



US Loan Market – 2021: Charting the Market Rebound

A Refinitiv LPC Special Report

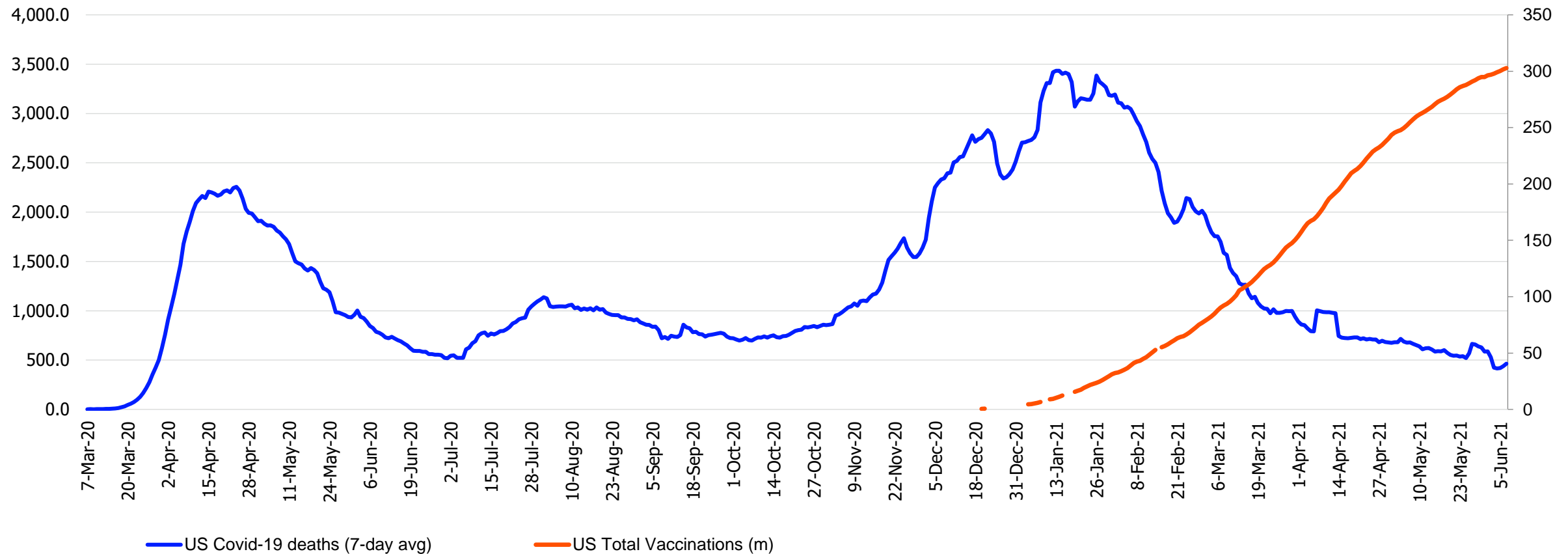
June 2021



Effectiveness of vaccine rollout and distribution saves lives in the US

For 137 days straight, between Nov. 6, 2020, and Mar. 22, 2021, the US averaged over 1,000 Covid-related deaths per day, totaling over 307k during that span. Since late December, Covid-related deaths have dropped below 500/day as over 300 million Americans have been vaccinated against the Covid-19 virus.

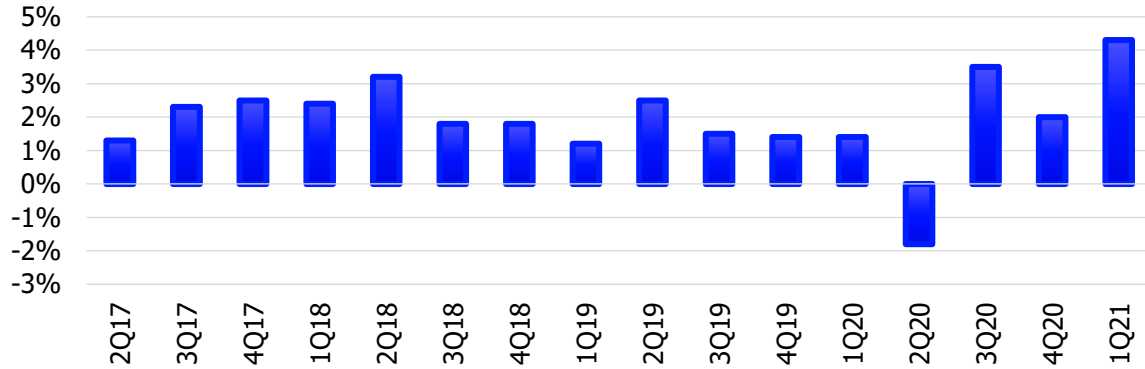
(Left) US Covid-19 deaths (7-day avg) & (Right) US Total Vaccinations (m)



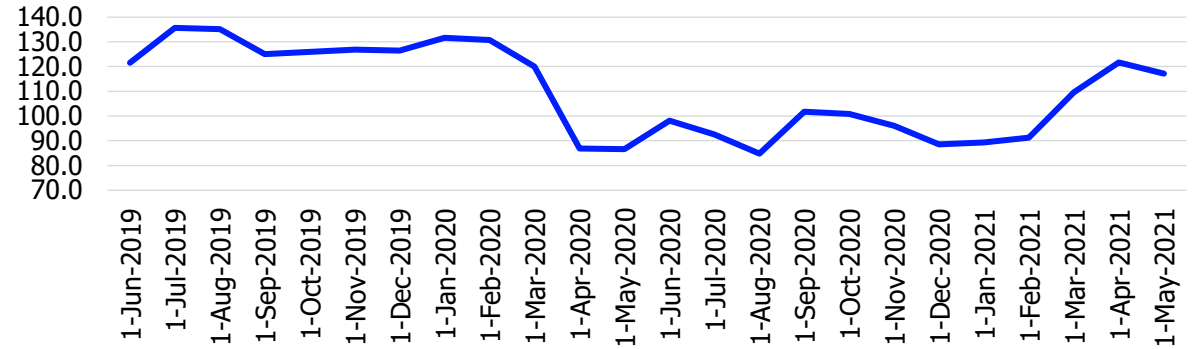
Despite inflation concerns and recent employment numbers coming up short of expectations, vaccine rollout accelerates reopening

One lender recently told Refinitiv LPC that supply chain logistical issues and the struggle for companies to hire people were impacting things “across the board,” but noted it was not devastating, and more a market functionality frustration

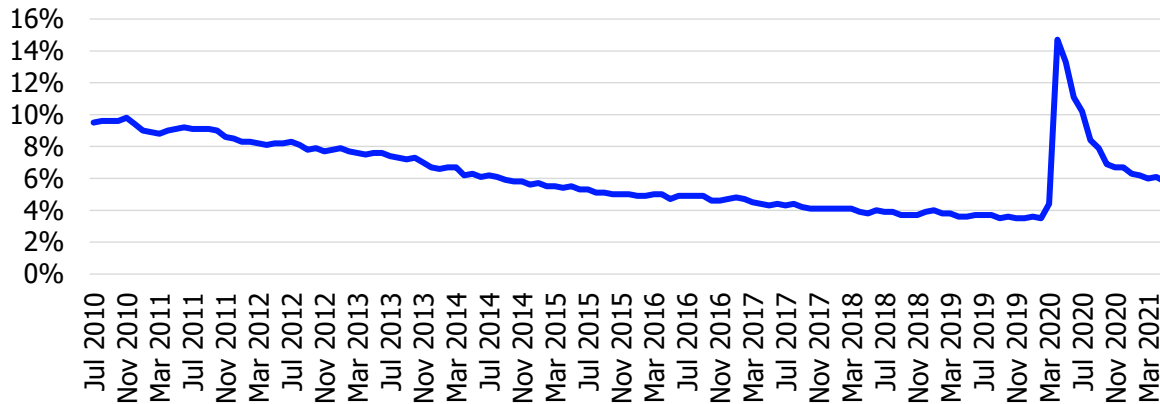
US Gross Domestic Product (% change from preceding period)



