- CCC-rated bonds (-1.80%)

Performance ranked by ratings for YTD:

- CCC-rated bonds (+4.14%)
- B-rated bonds (+1.94%)
- BB-rated bonds (-0.70%)

Loans

Best performing Industries during the month:

- Automotive (+0.33%)
- Services (+0.18%)
- Paper & Packaging (+0.17%)

Largest underperformers during the month:

- Metals & Mining (-0.66%)
- Retail (-0.61%)
- Housing (-0.41%)

Best performing Industries YTD:

- Retail (+7.97%)
- Energy (+6.83%)
- Metals & Mining (+6.56%)

Largest underperformers YTD:

- Media (+2.26%)
- Gaming (+3.44%)
- Paper & Packaging (+3.50%)

Performance ranked by ratings during the month:

- B-rated loans (+0.01%)
- BB-rated loans (-0.07%)
- Split B/CCC loans (-0.90%)

Performance ranked by ratings for YTD:

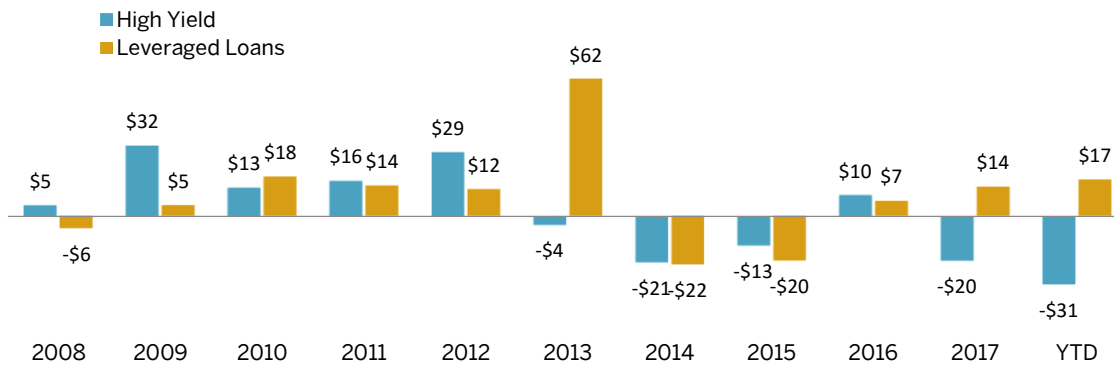
- Split B/CCC loans (+10.54%)
- B-rated loans (+4.53%)
- BB-rated loans (+3.43%)

Source: JP Morgan

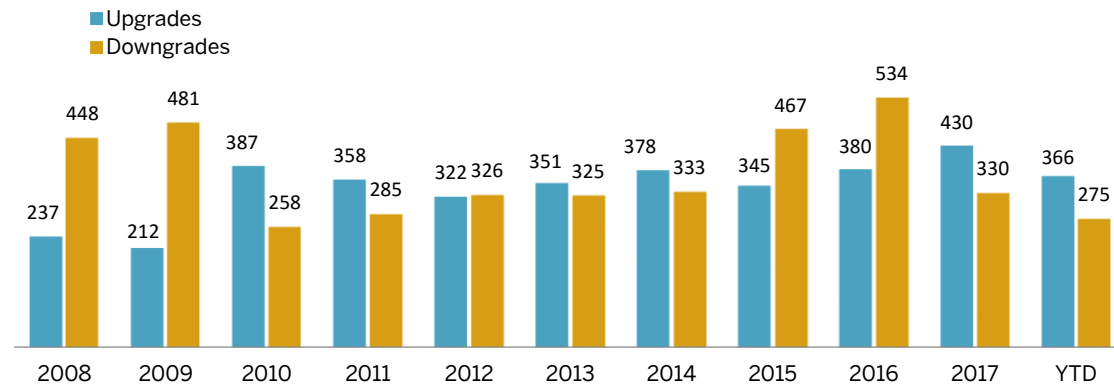
As of October 31, 2018	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	-0.61%	-4.34%	---	---	---	3.1%	3.1%
Bloomberg Barclays US Aggregate Bond Index	-0.79%	-2.38%	54 bp	5 bp	\$98.15	3.6%	3.6%
JP Morgan BB/B Loan Index	-0.02%	3.64%	332 bp	-2 bp	\$99.66	6.3%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	-0.30%	2.99%	238 bp	19 bp	\$100.96	5.2%	5.4%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	-1.45%	0.32%	321 bp	37 bp	\$97.88	6.2%	6.3%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	-1.47%	0.40%	333 bp	36 bp	\$97.52	6.3%	6.5%
ICE BofA Merrill Lynch US High Yield Constrained Index	-1.64%	0.84%	390 bp	17 bp	\$96.40	6.9%	7.0%

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

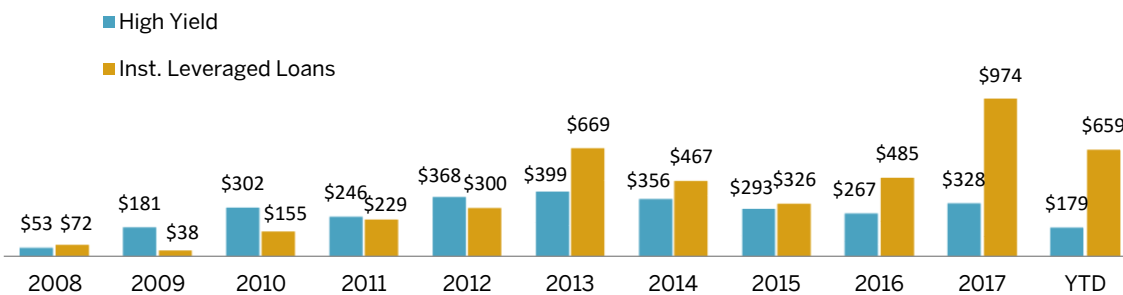
Mutual Fund Flows (\$ billion)



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	261 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	415 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	792 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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