BDC share prices rebound, returns turn positive YTD

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After showing a declining trend over the last year, BDC share prices are back on the mend this earnings season. The average share price to net asset value per share saw a sharp uptick last week to 0.902 times, up from 0.86-0.87 times in April. As a result, the Wells Fargo BDC Index is back in positive territory with a 1.5% return year to date. The index is up 2.46% and 4.24% in the current month and quarter respectively. BDCs showing the strongest returns this year include OHA Investment, Triangle Capital, American Capital Senior Floating, Oxford Square Capital (formerly TICC), Capitala and CM Finance. However, the landscape remains bifurcated as some BDCs are exhibiting double digit negative returns year to date including Medley, Alcentra and THL Credit. Following the recent ruling allowing BDCs to increase their regulatory leverage limit to 2:1, the BDC space has seen some positive price momentum as a whole. Many BDCs have already received board approval to increase leverage while others are still weighing their options on how they want to proceed. Sources indicate we will not see a meaningful change to the landscape as a result of the ruling near term as many hurdles still exist such as getting shareholder approval, getting the rating agencies comfortable with increased leverage and approaching bank lenders to amend credit facilities. However, over the intermediate to longer term, market sources say the higher quality BDCs will have more success in tapping the market for increased leverage while the under-performers will struggle to access the incremental leverage.

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