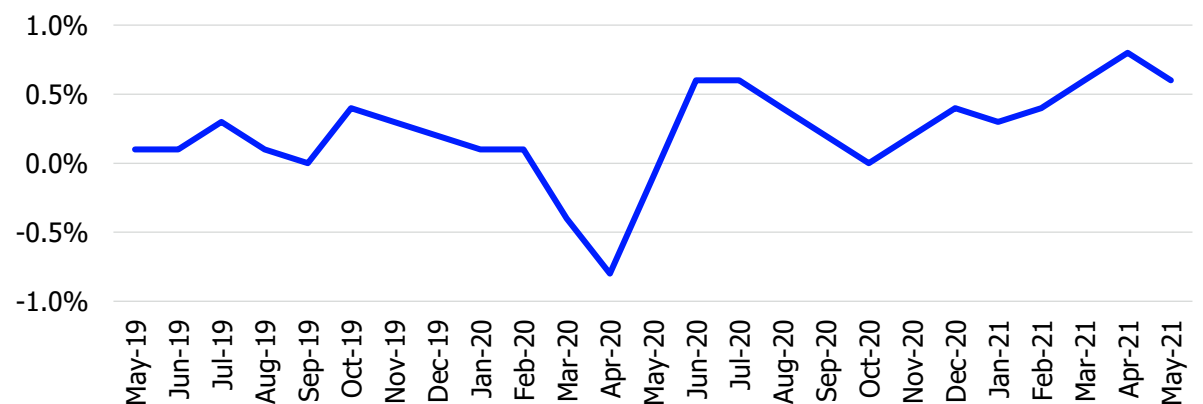
US Consumer Confidence



US Unemployment Rate



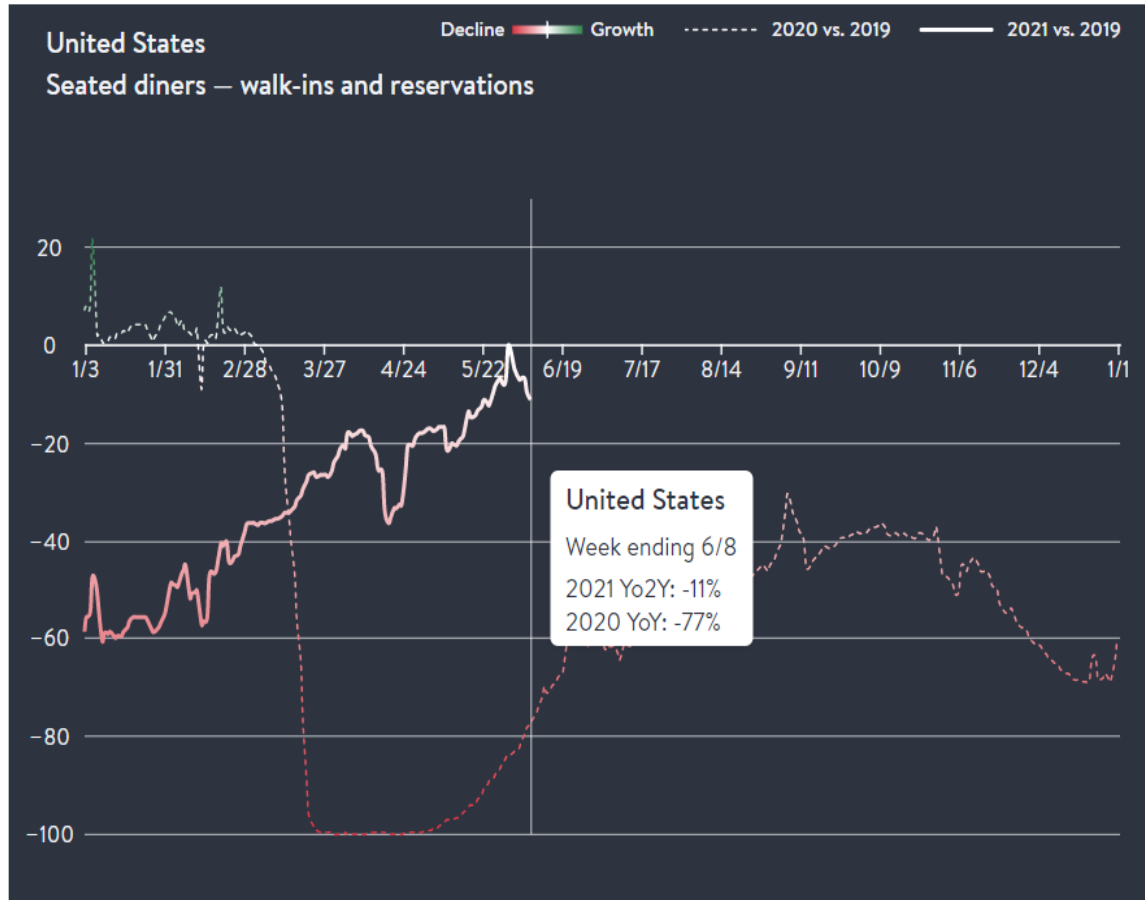
US Consumer Price Index



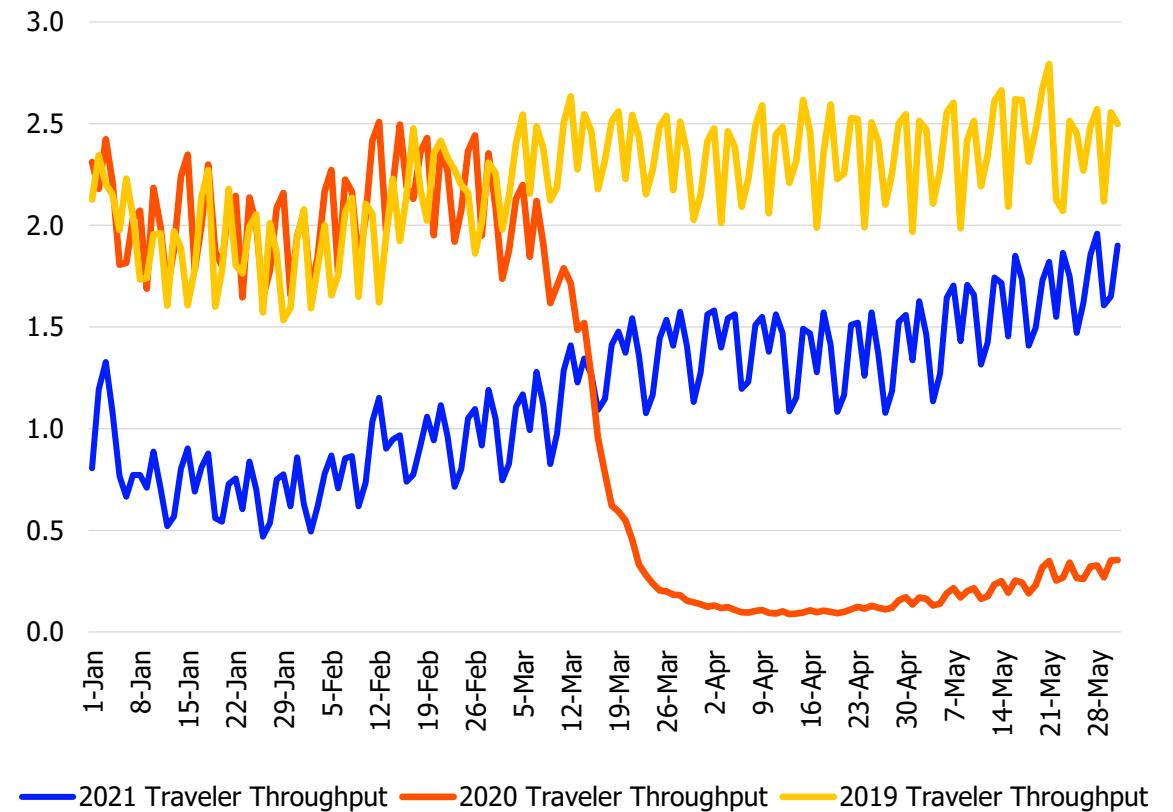
OpenTable seated diner data shows restaurants are near-to 2019 levels, while TSA travel numbers show continued increases in number of airline passengers

However, airlines expect to continue to see sub-2019 travel volumes due to a slower pick-up in business and international travel

OpenTable Seated Diners: 2021 vs 2019, 2020 vs 2019



TSA Checkpoint Travel Numbers (M): Jan. through May 2019, 2020, 2021



Major financial institutions are plotting a return to the office and laying out visions for a future hybrid model

Wells Fargo & Co

The bank said in March it plans to start bringing workers back to its offices after Labor Day due to the increasing availability of vaccines. The company is evaluating whether to allow certain businesses or functional subgroups in the United States to return to the workplace before Labor Day.

Goldman Sachs Group Inc

The bank is planning to bring U.S. employees back to the office by mid-June.

Credit Suisse

Credit Suisse in July 2020 launched a global program evaluating various work-from-home options, which are expected to shape its post-pandemic working models. It has been monitoring and adapting work arrangements since launching work-from-home globally in March 2020, taking into account local guidelines.

JPMorgan Chase & Co

The largest U.S. bank will bring its employees in the United States back to the office on a rotational basis from July and plans to maintain a 50% occupancy cap during the return-to-office phase.

Citigroup Inc

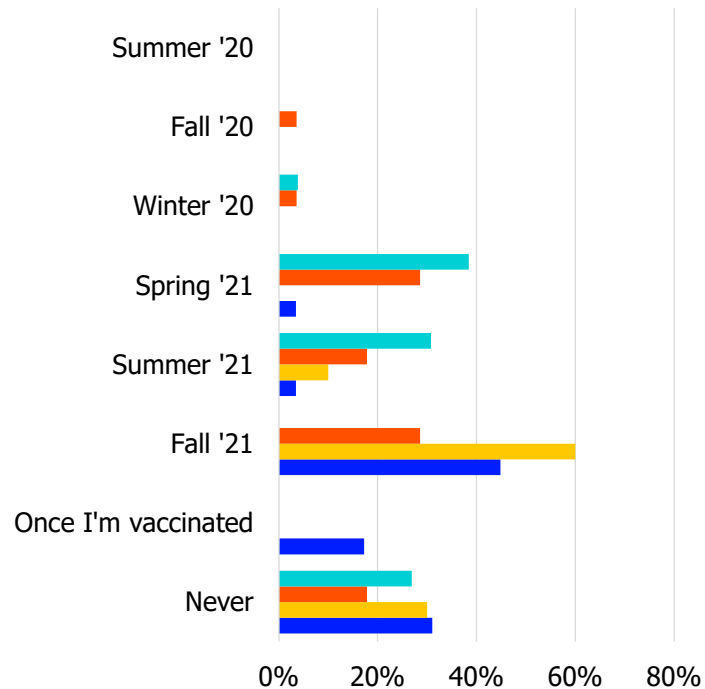
Chief Executive Officer Jane Fraser said in a memo in March that post-pandemic, most of the employees would be able to work in a "hybrid" setting, allowing them to work from home for up to two days a week.

Barclays Plc

Chief Executive Officer Jes Staley has said the bank will adopt a hybrid working model and will reduce its real estate footprint but maintain its main offices in London and New York.

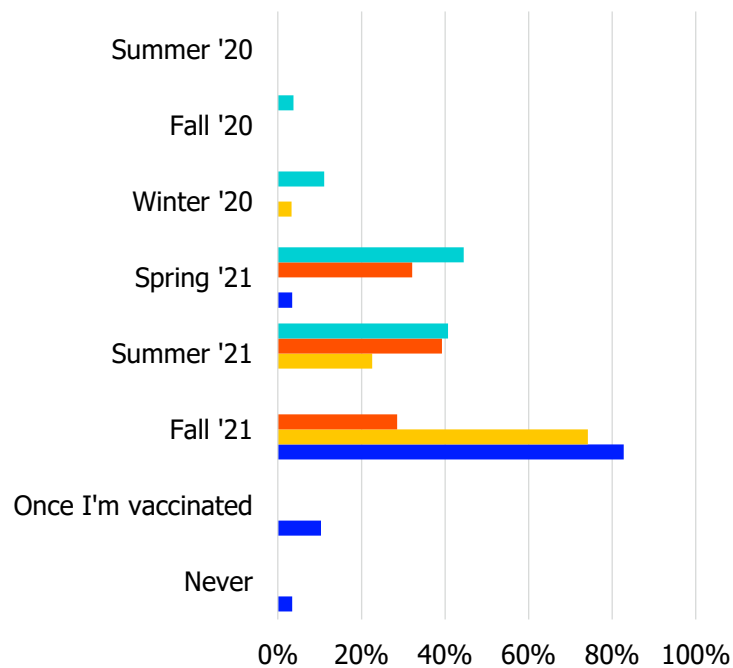
Refinitiv LPC's lender survey showed most respondents are expecting that by this fall they will shake hands, network at conferences, or get on a plane to win new business

When do you expect to shake hands?



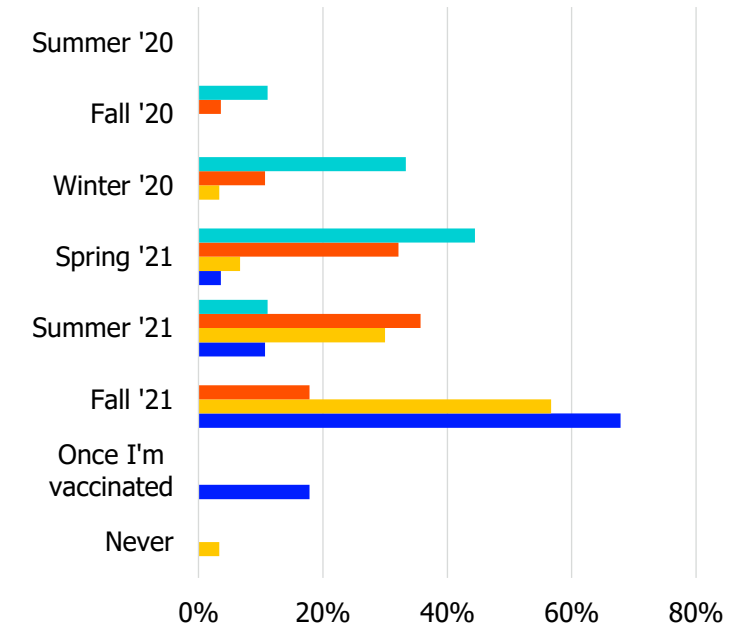
2Q20 Survey 3Q20 Survey
4Q20 Survey 1Q21 Survey

When do you expect to attend a local conference/networking event?



2Q20 Survey 3Q20 Survey
4Q20 Survey 1Q21 Survey

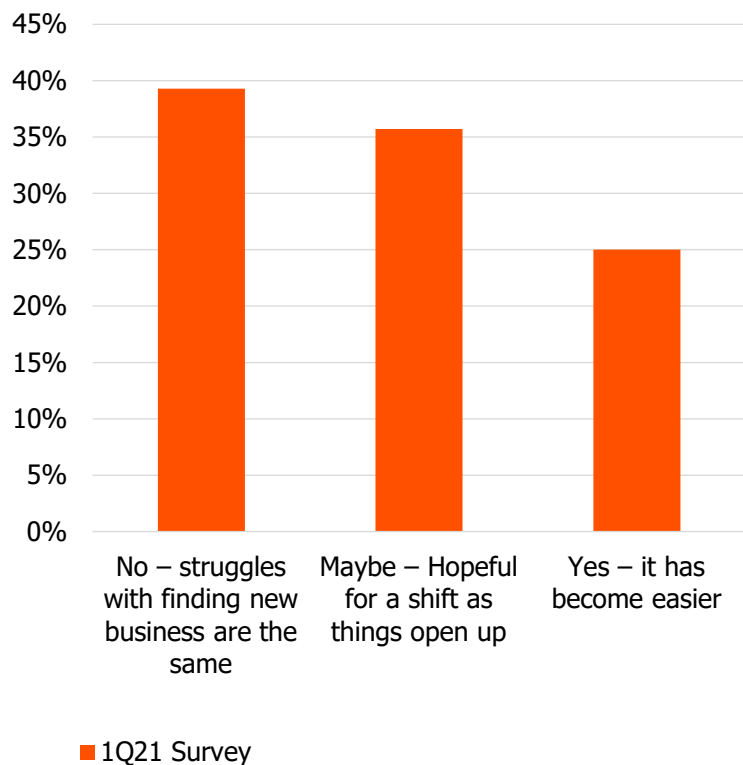
When do you expect to get on a plane to do introductory face to face meeting for new business or due diligence?



