SEIX INVESTMENT ADVISORS
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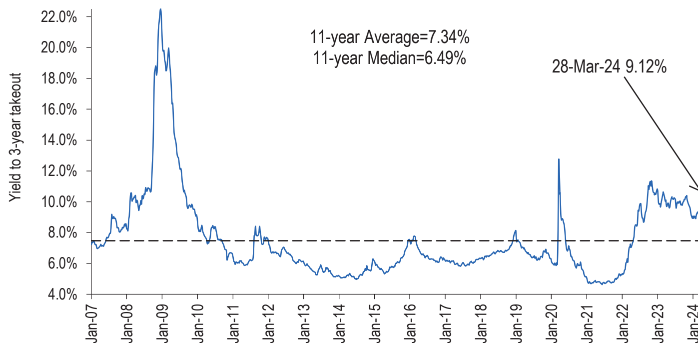
LEVERAGED LOANS

Lifted by bigger appetites and low supply

For the first quarter, the J.P. Morgan Leveraged Loan Index returned 2.65%, benefiting from steady retail inflows and solid collateralized loan obligation (CLO) origination.

YIELD TO 3-YEAR TAKEOUT



Past performance is not indicative of future results.
Source: J.P. Morgan. Data as of March 28, 2024.

Due to sticky inflation and strong economic data, the market, which had previously priced in a Federal Reserve (Fed) rate cut for early in the first quarter, now anticipates a cut further out in June. Overall, the market is divided on the Fed's rate cut path, with opinions ranging anywhere from no cuts to around two. We are still in line with the Fed's official messaging on rates. Even assuming the Fed cuts rates two or three times, we still think this leaves the bank loan market well-positioned in terms of yield and total returns for the year. That, coupled with positive technical dynamics driven by investor demand, leaves us with a constructive view of the bank loan market.

We have no major changes from a positioning perspective. Tech, services, and healthcare continue to be pretty big underweights. While we're still overweight chemicals, we took our exposure down a bit. We continue to maintain a large overweight in financials.

1Q 2024 BANK LOAN TRENDS

Takeaway: The loan product experienced steady retail inflows, strong CLO activity, and a subdued net issuance profile. Default rates, including distressed exchanges, ticked up. On balance, the index saw a solid increase in price with yields widening.

SUMMARY PROFILE OF J.P. MORGAN LEVERAGED LOAN INDEXES

	Leveraged Loan	Liquid	Second Lien	BB/B	EUR/GBP
Market Value ($mn)	1,430,971	488,206	50,204	1,261,479	330,635
Number of Loans	1,557	190	169	1,265	472
Number of Borrowers	1,327	190	161	1,075	370
Average Rating	B	B	Split B/CCC	Split BB	B
Margin	L+374	L+341	L+707	L+357	L+405
Current Yield	9.40%	9.00%	14.65%	9.02%	8.42%
Years to Maturity	4.40 yrs	4.49 yrs	4.85 yrs	4.51 yrs	4.15 yrs
Average Price	97.02	97.60	85.34	99.02	96.34
Yield	9.12%	8.50%	16.54%	8.17%	8.52%
Spread	491bp	430bp	1233bp	396bp	557bp
DM	378bp	315bp	1119bp	282bp	458bp

Source: J.P. Morgan, S&P/IHS Markit. Data as of March 28, 2024.
Note: Yield, spread and DM are to 3-year takeout and based on forward curve anaylics.

Performance: For 1Q, top contributors by industry were automotive (+3.42%), metals & mining (+3.37%), and retail (+3.36%). No industry was a detractor, with broadcasting (+1.33%), cable & satellite (+1.59%), and food & beverages (+1.85%) contributing the least.

Single B-rated loans returned +2.56% compared to returns of +2.01% and +5.14% for BB and Split B/CCC-rated loans, respectively.

As of 3/28/24: The yield to 3-year takeout was 9.12% (4Q23: 8.93%), up 19 bps for the quarter. The price on the index was approximately $97.02, up $0.61 for the quarter.

Issuance: 1Q24 institutional loan gross issuance totaled $317.7 billion, which includes $153 billion of repricing (48%), $127 billion of refinancing (40%), and a modest $38 billion of non-refi/repricing (12%).

1Q24 loan gross issuance compares to $70.3 billion and $120.5 billion in 1Q23 and 1Q22, respectively.

Demand: 1Q24 loan funds saw inflows totaling $2.8 billion compared to $10.7 billion in outflows for the same period last year. The inflows were primarily ETF-driven.

The 1Q24 CLO volume was $48.1 billion (excluding refi/resets), compared to $34 billion for 1Q23. For context, 2023's volume totaled $115.6 million.

