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Our family winter break in Turks and Caicos last week was highlighted by two discoveries. First, neither of our daughters are particularly interested in water activities. And second, their all-inclusive meal mainstays, despite a world of delicacies, were chicken nuggets and cotton candy.

We say this, not to disparage young girls' dietary or athletic choices. But it set vacation expectations so low that when one casually asked for a custom-made smoothie and the other suggested foosball in the game room, wild parental joy ensued.

Such seems to be the case with the current state of the leveraged loan market. A modest improvement in both secondary trading levels as well as primary issuance so far this month has suggested to analysts that the credit market is on the mend from last year's work stoppage.

Case in point are prices for recently issued loans. As our *Chart of the Week* shows, secondary trading levels have improved month-by-month. Specifically, loan prices at issue, on-the-break, and at month-end (all stats per LCD) are up since October, a sign of strengthening market conditions.

To dig into the weeds a bit, broadly syndicated loans are priced where bank syndicates estimate the market to be. Assuming the SOFR spread is at market (hold that thought), the OID (original issue discount) – a/k/a fee to participating lenders – becomes the initial price at which the loan opens to trade.

When trading begins ("at the break"), loans perceived to be priced appropriately to the market tend to trade up. Those that are not trade down. Many variables are at work, but BSL secondary prices (which move inversely to yields) are efficient relative to supply/demand dynamics. Higher prices suggest improved loan appetite and provide market clearing evidence for future primary issuance.

For SOFR spreads, the best indicator where markets are headed is flex. Bank loan arrangers generally have the ability to increase spreads (and OID) from contractual levels to meet perceived demand. Of course issuers can likewise pressure lenders to flex down pricing if demand is swamping the desired financing amounts.

LCD data is showing marked improvement in the share of deals being flexed down versus up. Back in May well over 80% of loans were either flexed wider or not at all. Last month 80% were flexed tighter. It's important, though, to recognize the lag effect in pricing. Arrangers set terms weeks even months before launch, so markets might be radically different. Flexing down from unusually high all-in pricing, as was the case in late 2022, might still result in an expensive deal.

The next indicator of a better BSL market would be the level of refinancings. Last year repricings were all but absent as terms went only one way. With share percentages of existing loans trading at par or above still only in the single digits, we've got a long way to go to see issuers travel to find better weather.