Leveraged loans & HY bonds post gains in secondary market to start 2023

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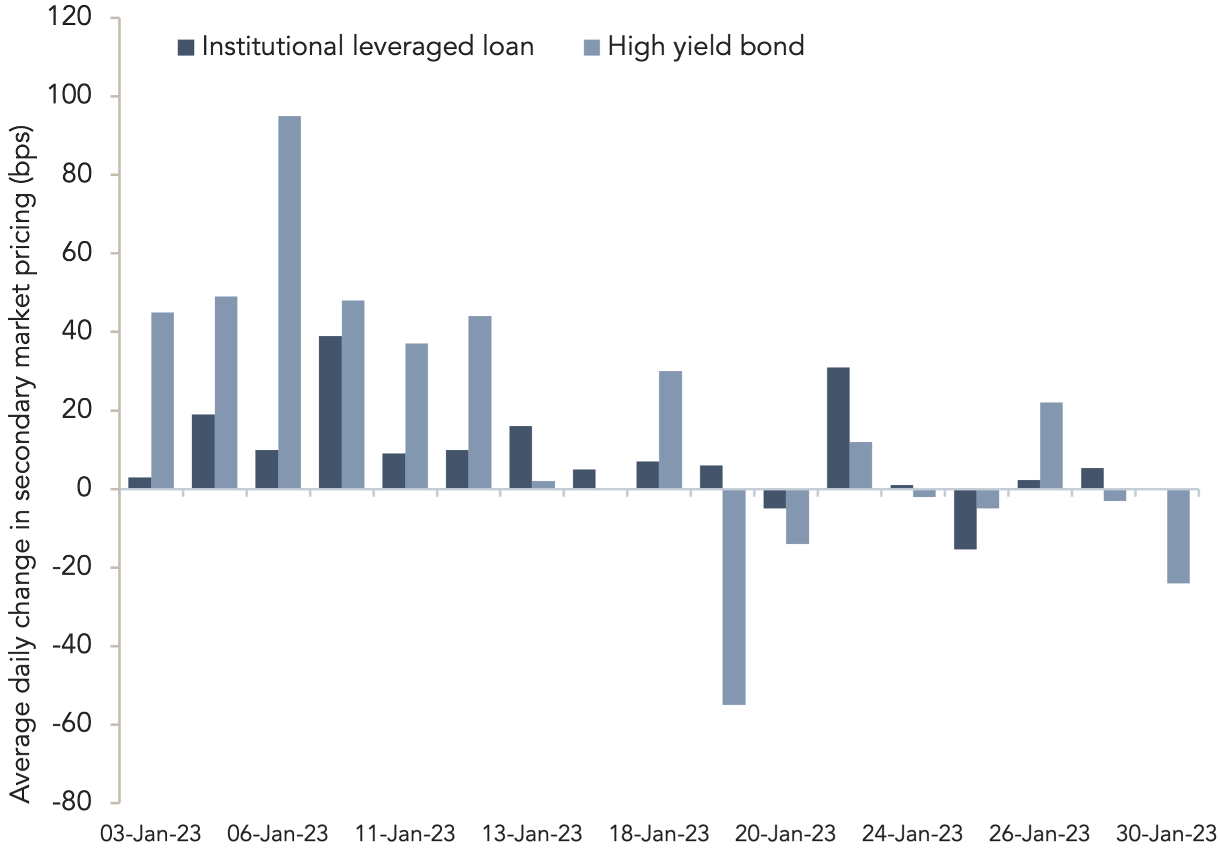

Source: Debtwire Par

The new year kicked off with positive news from the Bureau of Labor Statistics, reporting on 6 January that the unemployment rate had fallen to 3.5% during December, and that 223,000 jobs were added to the workforce. Loans and bonds saw significant upswings in secondary market pricing leading up to the announcement, and continued to more upwards in anticipation of the Consumer Price Index reading on 12 January. Bonds prices appreciated nearly two points in the first week of 2023, with loans posting a more subdued gain of 32bps. Loans picked up another 73bps the following week leading up to the inflation reading, while bonds moved up another 131bps. So far this month, loan bids have moved up to 92.94 from 91.49, with the share of loans bid above par improving to 5% from 1%, while bond pricing has moved up to 88.98 from 85.88, with yields sliding to 8.00% from 8.83%.

Overall inflation fell to 6.5% in December from 7.1% in November on an annual basis, just enough of an improvement to keep investor sentiment positive. More recently, US economic growth has proven to be more resilient than estimated, with fourth-quarter gross domestic product (GDP) expanding 2.9% on an annual basis, a milder slowdown from the third-quarter figure of 3.2% than analysts estimated, once again pointing to strength in the US economy.

Loan bids and bond prices held fairly steady in leadup to the Fed’s latest decision on Wednesday (1 February) to raise rates by 25bps. It marks a further cooldown in the Fed’s fight against inflation, and once more highlights preceived strength in the US economy. Though investor sentiment is positive for the moment, a Fed determined to rein in inflation has made it clear that it is willing to hold the Federal Funds rate above 5% through 2023 even as more positive news trickles in. At its current target range of 4.5-4.75%, investors should expect rate hikes to continue in 1H23.

(Past performance is no guarantee of future results.)