A record credit cycle ends abruptly … as leveraged loans suffer losses rivaling 2008 … and prices plunge from near-par levels. The result: a record amount of distressed debt … and a shut-down in the new-issue market … as demand in the asset class evaporates.

... as demand in the asset class evaporates.

Sources: LCD, an offering of S&P Global Market Intelligence; S&P/LSTA Leveraged Loan Index

Inside

2 End of an era: Loans crash in March; volatility soars
10 Loan volume booms and busts in tumultuous 1Q
13 With liquidity in focus, RC gets a workout
17 CLOs: A tale of two quarters
21 Global view: Volume runs hot until ice cold March
22 High-yield: Cliffhanger ending
The longest economic expansion in U.S. history came to an abrupt end in March, upending a record credit cycle during which the U.S. leveraged loan asset class doubled in size and became a dominant player in the capital markets.

Putting it mildly, the loan market collapse and volatility were unprecedented.

The S&P/LSTA Leveraged Loan Index plunged by 12.37% in March, the second steepest monthly decline in the 23-year history of the Index. Before COVID-19 swept the globe, the top three biggest losses for loans were during the global financial crisis following the Lehman Brothers bankruptcy in September 2008.

Prices in the usually staid loan market gyrated wildly last month. On March 18, the Index declined by 3.74%, the biggest daily loss on record. In fact, in the history of the Index there are only four instances of daily losses exceeding 3%—all of them last month. Likewise, there are only nine days on record when loans lost more than 2% per day. Six of these days were last month (the other three were in October and November 2008). That said, the biggest daily gain for the Index also was last month—3.33% on March 26, which followed a 2.05% gain on March 25, the third-biggest daily gain on record.

As a result, secondary market volatility—as measured by the standard deviation of daily returns—spiked to...

If you'd like to continue reading the complete article, as well as the other trend-level stories in this edition of the LCD Quarterly Review, click here.

Sources: LCD, an offering of S&P Global Market Intelligence; S&P/LSTA Leveraged Loan Index
Coronavirus crisis vs 2008: a look at distress, CLOs, credit quality

The volume of loans priced below the often cited 80-level for distress has exceeded the 2008 crisis-era distress peak. The current landscape, however, is notably different versus 2008, both for better and worse. In this analysis LCD looks at the current crisis, and its predecessor, as well as shifts that could impact liquidity and valuations during the next downturn.

• Market size

March’s historic plunge in the U.S secondary loan market pushed the volume of outstanding debt priced below 80 to $672 billion at the close on Monday, March 23, an increase of over 50% from the prior Friday’s close and outpacing the prior record of $472 billion (in 2008) by 40%.

In today’s $1.2 trillion leveraged loan market, the volume of loans below 80 represented a “distress” ratio of 57%, versus 81% at the 2008 distress ratio peak, when the size of the market was $594 billion (indeed, when the size of the market was less than the volume priced below 80 at the March 23 close).

While the absolute numbers are high, we are still well short of an 81% distress ratio—in today’s market, that would amount to almost $1 trillion of distressed loans in the S&P/LSTA Leveraged Loan Index.

• Buying trends

In addition to market size, one of the biggest shifts during the bull-run was the increasing dominance of CLOs as the primary buyer of institutional leveraged loan paper in the primary market. According to LCD, CLOs accounted for 71% of allocations in 2019, compared to 52% at the 2008 distressed peak.

This is important, as CLOs typically are sticky in terms of limited forced selling, with most not required to mark-to-market.

While there are limitations on characteristics such as ratings of the collateral (a typical CLO can only hold 7.5% of the collateral pool in triple-C debt), plummeting prices in the secondary do not force CLO asset sales.

This should help limit the vicious cycle that develops when managed accounts or retail funds are forced to sell assets in order to raise cash for outflows. This, in turn, causes further underperformance of loans, leading to more outflows, and so on and so on.

However, while CLOs are typically not forced to sell, they are unlikely to be buyers en masse of distressed debt, and are far from being the buyer of last resort. This is because CLOs often include specific provisions when purchasing assets below a documented threshold price, typically 80, sources explain, with these assets referred to as Discount Obligations (DO).

Criteria around buying DO vary from CLO to CLO, but tend to center on...