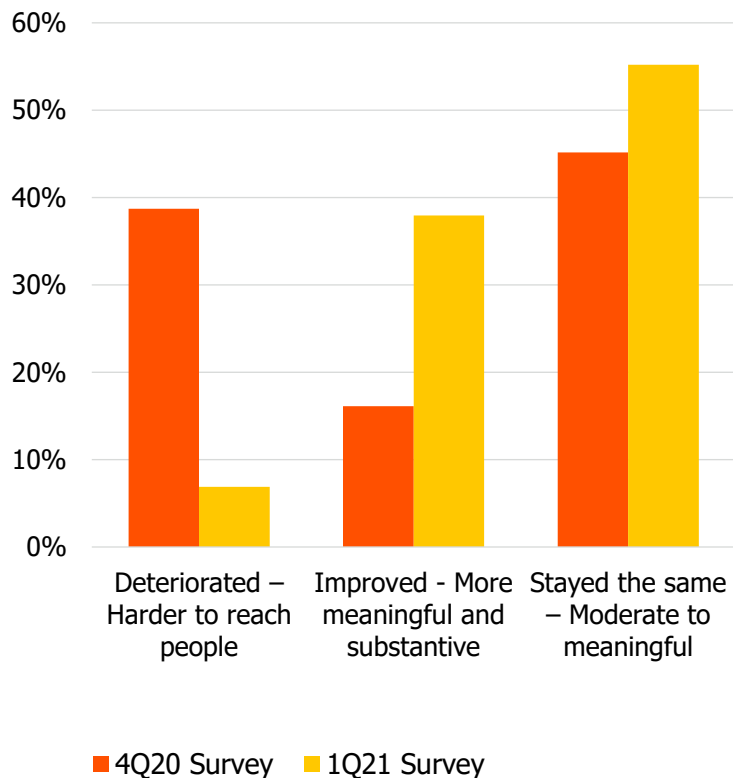
2Q20 Survey 3Q20 Survey
4Q20 Survey 1Q21 Survey

Most surveyed lenders said winning new business and the quality of engagement with clients and co-workers had some upsides but plateaued by this spring while the pace of virtual meetings increased as deal flow picks up dramatically

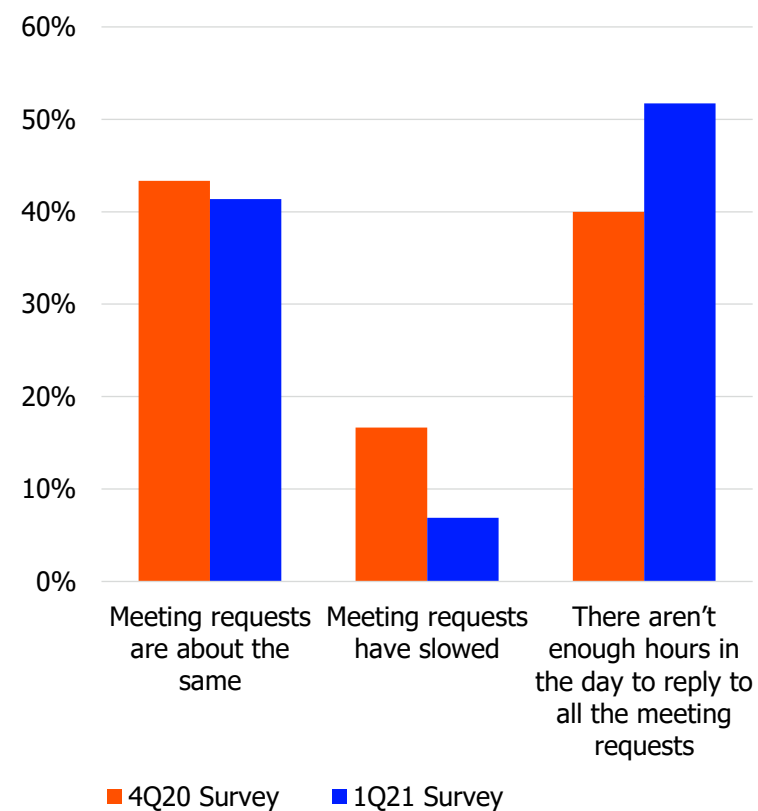
Have the wins/losses shifted as you work to win new business virtually? (% of respondents)



How has the quality of engagement with clients and co-workers changed?



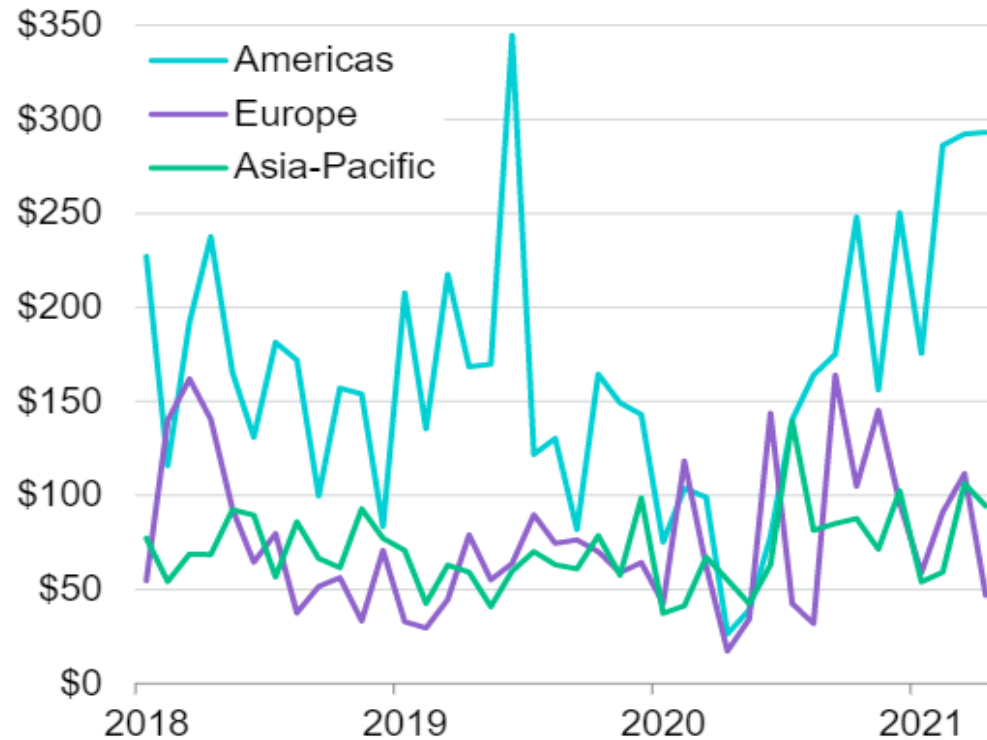
How has the pace of meetings and calls changed?



In fact, M&A activity in the Americas is at an all-time high of US\$1.0tr through April, over 3x the value year-over-year, according to Refinitiv's Deals Intelligence

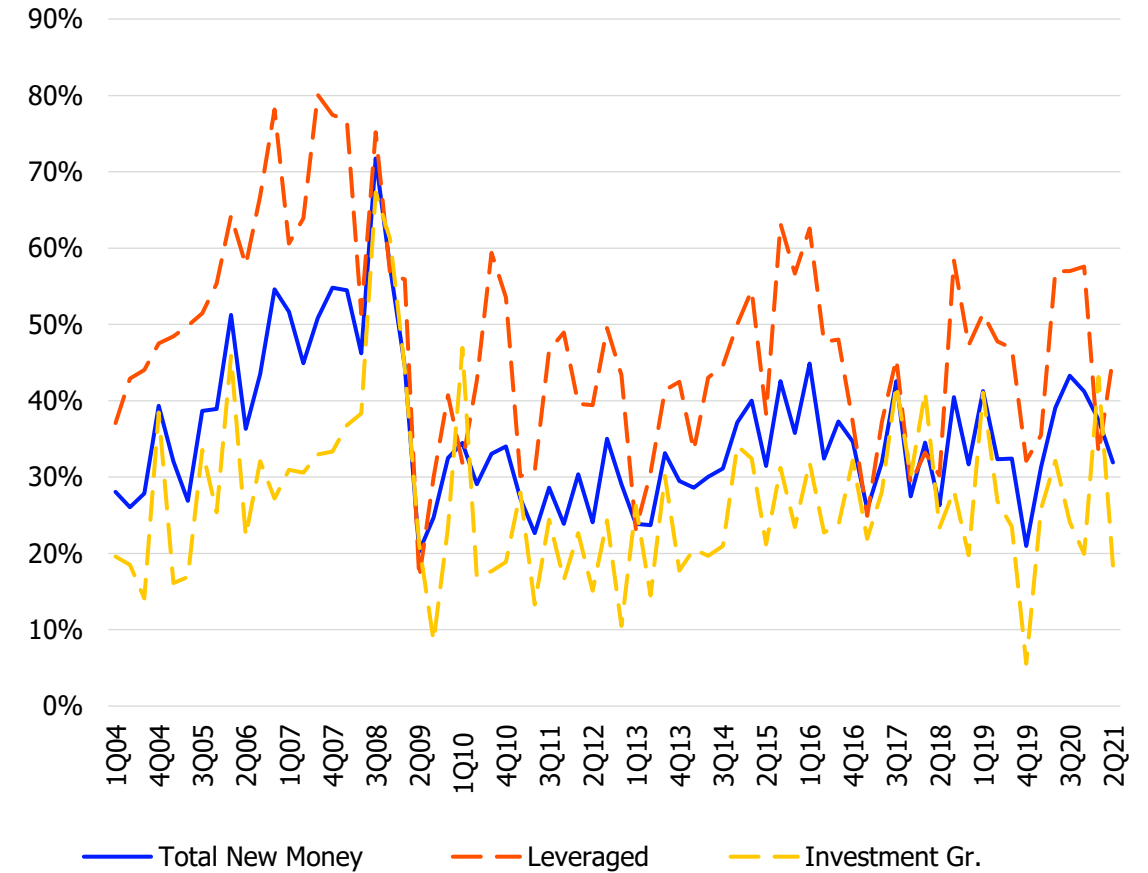
This has helped boost US leveraged and investment grade new money loan assets in 2021

Refinitiv Deals Intelligence: Regional M&A Monthly Volumes* (US\$bn)



*M&A deal amount levels (not financing amount)

US: New Money Loan Volume as a % of Total Volume

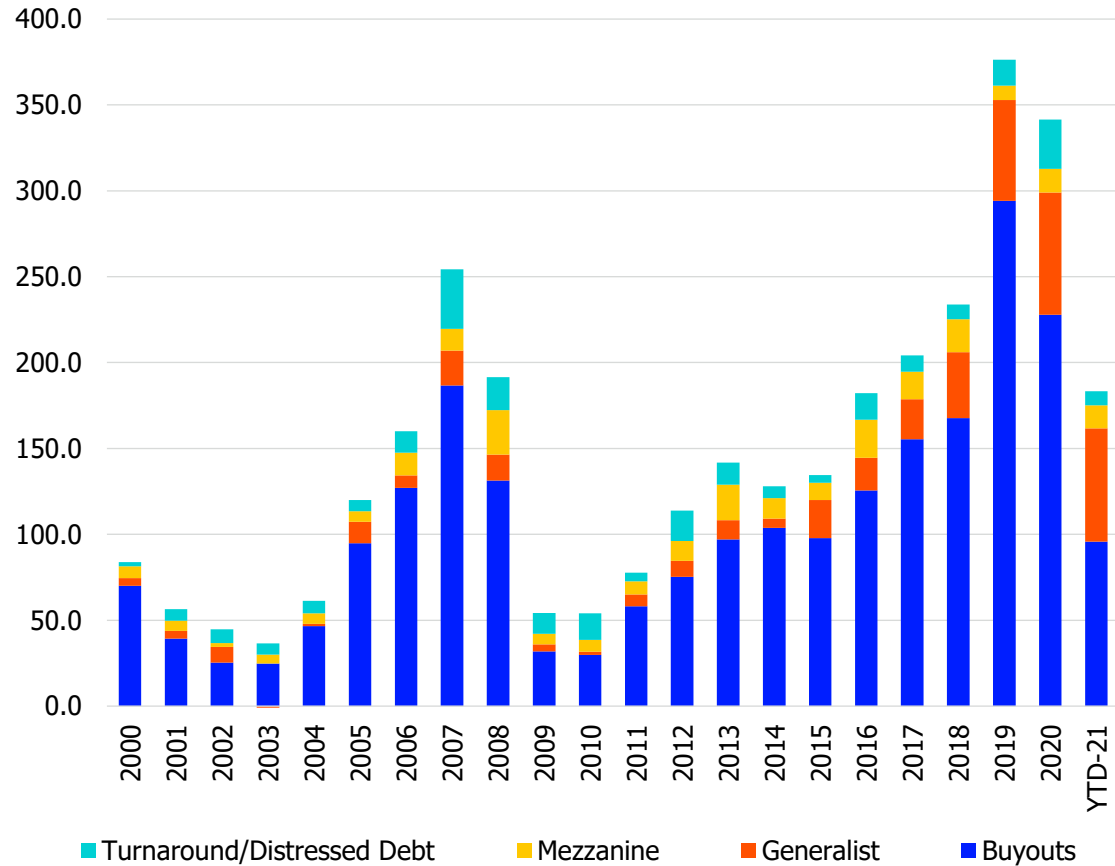


Public and private equity fundraising are going full throttle

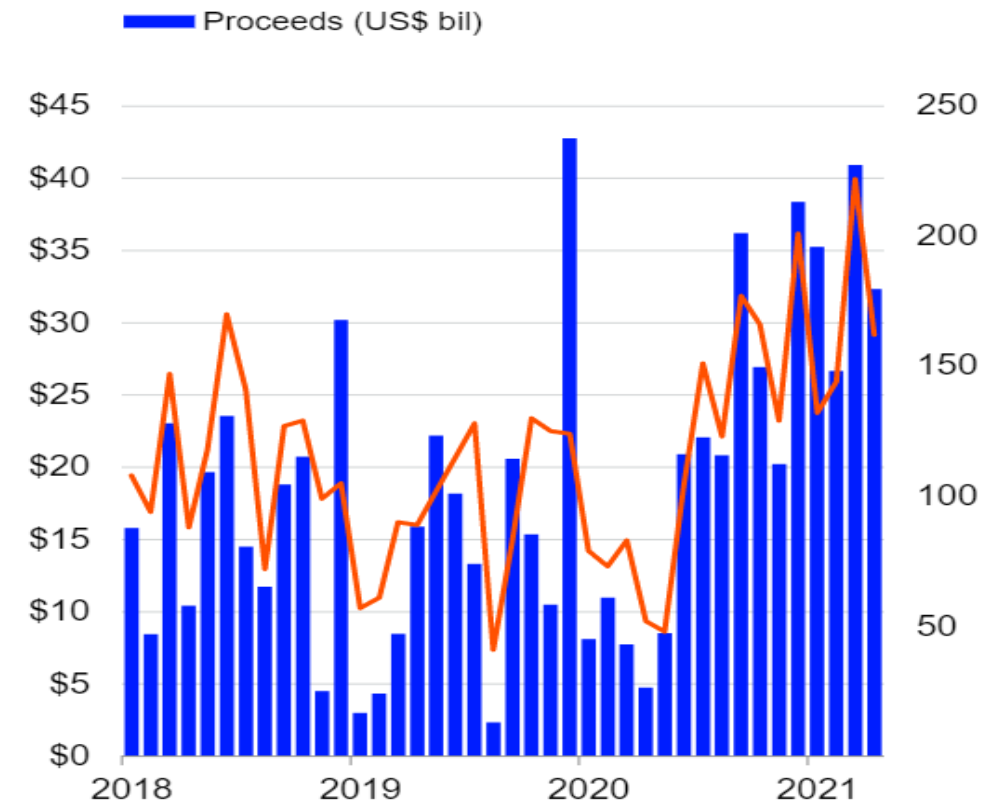
US private equity has surpassed US\$180bn this year and is on pace for another >US\$300bn year

