Derisking remains key focus for loan issuers and investors alike

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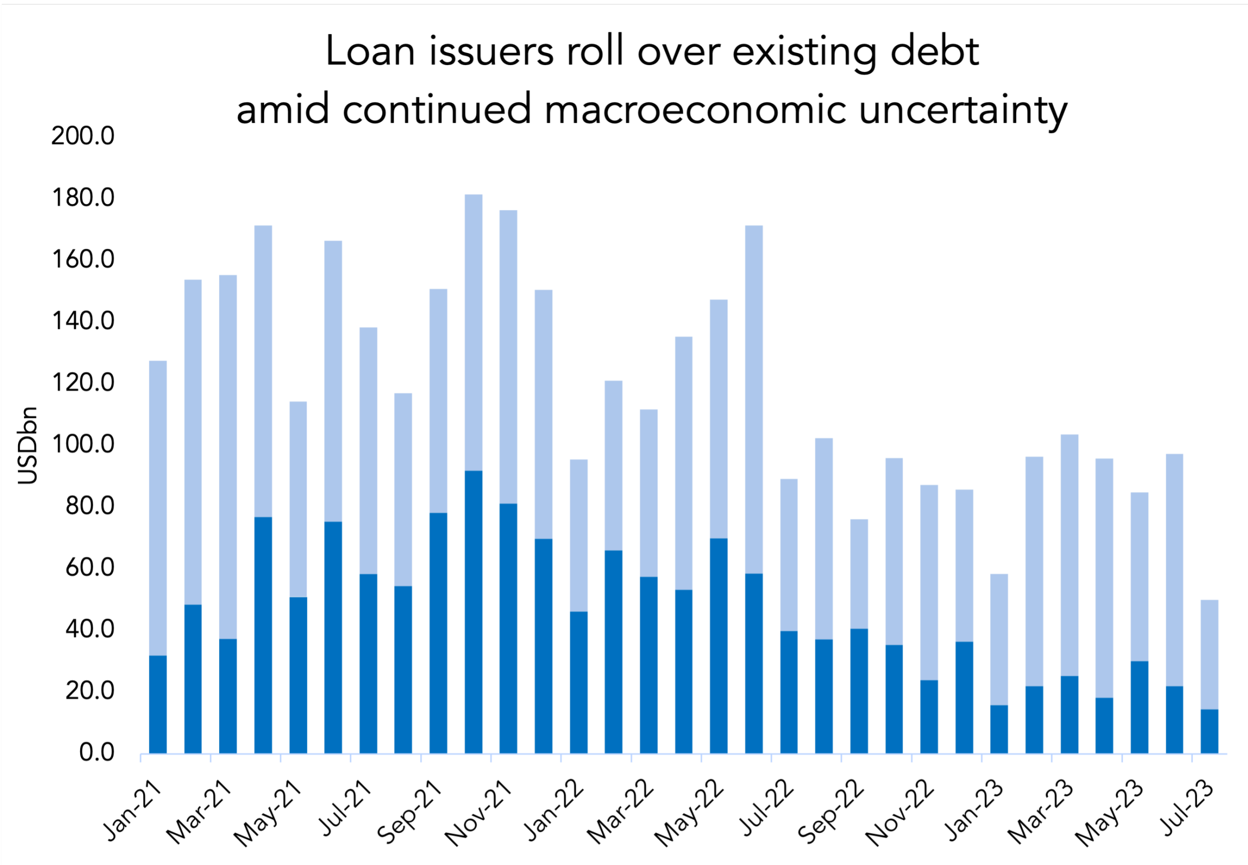

Source: Debtwire

There has been a striking 70% year-on-year decrease in new money institutional activity in the loan market following a continued lack of supply from M&A auctions processes. In its place, refinancing has taken center stage, propping up issuance at over 80% of the total—a remarkable shift from the trend observed in September last year when new money reached over 90% of issuance.

The continued reliance on refinancing activity via amend and extend transactions show issuers in a holding pattern, continuing to push out debt due to mature in the near term while future macroeconomic predictions remain unreliable.

Within the debt that has been raised, there has been shift towards higher-rated firms in 2023 with 39% of deals rated BB or above in 2023, up from 32% in 2022 and 30% in 2021, which shows a market actively heading toward the safety of higher rated credits. This adjustment, while notable, falls within historical patterns and represents a calculated adaptation rather than a drastic departure from established norms. In line with this move, total and net leverage on new issuance has continued to decrease. Gross leverage in July fell to 3.9x, having fallen from 5.5x at the end of 2020.

Meanwhile, defaults hit the 3% mark for leveraged loans in July, having steadily risen from 0.4% in February 2022, according to Fitch Ratings. Healthcare and pharmaceutical firms continue to lead the wave of defaults with almost USD 14bn worth of loans within the last twelve months.

(Past performance is no guarantee of future results.)