If you'd like to continue reading the complete article, as well as the other trend-level stories in this edition of the LCD Quarterly Review, click here.
Leveraged Commentary & Data

LCD News – U.S.
Tim Cross (212) 438-2724
tim.cross@spglobal.com
John Atkins (212) 438-1961
john.atkins@spglobal.com
Jon Hemingway (212) 438-0192
jonathan.hemingway@spglobal.com
Gayatri Iyer (212) 438-2726
gayatri.iyer@spglobal.com
Alan Zimmerman (646) 415-8143
alan.zimmerman@spglobal.com
Richard Kellerhals (917) 622-4457
richard.kellerhals@spglobal.com
Shivan Bhavnani (212) 438-0335
shivan.bhavnani@spglobal.com
Mairin Burns (212) 438-0584
mairin.burns@spglobal.com
Jakema Lewis (212) 438-0537
jakema.lewis@spglobal.com
Tyler Udland (212) 438-0296
tyler.udland@spglobal.com
Alexander Saedy (212) 438-0485
alexander.saedy@spglobal.com
Jack Hersch (212) 438-0152
jack.hersch@spglobal.com
Copy Edit/Production
Brenn Jones (212) 438-2704
brenn.jones@spglobal.com
Bob Matthes (212) 438-3592
robert.matthes@spglobal.com

Michael Baron (212) 438-4816
michael.baron@spglobal.com
Jamie Tebaldi (212) 438-1462
jamie.tebaldi@spglobal.com

Luke Millar (44-20) 7176-3926
luke.millar@spglobal.com
David Cox (44-20) 7176-7829
david.j.cox@spglobal.com
Nina Fillman (44-20) 7176-3995
nina.fillman@spglobal.com
Isabell Witt (49-173) 231-5018
isabell.witt@spglobal.com
Francesca Ficai (020) 7176-0659
francesca.ficai@spglobal.com

Copy Edit/Production
Alex Poole (44-20) 7176-3933
alexander.poole@spglobal.com

Marina Lukatsky (212) 438-2709
marina.lukatsky@spglobal.com
Miyer Levy (212) 438-2714
miyer.levy@spglobal.com
Taron Wade (44-20) 7176-3661
taron.wade@spglobal.com
Cuong Huynh (212) 438-5202
cuong.huynh@spglobal.com
Sara Shehata (212) 438-4441
sara.shehata@spglobal.com
Nicholas Boekel (212) 438-3847
nicholas.boekel@spglobal.com

Leoni Dackham (44-20) 7176-6025
leoni.dackham@spglobal.com
Rachelle Kakours (212) 438-7258
rachelle.kakours@spglobal.com
Igor Silva (212) 438-5837
igor.silva@spglobal.com
Shaundra Edmonds (434) 951-7658
shaundra.edmonds@spglobal.com
Daniel Levine (212) 438-2213
daniel.levine@spglobal.com
Tim Mastracci (434) 951-4512
timothy.mastracci@spglobal.com
Carl Syverud (434) 529-2846
carl.syverud@spglobal.com
Brian Wright (212) 438-1683
brian.wright@spglobal.com
Eric Lehmann (212) 438-1689
eric.lehmann@spglobal.com
Vincent Sireci (212) 438-6604
vincent.sirect@spglobal.com
John Kenneth Muni (434) 205-5289
johnkennethmuni@spglobal.com

Marketing/Sales
Neslyn D’Souza (212) 438-2708
neslyn.dsoouza@spglobal.com
Vanessa Greaves (212) 438-2292
vanessa.greaves@spglobal.com
Chris Polanco (212) 438-3231
christopher.polanco@spglobal.com
Hannah Willshire (212) 438-1018
hannah.willshire@spglobal.com

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output thereof) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P Global Market Intelligence’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. While S&P Global Market Intelligence has obtained information from sources it believes to be reliable, S&P Global Market Intelligence does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P’s public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/stratratings.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and its affiliates (“BoAML”) indices and related information, the name “Bank of America Merrill Lynch”, and related trademarks, are intellectual property licensed from BoAML, and may not be copied, used, or distributed without BoAML’s prior written approval. The licensee’s products have not been passed on as to their legality or suitability, and are not regulated, issued, endorsed, sold, or promoted by BoAML. BOFAML MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE INDICES, INDEX DATA, ANY RELATED DATA, ITS TRADEMARKS, OR THE PRODUCT(S) (INCLUDING WITHOUT LIMITATION, THEIR QUALITY, ACCURACY, SUITABILITY AND/OR COMPLETENESS).