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BDC share prices rally after plummeting to below 0.4x book value earlier in week

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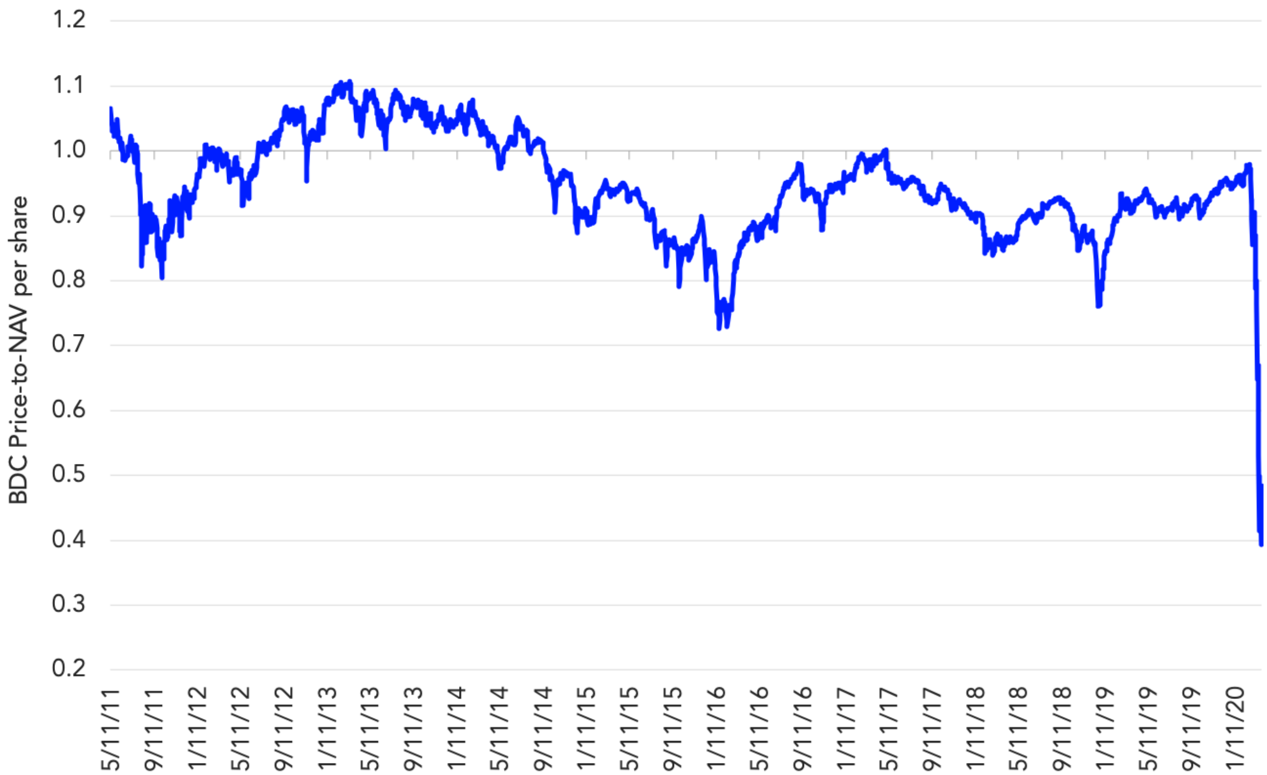

BDC share prices rallied on Thursday following the coronavirus relief bill cleared by the U.S. Senate. At the start of the week, BDCs were brought back to their darkest days of The Great Financial crisis with average BDC share price-to-book value plummetting to only 0.39x. However, prices have since bounced back to 0.48x late in the week. Unfortunately, this is still a far cry from earlier this year when the universe came close to returning back to book value. The vast majority of the universe still trades below 0.75x book value. Newtek is leading the pack at 0.84x given the fiscal stimulus bill provides small business relief via SBA 7(a) to provide aid to small businesses to cover things like payroll, rent and interest payments. However, investors are still worried about BDC issuer performance and whether middle market borrowers have the ability to weather the shut-downs seen across the country. It is very likely that mark-downs, covenant relief and missed P&I payments will be prominent themes for the 1Q20 and 2Q20 fiscal quarters. Meanwhile, many BDCs had upped their balance sheet leverage to record highs over the last few quarters to help maintain their dividend payouts amid falling libor. This will intensify volatility as many BDCs may be in jeopardy of breaching their asset coverage and tangible net worth covenants. And it remains to be seen how banks that extend these leverage facilities will react to falling asset values.