According to Refinitiv Deals Intelligence, a global total of 670 IPOs were tracked through mid-May, the most in more than 20 years

US Private Equity Fundraising (US\$bn)



Refinitiv Deals Intelligence: Global IPO Volume



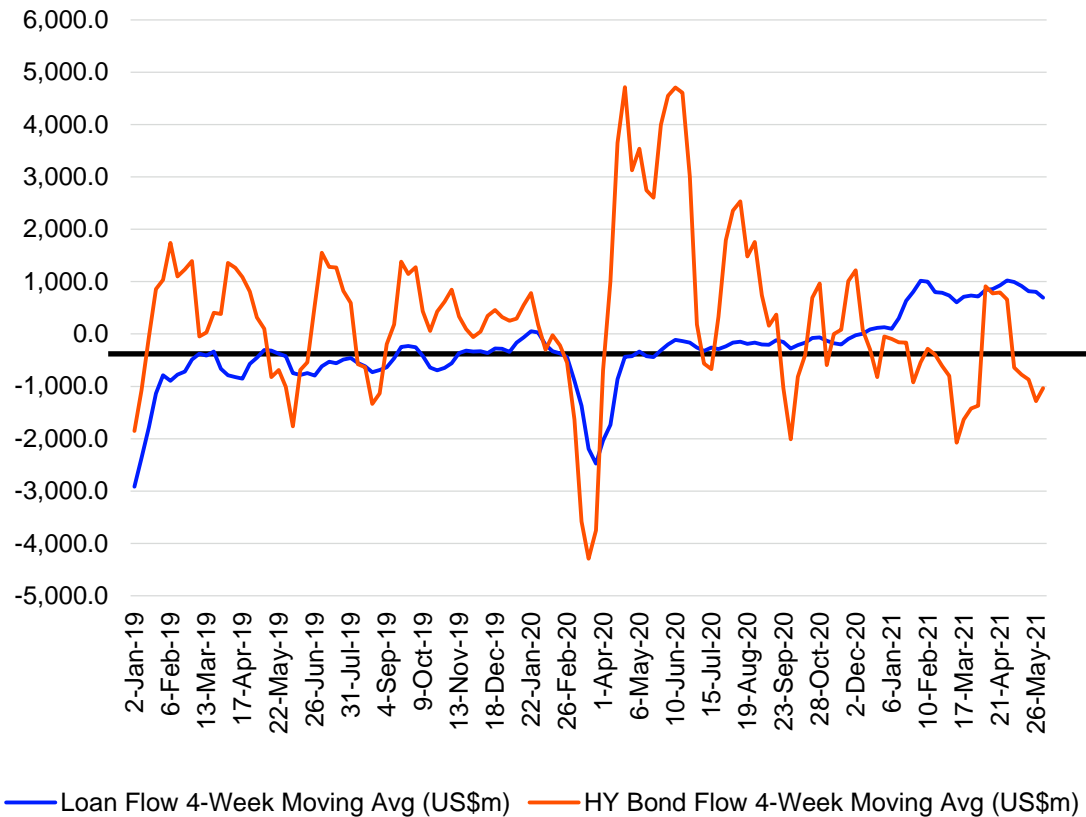
For more information about Refinitiv Deals Intelligence data, contact them at dealsintelligence@refinitiv.com

Investors are showing strong demand for the US loans asset class

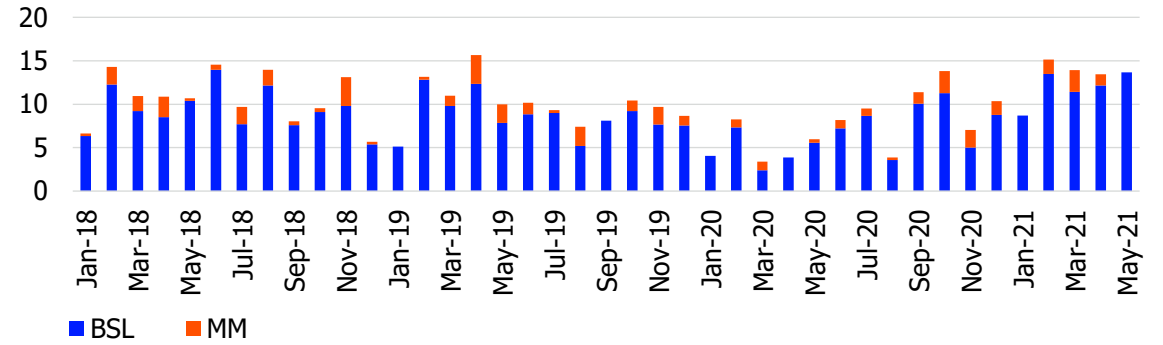
The four-week moving average for US loan funds is around US\$700m according to recent data from Refinitiv Lipper, as the prospects for rate hikes down the road spur demand in the floating rate asset class

In what could be a record year, CLOs have recorded over US\$10bn in new issuance in each of the last 4 months, reaching US\$60bn this year

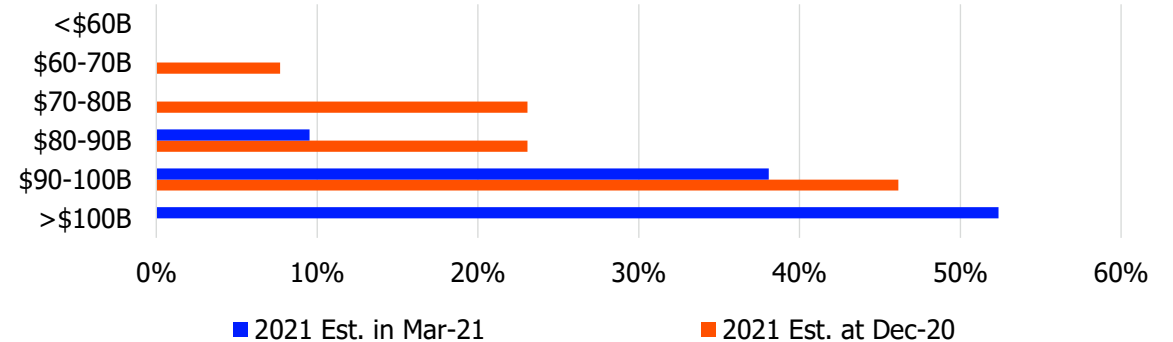
Weekly loan fund flows (\$m)



CLO new issuance (US\$bn)



Refinitiv LPC survey responses: Annual CLO issuance estimates (% of survey respondents)



Refinitiv LPC's survey respondents upped 2021 CLO issuance estimates from US\$90-100bn to >US\$100bn

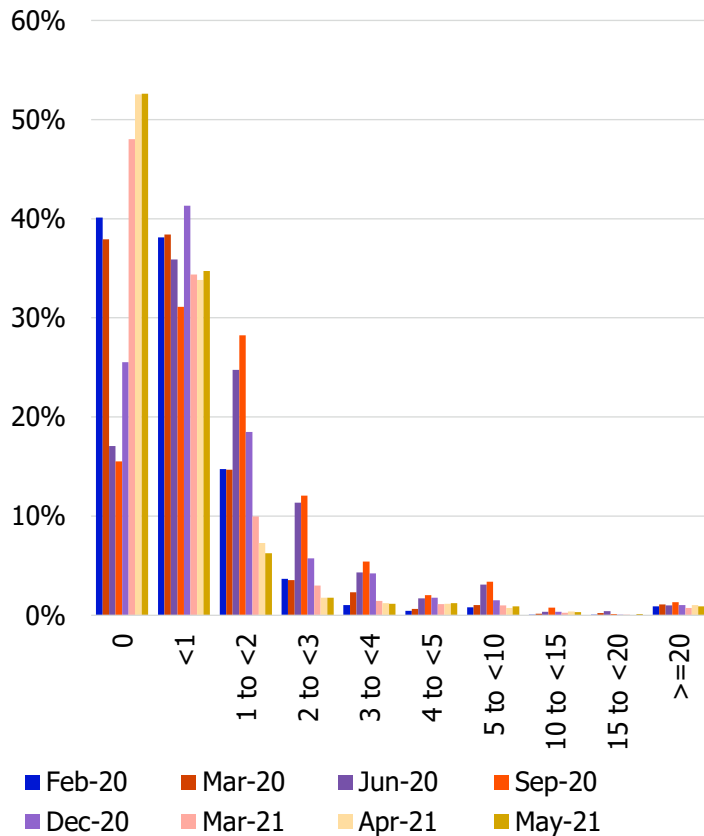


82% of CLO portfolio assets were marked at 98 or higher by the end of May, up from December's 68%

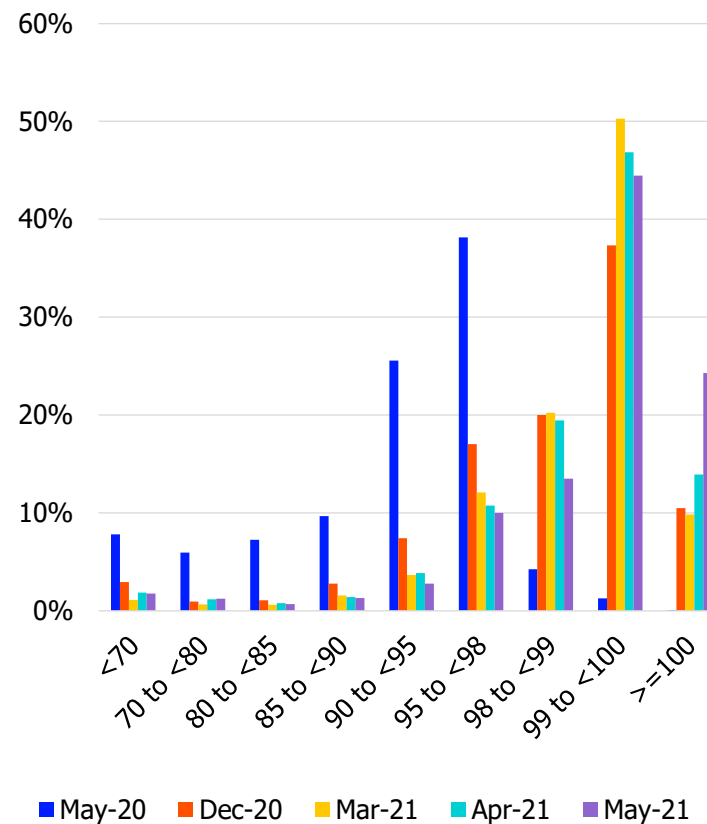
At the height of the pandemic, last May, the share of highly bid assets was just 6%

22% of US CLOs had a weighted average bid between 99-99.9 in May compared with 0% during February through December 2020

