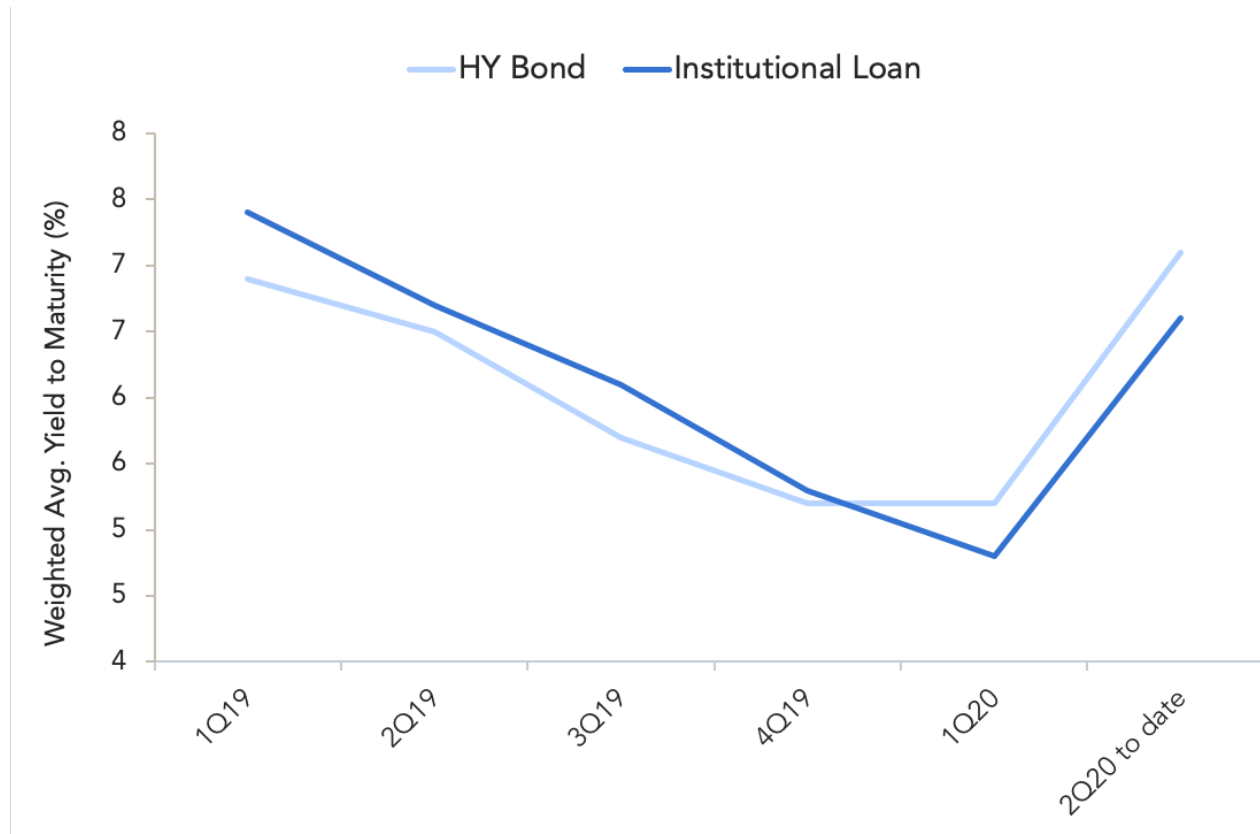


Cost of borrowing rises across the leveraged debt markets in 2Q20

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Source: Debtwire Par

The cost of borrowing comes at a higher price in 2Q20 as risk is repriced in the leverage debt markets. Following several quarters of tightening spreads, the weighted average yield to maturity (YTM) of bonds issued so far in 2Q20 has increased to 7.1% from 5.2% in 1Q20. Pricing has begun to show signs of improvement, however, with deal flow in early June pricing at 6.1% on average, down from 7.5% in April and 7.2% in May.

The high yield bond market has priced roughly USD 105bn of deals since the markets reopened in April. Lenders have sought additional protections, as many companies tapping the market operate in sectors hit hardest by the coronavirus pandemic and in turn face an uncertain path forward. As a result, the proportion of notes issued on a secured basis jumped to 45% in 2Q20, up from just 31% in the first quarter. Pricing on secured bonds has jumped to 8.1% so far in 2Q20 from 6.1% in 1Q20, driving pricing levels in the overall bond market higher.

Some notable deals include **Royal Caribbean**'s 9.125% guaranteed notes, **Par Pacific**'s 12.875% secured bond and **Tenet Healthcare**'s 4.625% paper.

In the institutional loan market, which has seen more muted issuance of just USD 29bn since the beginning of April, yields on first-lien loans have ticked up to 6.6% on average from 4.4% in 1Q20. Similarly, margins have widened to 471bps in 2Q20 from 307bps in 1Q20 when a wave of repricings pushed pricing benchmarks tighter.

Over 70% of institutional loan issuance since April has been slated for new money purposes, in stark contrast to 1Q20 when repricings drove the market. Some recent deals include **Xperi**'s USD 1.05bn TLB (priced at Libor+ 400bps with a 90.5 OID), **Cornerstone OnDemand**'s USD 1bn TLB (L+ 425bps with a 97 OID), and **Champion X**'s USD 537m TLB (paying L+ 500bps with a 94.5 OID).