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Mercurial year in loan secondary market driven by inflation fight

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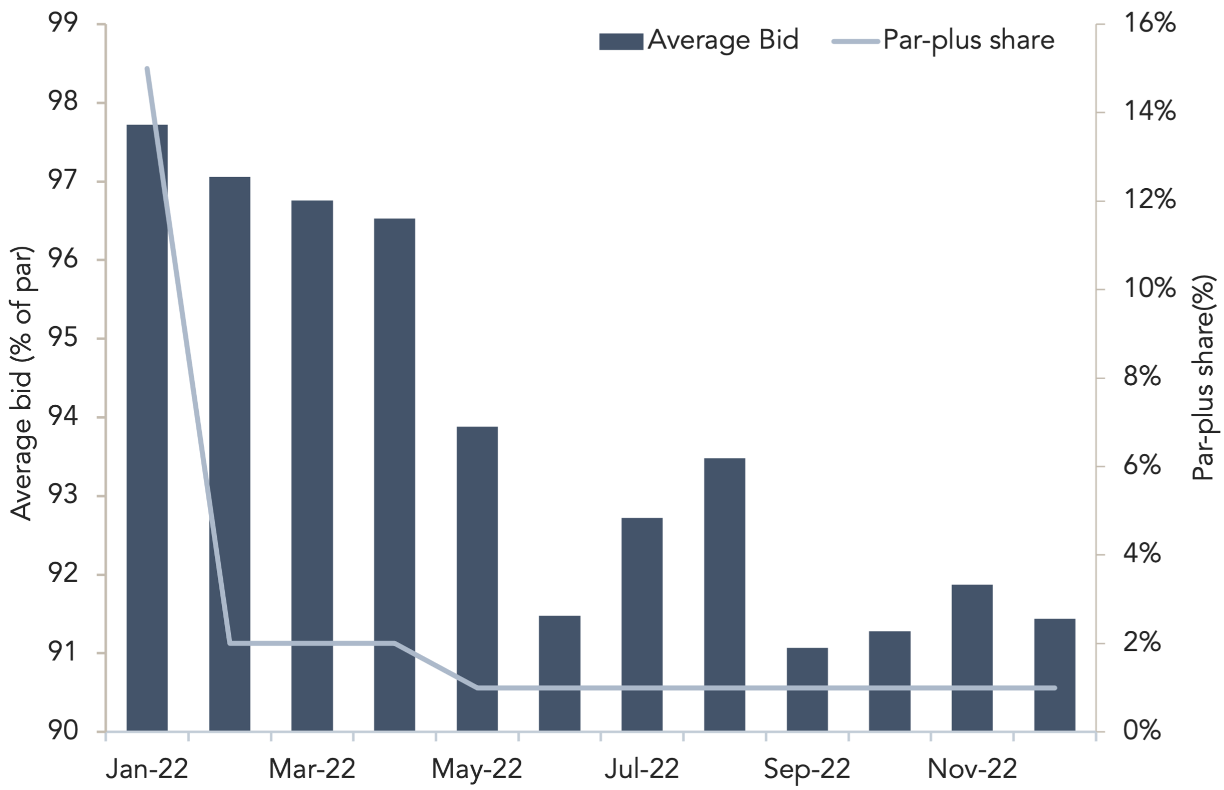

Source: Debtwire Par

It has been a mercurial year in the loan secondary market. The year started off strong with average bids ending the month of January at 97.72 and the share of loans trading at par or greater surpassed 15%, as optimism pulsed through a market desperate to exit the depths of a pandemic-driven downturn. To shore up liquidity during the worst of the coronavirus (COVID-19) pandemic the Federal Reserve stepped in, making unprecedented purchases of leveraged debt. This drove demand and kept capital flowing as companies regained their footing and individuals were forced to distance. Investors jumped back into the market, scooping up debt at a discount, and sent secondary prices rapidly back up. Between April and December of 2020, average loan bids appreciated by more than 14 points.

The story quickly changed, however, as economists began sounding the alarm on runaway inflation, lockdowns persisted in China, in turn holding up supply chains, and the Russian invasion of Ukraine rocked the global economy. Then, in March, the Fed announced plans to raise the federal funds rate by 25bps to combat persistent inflation – its first rate hike since 2018. In May rates were raised an additional 50bps, and in June the first 75bps hike since 1994 was implemented. During this time, average bids fell more than five points, to an average of 91.48.

Gains were made between June and August, as investors weighed the likeliness of a “soft landing” from inflation amid positive economic readings, as well as opportunistic investors buying the dip. But following fiery comments from Fed Chairman Jerome Powell and a third consecutive 75bps hike in September, volatility took hold once again and average bids tumbled to their lowest point this year, at 91.07.

Bids have continued to move up and down with announcements on inflation – following two positive readings in October and November, bids rose. But since the Fed has indicated it is willing to hold the benchmark rate at an elevated level through 2023 – longer than investors had anticipated – the market has weakened once more, with bids dipping to 91.44 on 21 December.

(Past performance is no guarantee of future results.)