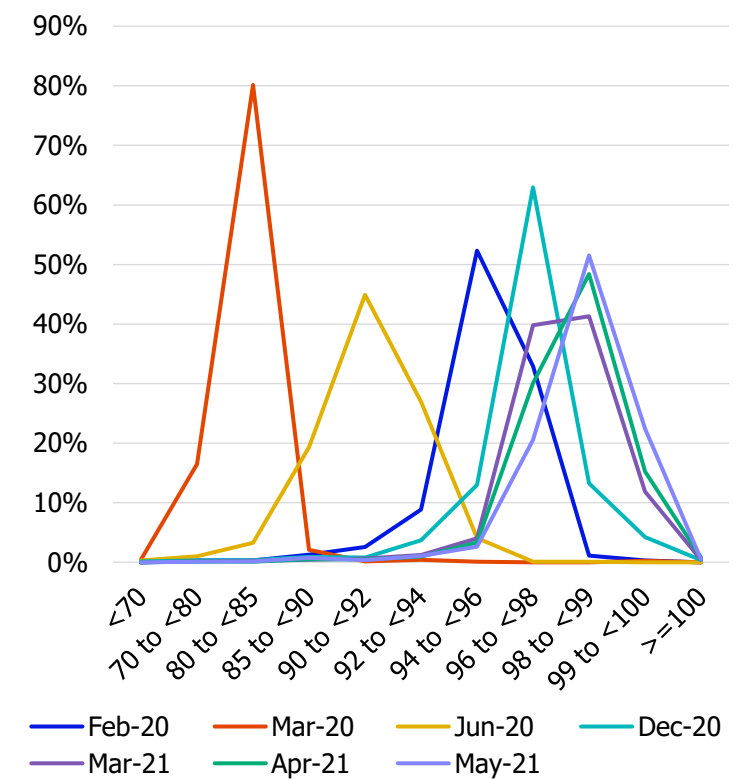
Share of US CLO universe / Percent of assets in default



Share of US CLO Loan Holdings / Avg. bid (% of Par)



Share of US CLOs / Weighted avg. bid (% of Par)

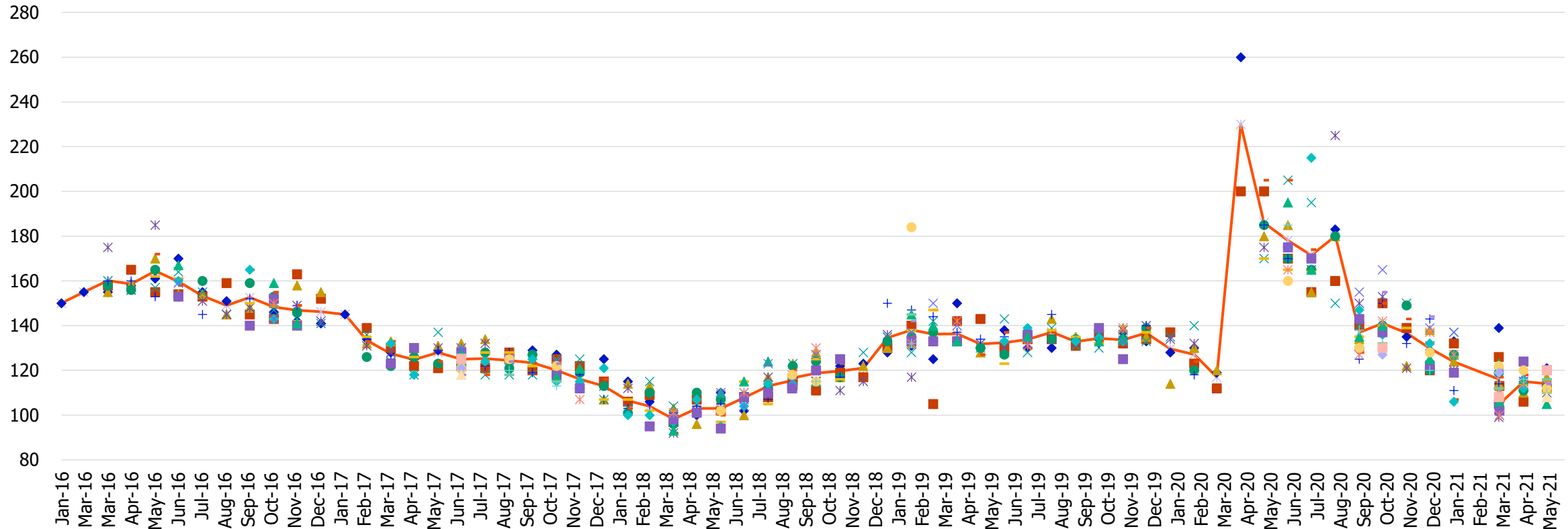


*excludes CLOs less than \$50 million in size.

US broadly syndicated CLO AAA spreads have flattened in recent months after tightening near to post-pandemic lows back in March due to strong investor demand

The record supply seen earlier this year put pressure on spreads which has caused the leveling off

AAA Discount Margin (bp)

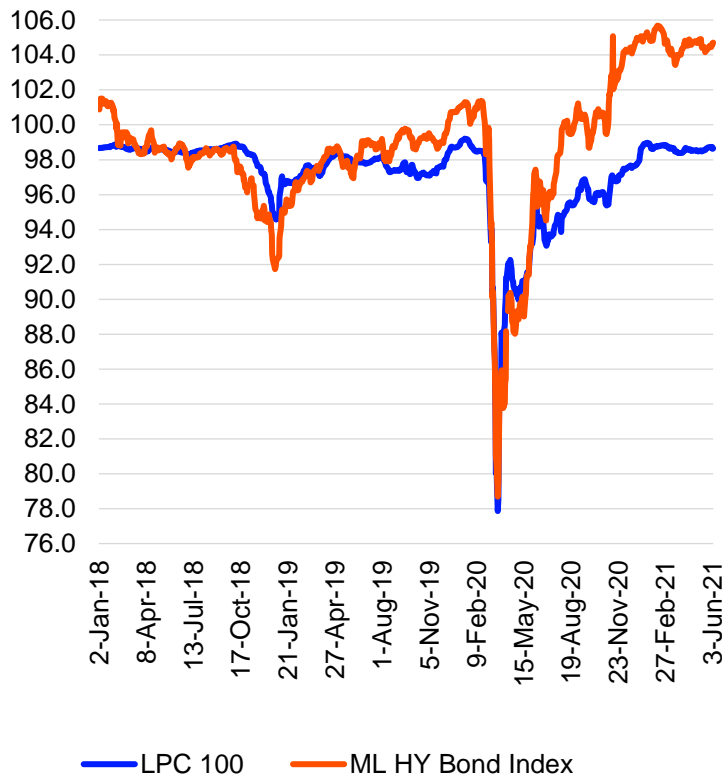


*based on deals where discount margin is available

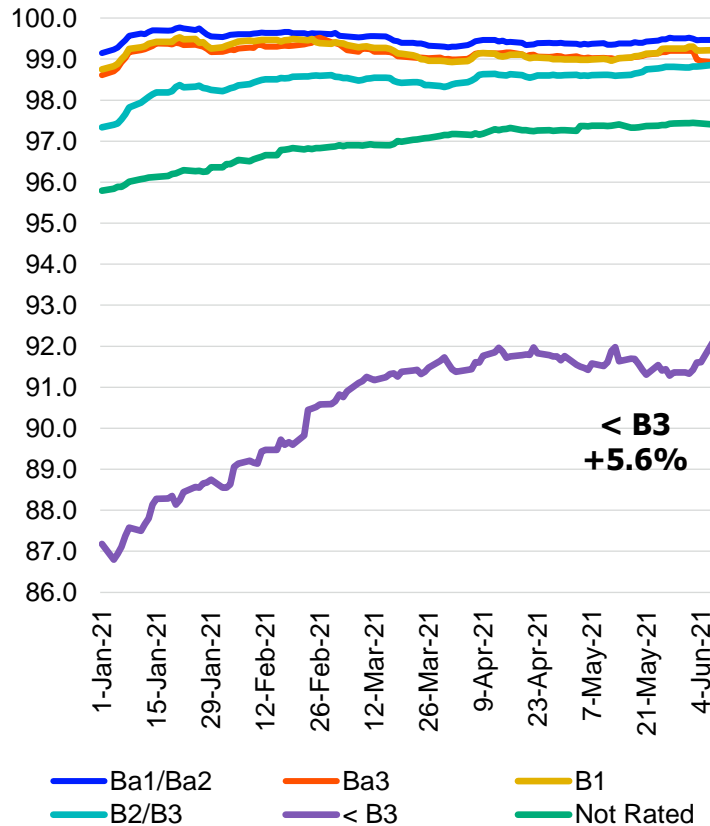
US secondary loan bids have been stable most of this year, while lower rated loans make up for lost ground, gaining 5.6%

The LPC 100 has increased 0.76% YTD, but most of that gain came in early January; meanwhile loans rated down the risk scale (<B3), have increased 5.6% YTD. The share of US secondary loans bid at par or better has increased to an 18% share of actively traded loans in recent weeks.

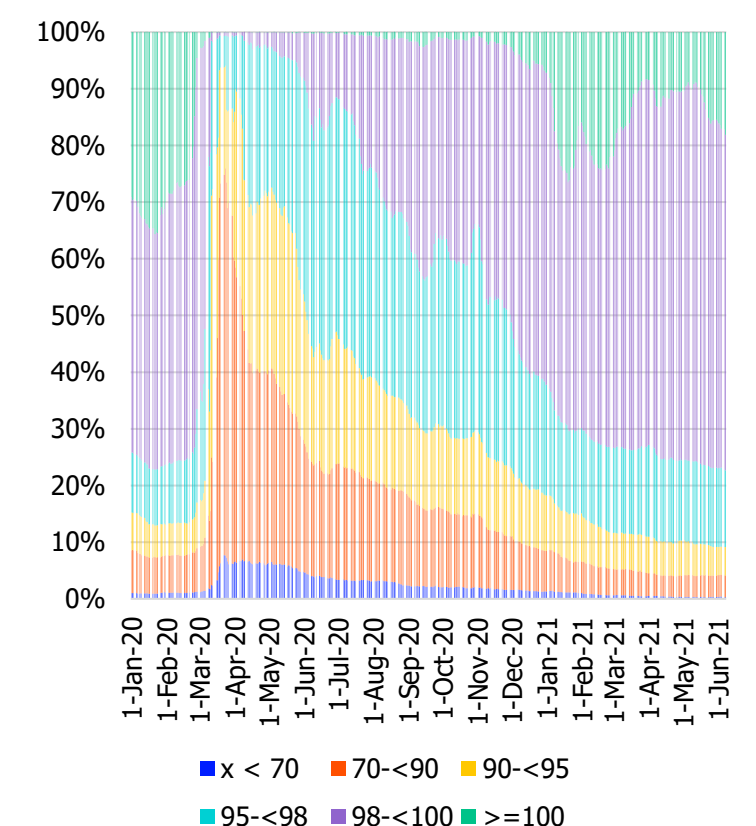
Avg. secondary bids: high yield bonds vs. US leveraged loans (% of par)



Average US secondary loan bids by ratings



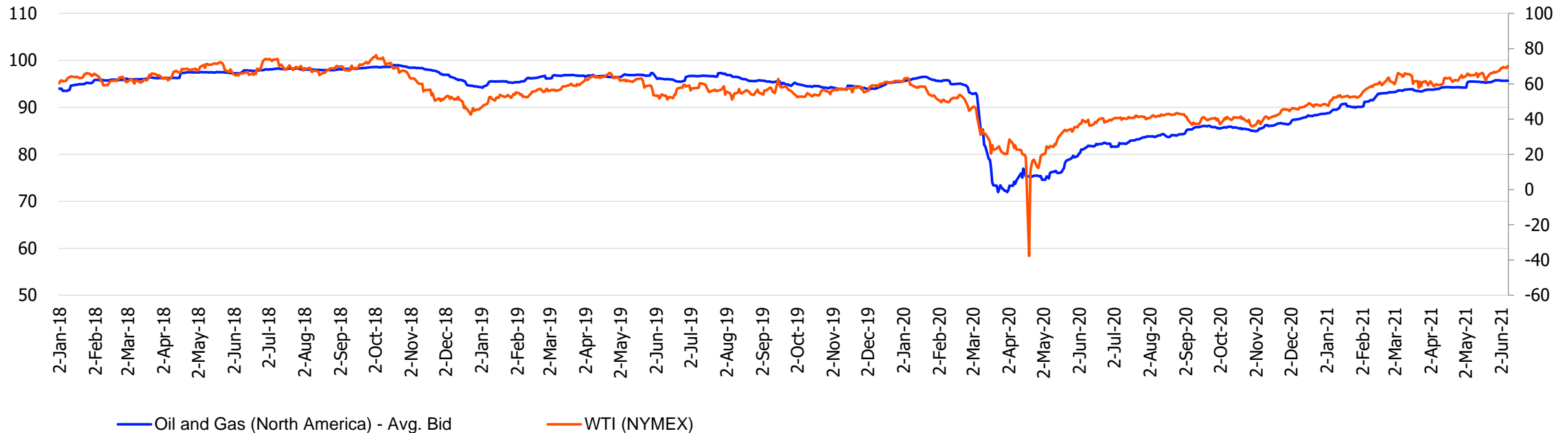
Secondary loan bid levels (share of loans)



Oil and gas secondary bid levels are up roughly 24bp from pandemic lows as oil prices reach levels not seen since October 2018

Oil and Gas (North America) - Avg. Bid

NYMEX WTI (US\$ per barrel)