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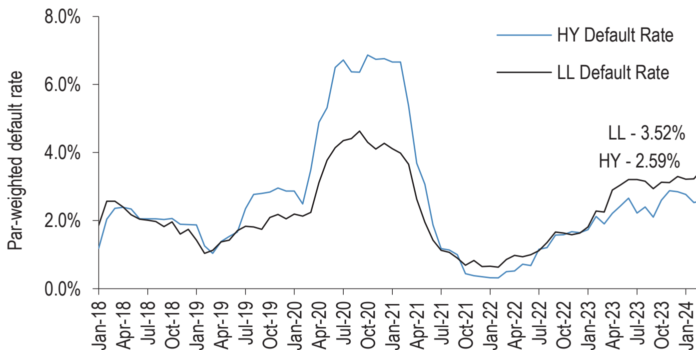
Default Rates: The loan par-weighted default rate, including distressed exchanges, ended March at 3.52%, deteriorating 37 bps for the quarter. Distressed transactions continue to play a large role in the default landscape.

LTM DEFAULT RATE based on par amount



Source: J.P. Morgan. Data as of March 28, 2024. Note: Includes distressed exchanges.

HIGH YIELD

Carried by Carry

The high yield market's 1.5% return for the quarter was largely helped by its coupon. Minus the coupon, high yield had an essentially flat performance in January and February as strong economic data and high CPI drove markets to push out rate cut expectations. However, as recession fears began to subside in March, there was more of a beta grab as investors reached for risk in the CCC-rated portion of the market. With the last six months of positive performance for high yield, issuers have come back to the market, causing new issuance to double compared to the same period last year.

We have no real changes in our positioning or our overall thesis. We continue to focus on absolute return plays and remain up in credit. We continue to clip the market coupon. Though spreads look tighter, yields still look decent. Over the quarter, we put a few dollars to work in some of the more volatile parts of the market when they were affected by rates. That said, we're waiting for pockets of volatility in single names in the overall market.

1Q 2024 HIGH YIELD TRENDS

Takeaway: High yield's total return for 1Q was helped by its coupon as well as an increased appetite for risk in March amid strong economic data.

Performance: High yield, as represented by the ICE BofA U.S. High Yield Index, had a 1.5% return, with the CCC-rated cohort leading the way at 3.22%. Single Bs came in at 1.48%, and BBs trailed at a 1.1% return. The move up in Treasury rates caused yields to widen 6 basis points (bps) from 7.69% to 7.75%. BBs started at 6.37% and widened 12 bps to 6.49%. Single Bs tightened in from 7.76% to 7.72%, and CCCs widened from 13.03% to 13.41%.

Option-adjusted spreads tightened in the quarter as high yield outperformed Treasuries, starting the quarter at 339 bps and tightening to 315 bps. BBs went from 205 bps to 190 bps, single B went from 341 bps to 308 bps, and CCCs led the pack, tightening 45 bps from 902 bps to 857 bps.

Issuance: 1Q24 high yield new-issue volume totaled $87.6 billion, most of which was comprised of refinancings as issuers continued to chip away at the maturity wall. Only $15 billion of that issuance was non-refi. In 1Q23, new issuance totaled $40.2 billion, $11.8 billion of which was non-refi.

Demand: The asset class saw $3.25 billion in positive inflows for 1Q24—a marked improvement from retail outflows of $16 billion for 1Q23.

Default Rates: As of the end of 1Q24, the default rate stood at 2.59%. We are still aligned with our forecast of a roughly 3% default rate for the year.

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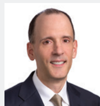
Authored by:

Leveraged Loans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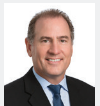
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ICE BofA U.S. High Yield Cash Pay Index is an unmanaged index consisting of all domestic and Yankee high-yield bonds maturing over one year. The quality range is less than BBB-/Baa3 but not in default (DDD1 or less). The **ICE BofA U.S. High Yield Constrained Index** is a market-value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3 but are not in default. The ICE BofA U.S. High Yield Constrained Index limits any individual issuer to a maximum of 2% benchmark exposure. The **J.P. Morgan Domestic High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market. The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. dollar institutional leveraged loans, including U.S. and international borrowers. **ICE BofA U.S. High Yield Index (H0A0)** tracks the performance of U.S. dollar denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating and an investment grade rated country of risk. The **ICE BofA BB U.S. High Yield Index (H0A1)** is a subset of the ICE BofA U.S. High Yield Master II Index and includes all securities with a given investment grade rating BB. The **ICE BofA CCC & Lower U.S. High Yield Index (H0A3)** subset includes all securities with a given investment grade rating CCC or below. The **ICE BofA Single-B U.S. High Yield Index (H0A2)** subset includes all securities with a given investment grade rating B. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

The **Secured Overnight Financing Rate (SOFR)** is widely accepted as the LIBOR replacement for loans. SOFR is based on overnight Treasury Repo Rates with nearly $1 trillion of underlying daily transactions and not subject to market manipulation. Since SOFR is a daily rate, Term SOFR was developed as a forward-looking rate from SOFR futures trading.

A **Basis Point (bp)** is equal to 0.01%.

Collateralized Loan Obligations are securities backed by a pool of assets often low-rated corporate loans.

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Past performance is no guarantee of future results.

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