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Dramatic shift in secondary loan market price distribution

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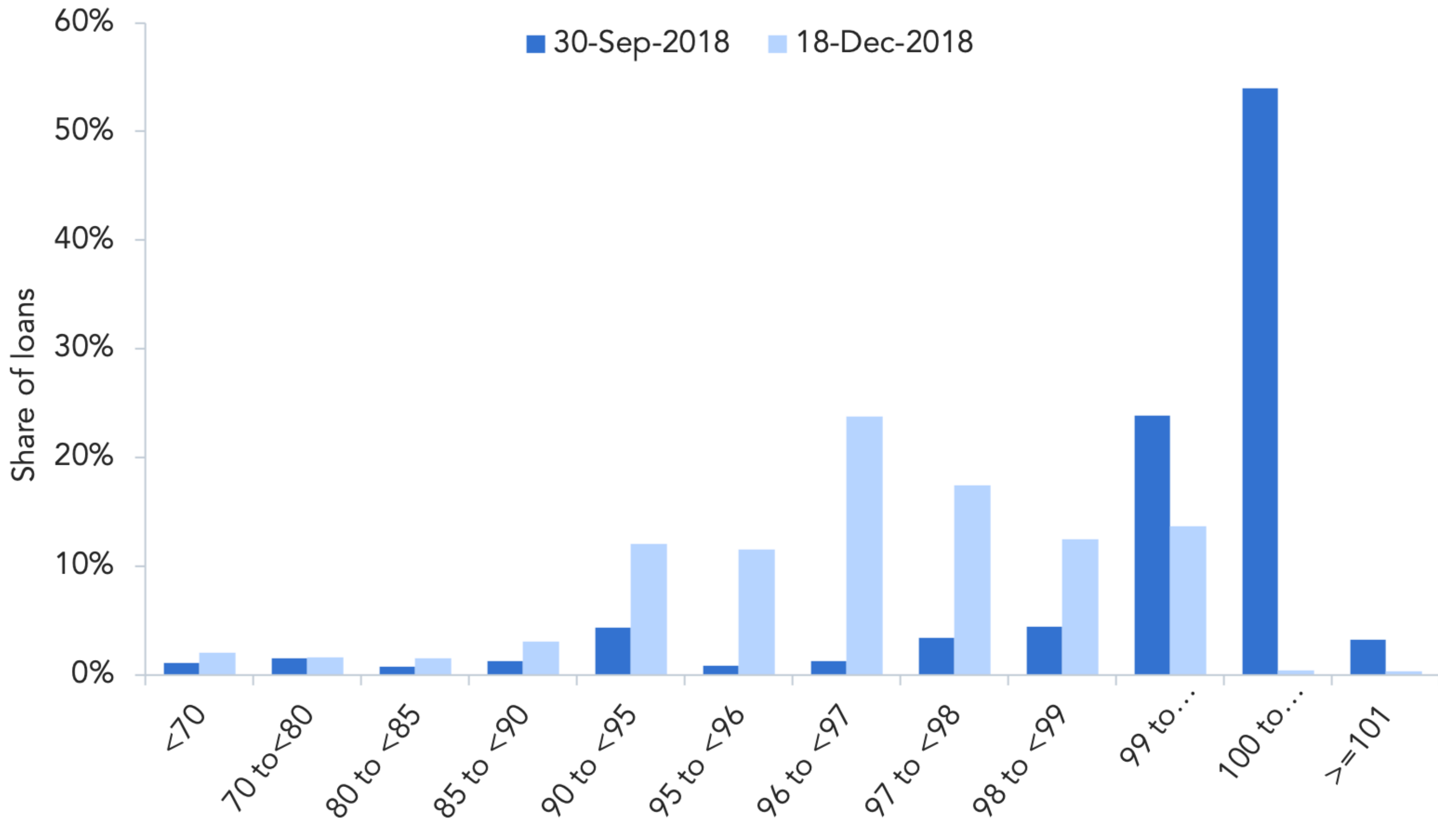

Source: Markit, Debtwire Par

The secondary loan market has come under pressure in recent weeks amid increased financial market volatility, a jump in risk aversion and a sell-off in loan mutual funds & ETFs (aka retail funds). Outflows from retail funds in the most recent week was a record USD 2.7bn, taking outflows in the last four weeks to a huge USD 8bn, according to Lipper. In the secondary loan market, there has been a dramatic shift in the distribution of prices. The par-plus share of the market has tumbled to less than 1% from 57% at the start of the quarter, while the 99-100 category now accounts for only 14% of credits. There is now a much broader range of secondary prices, with the 96-97 category being the most popular with 24% of loans. One portfolio manager notes that "you can buy performing credits in the mid-90s for the first time in years." Overall, the average bid on term loans has declined to the 95 context, a drop of 320bps so far in 4Q18 and with nearly half of that decline occurring this month.

Contact: [Colm (CJ) Doherty]