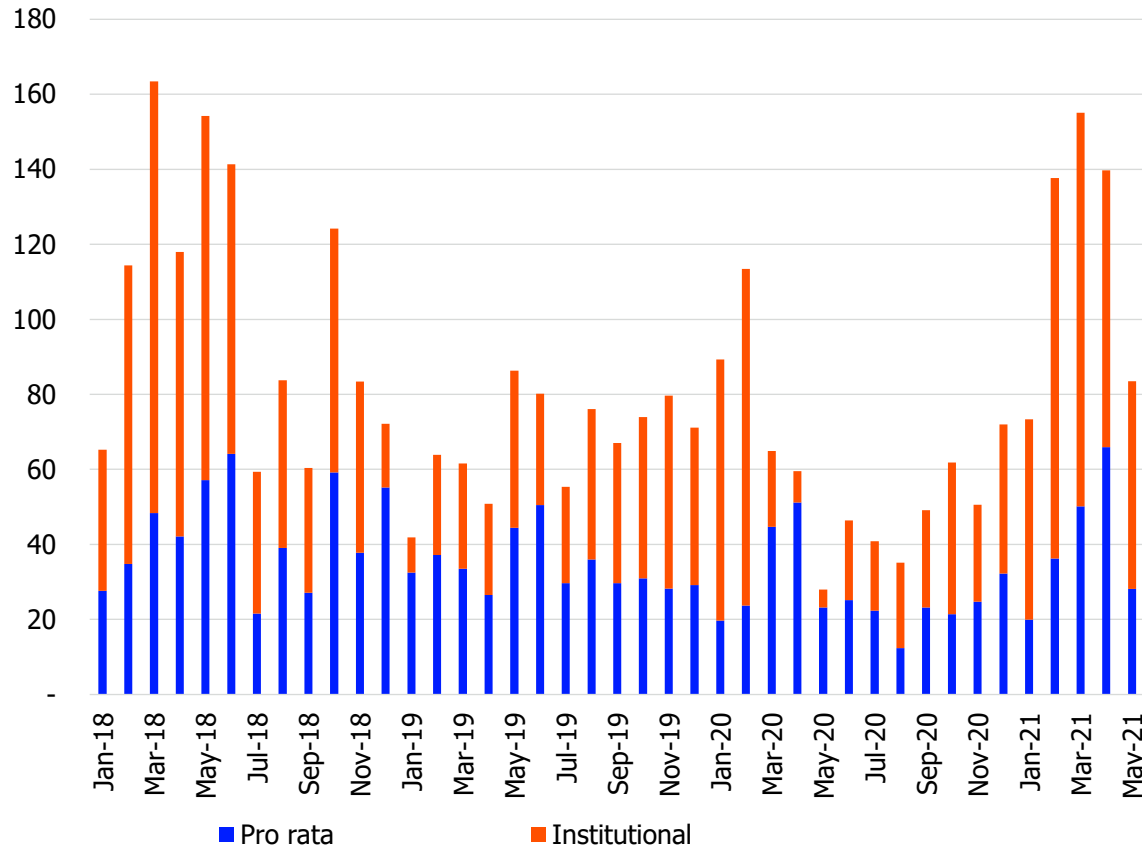


As COVID-19 restrictions have eased, demand for gas and jet fuel has been on the rise. Meanwhile, OPEC and allies have agreed on supply restraints through July. US West Texas Intermediate crude oil futures hit \$70 per barrel for the first time since October 2018 the week starting June 7. As the pandemic took hold and lockdowns were enforced around the world, oil prices went on a downward spiral, plummeting into negative territory for the first time on April 20, 2020. Oil and gas bids followed, tumbling to a pandemic low of 71.95. The sector faced many challenges and defaults soared. But as oil prices have recovered, so have oil and gas bids which are currently at the 95.7 level

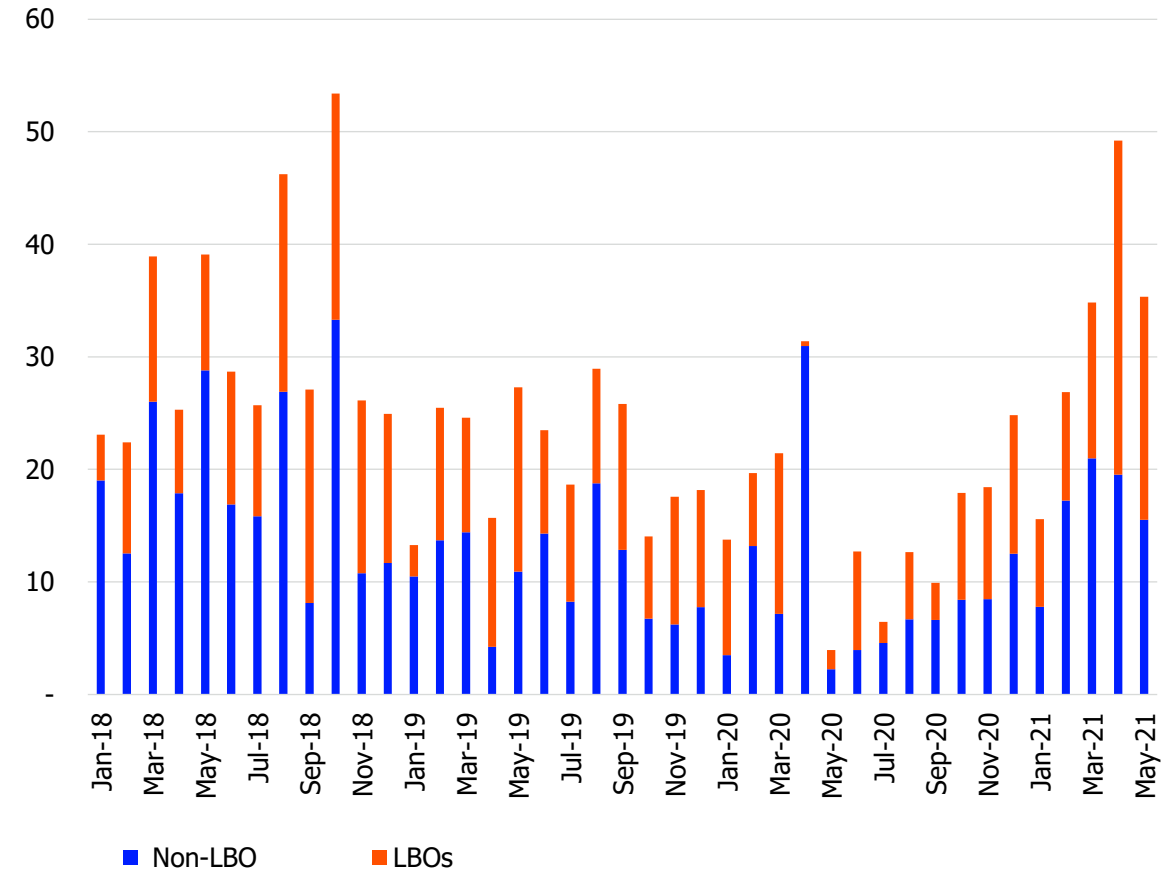
Behind strong demand from investors, US leveraged loan volume has flourished so far this year

Completed US leveraged volume totaled US\$569bn through June 3, 57% above the year-ago level and 86% ahead of 2019's level through the same period
 LBO volume totals around US\$50bn so far in 2Q21, on pace for its best year since 2018

US Leveraged Loan Volume (US\$bn)



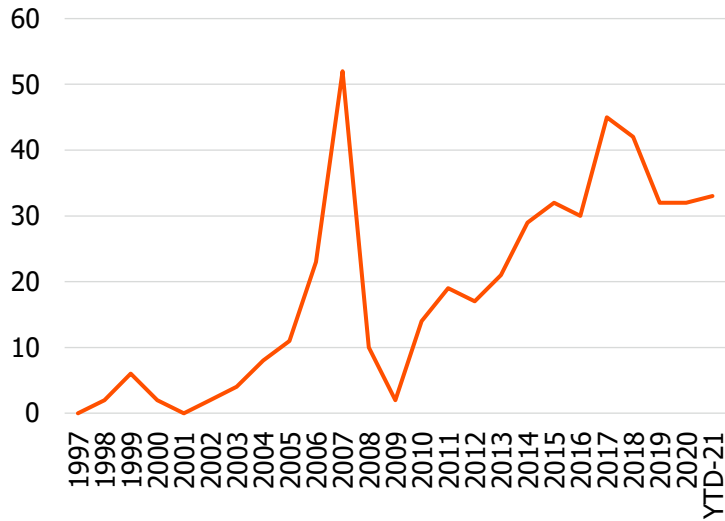
US Leveraged Loan M&A Volume (US\$bn)



The number of US LBO loans of US\$1bn+ this year (33) has outpaced full-year 2019/20's 32 (each year); Medline's LBO financing is the largest since 2008 crisis

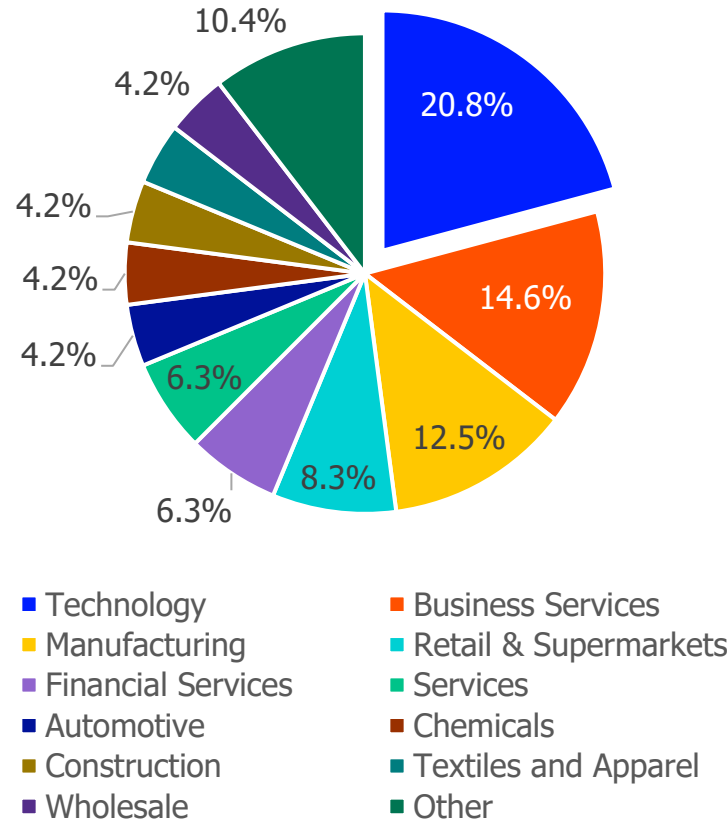
Technology and business services buyouts have been the most frequent amongst the LBO leverage level data, comprising over one-third of deals tracked
The bulk of US LBO deals are for B3 rated borrowers which take up 58% of rated LBO deals, matching the level seen in 2019

of LBO loans US\$1bn or greater

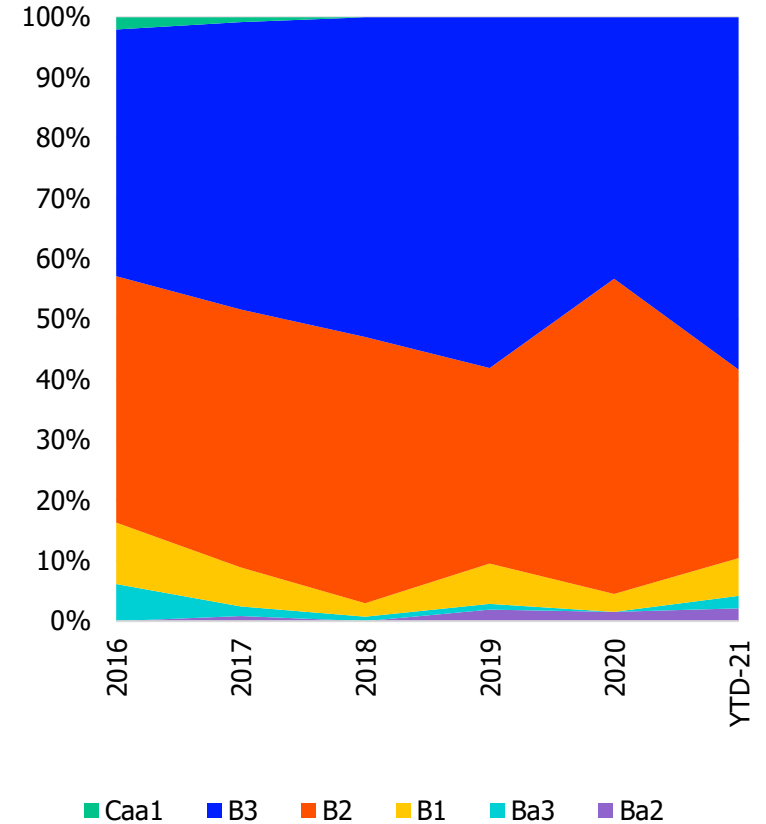


The recently announced US\$30bn buyout of Medline Industries will be the largest LBO since the 2008 financial crisis according to Reuters. The estimated US\$15bn financing package will also be one of the largest since 2008

