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Primary leveraged yields widen across the board due to rising Libor rate

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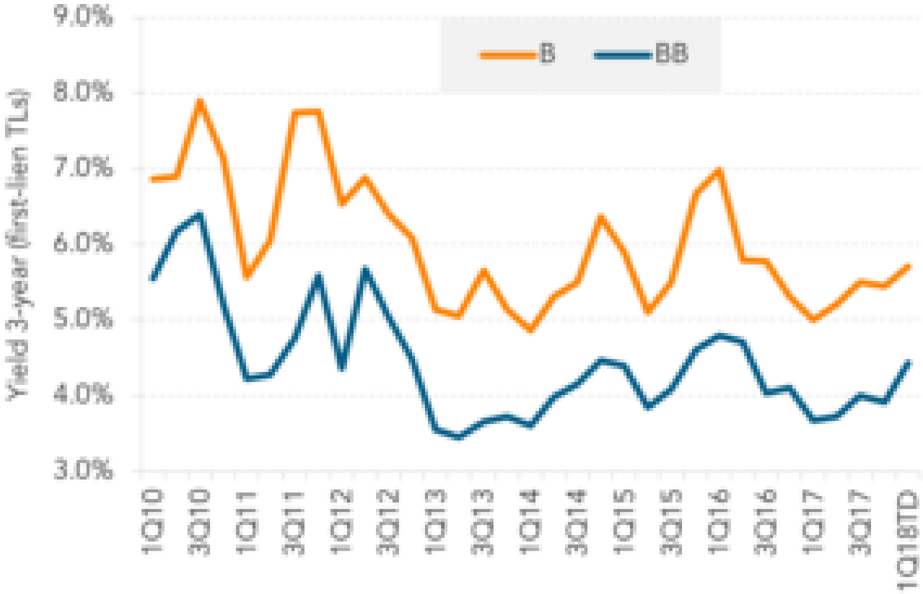

The increase in Libor rates has boosted yields on institutional term loans this quarter. The average yield, assuming a three-year term to repayment is at 5.42% so far in 1Q18; up from 4Q17’s 5.02%. Driving up the yields is the increase in the 3-month Libor rate, which is currently at 2.3%, up from 1.69% at the close of 2017. Average spreads have actually declined to their lowest level since 3Q07, at 3.3% in 1Q18. Yields have widened more for higher BB-rated issuers. The average yield on first-lien institutional term loans for BB-rated issuers is currently at 4.43%; up from 3.92% in 4Q17. However, the average spreads for these higher-rated issuers has dropped 11bp to 2.31% this quarter and there has been a significant amount of BB-rated issuers that have repriced or refinanced existing credits at a low spread of 175bp over Libor. For B-rated issuers, yields are up to 5.71% from 5.45% in 4Q17, but spreads are down 27bp to 3.58% in 1Q18. Lower spreads continue to lure issuers across the board to reprice or refinance their deals to cut their costs. Investors have been very receptive, but some deals have faced some pushback. While downward price flexes have dominated flex activity, in the past week, six issuers have seen upward price revisions during syndication.

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