Share of YTD-21 LBO leverage level deals tracked across sector



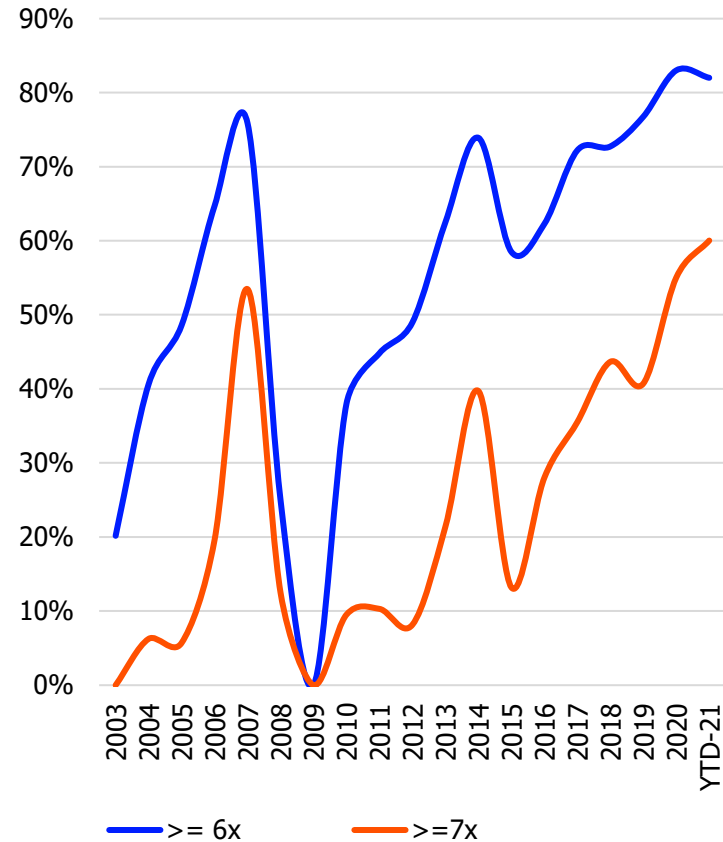
Share of LBO leverage level dataset by Moody's rating



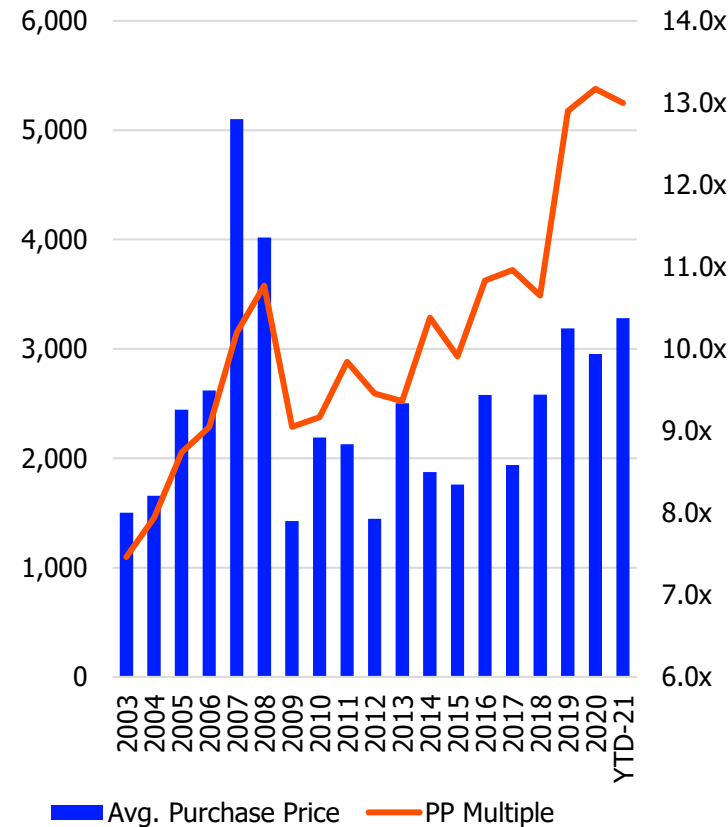
Stiff competition for good targets has allowed leverage and purchase price multiples to remain elevated for large corporate US LBO deals

60% of US LBO deals tracked have had total leverage 7x or greater so far this year, while purchase price multiples remain in the 13x area
Equity contributions have come down from 2019-20 levels but remain above 40%

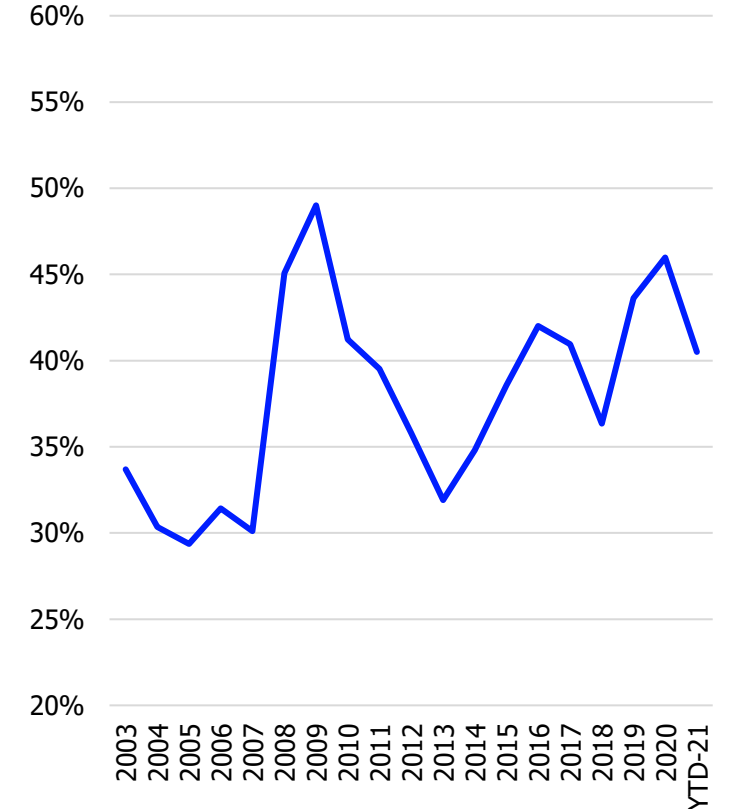
Share (%) of large corporate LBOs levered $\geq 6.0x$, $7.0x$



Large Corp LBOs: Purchase Price (US\$M) & Multiple (x:1)



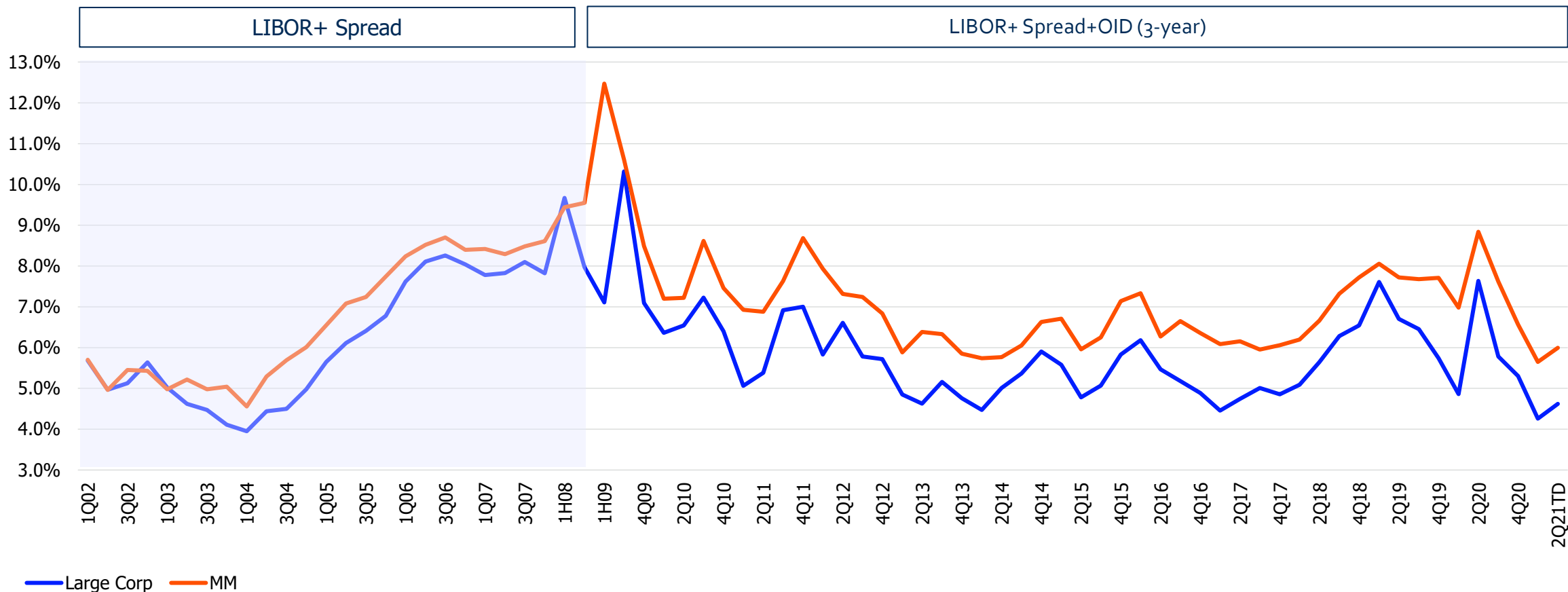
Large Corp LBO Avg. Equity Check Share (%)



Strong institutional appetite led to a drop in institutional yields to 17-year lows in 1Q21; despite slight widening in 2Q21, yields remain at historically low levels

Issuers took advantage of lower yields in 1Q21 to reprice their deals; so far this quarter, yields have widened as more M&A deals have entered the mix. At 4.62% for large corporate issuers and 5.99% in the middle market, 2Q21 primary yields are much lower than pre-pandemic levels.

Middle market and large corporate quarterly average first-lien institutional primary term loan yields (3-year)

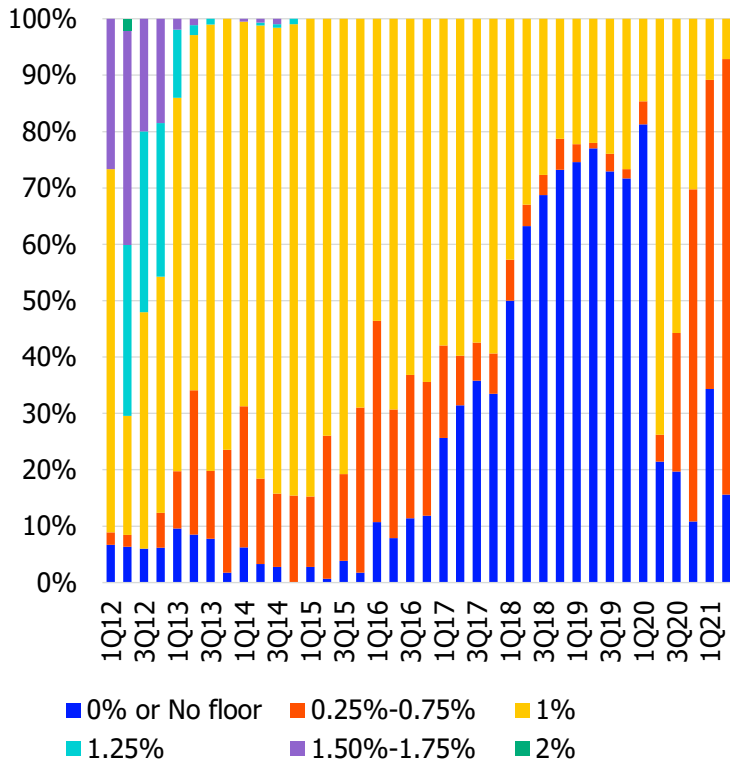


*Due to lack of activity, 2Q20 MM yield level is an estimate assuming a 1.21% MM yield premium (avg. MM premium from 2009-1Q20)

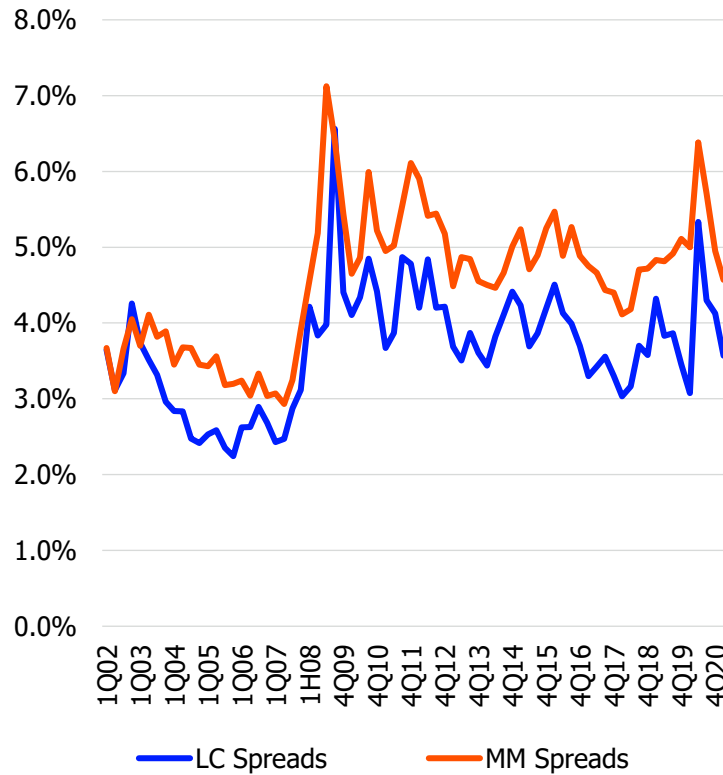
All components of yields have tightened significantly from pandemic highs

Libor floors, which made a comeback in the pandemic, remain the norm but have trended lower since then; in 2Q21, most deals have a 0.5% or 0.75% floor
 Unlike in the large corporate market, spreads and OIDs are back to pre-pandemic levels in the middle market, even with the recent widening

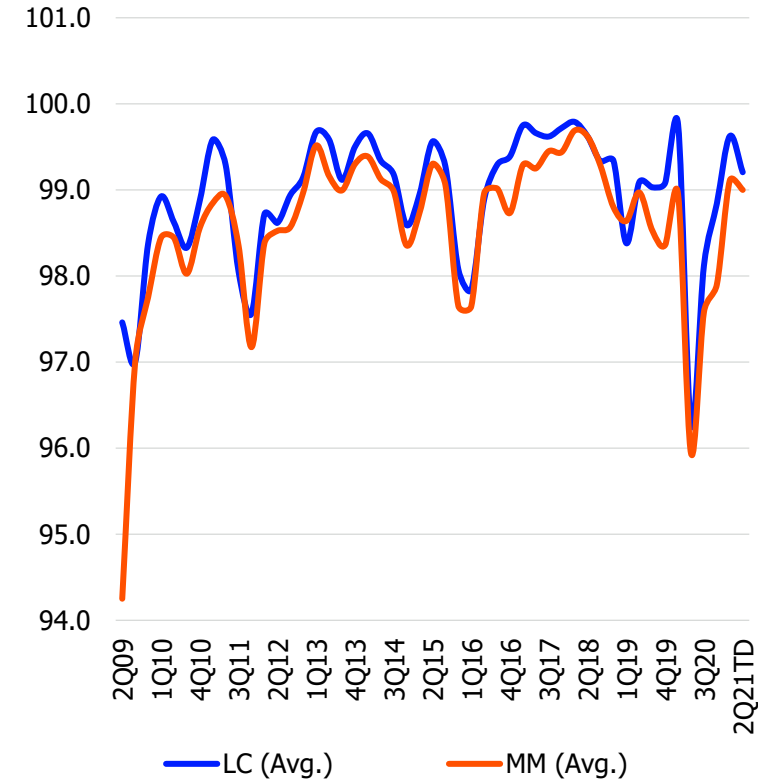
Overall market: Libor floor share of institutional TLs (# of deals)



MM & LC average first-lien institutional primary TL spreads



MM & LC average discounts on 1st-lien institutional TLs

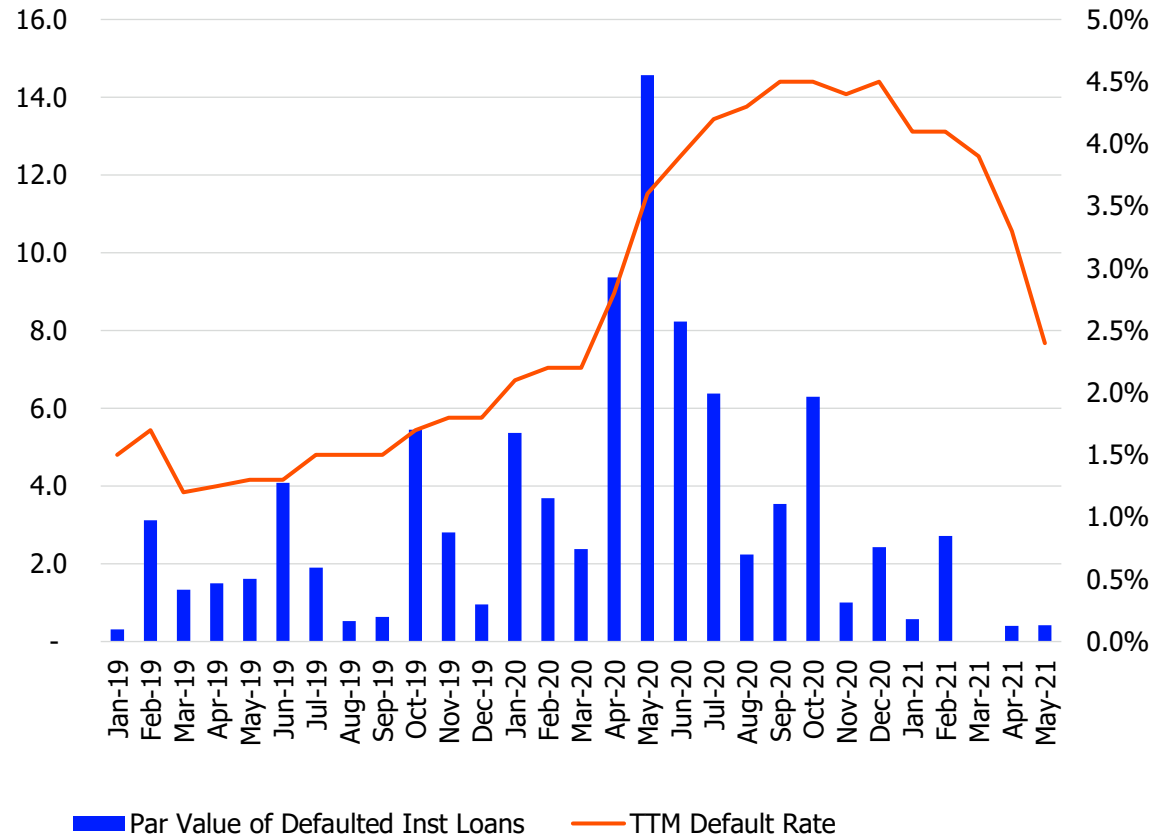


2Q20 MM avg. OID is an estimate assuming a 0.33 wider OID for MM names over Large corp. (avg. from 2009-1Q20)
 2Q20 average LIB spreads are an estimate assuming a 1.05% MM spread premium (avg. MM premium from 2009-1Q20)

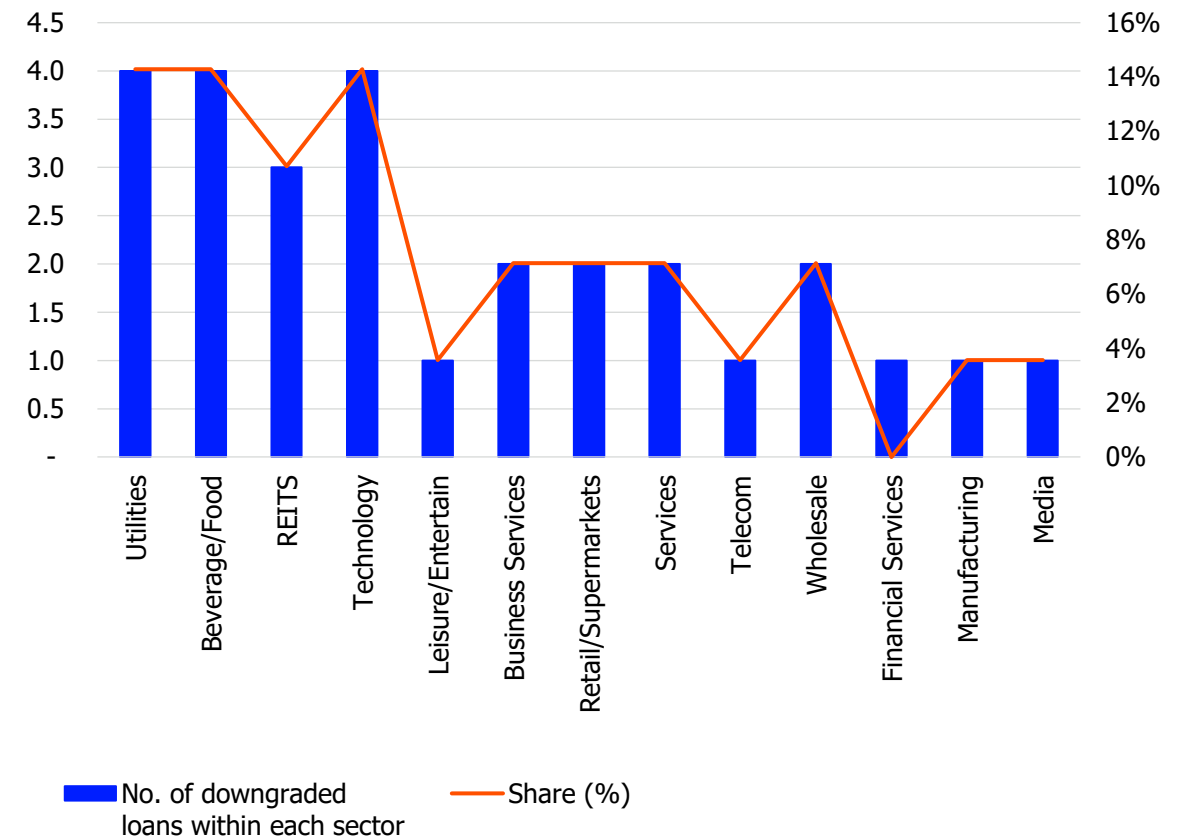
There has been only \$4.6bn of defaulted institutional loan volume in 2021, down 87% year over year, with just 3 defaults recorded since the end of February

Of the 28 loans downgraded by Moody's, Fitch, S&P and/or DBRS in May, utilities, beverage food and tobacco and REITs were the top sectors
By contrast, May 2020 saw 169 loans downgraded with business services, retail/supermarkets, and automotive as the top 3 sectors

Institutional Leveraged Loan Defaults: Defaulted Par Value (US\$bn) and TTM default rate (%)



May 2021: Top Sectors of Downgraded Loans*, U.S. Issuers by count & share



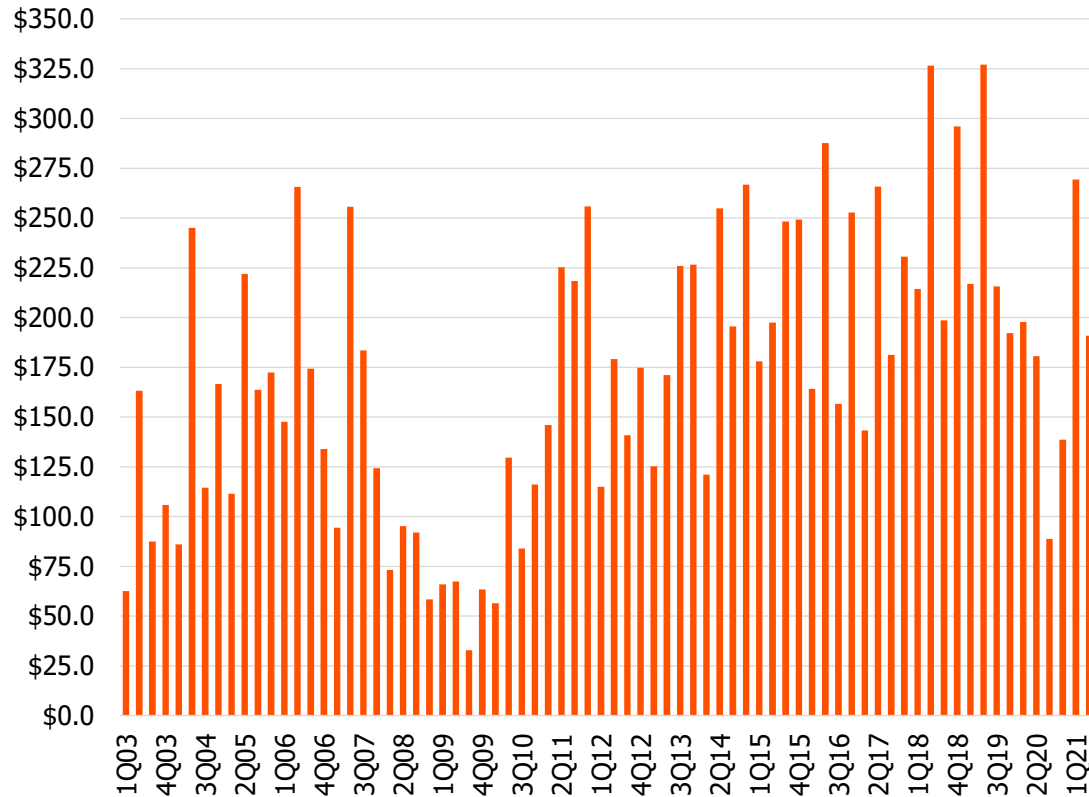
*prior 30 days from May 31, 2021

In the US investment grade loan market, activity has been strong all year

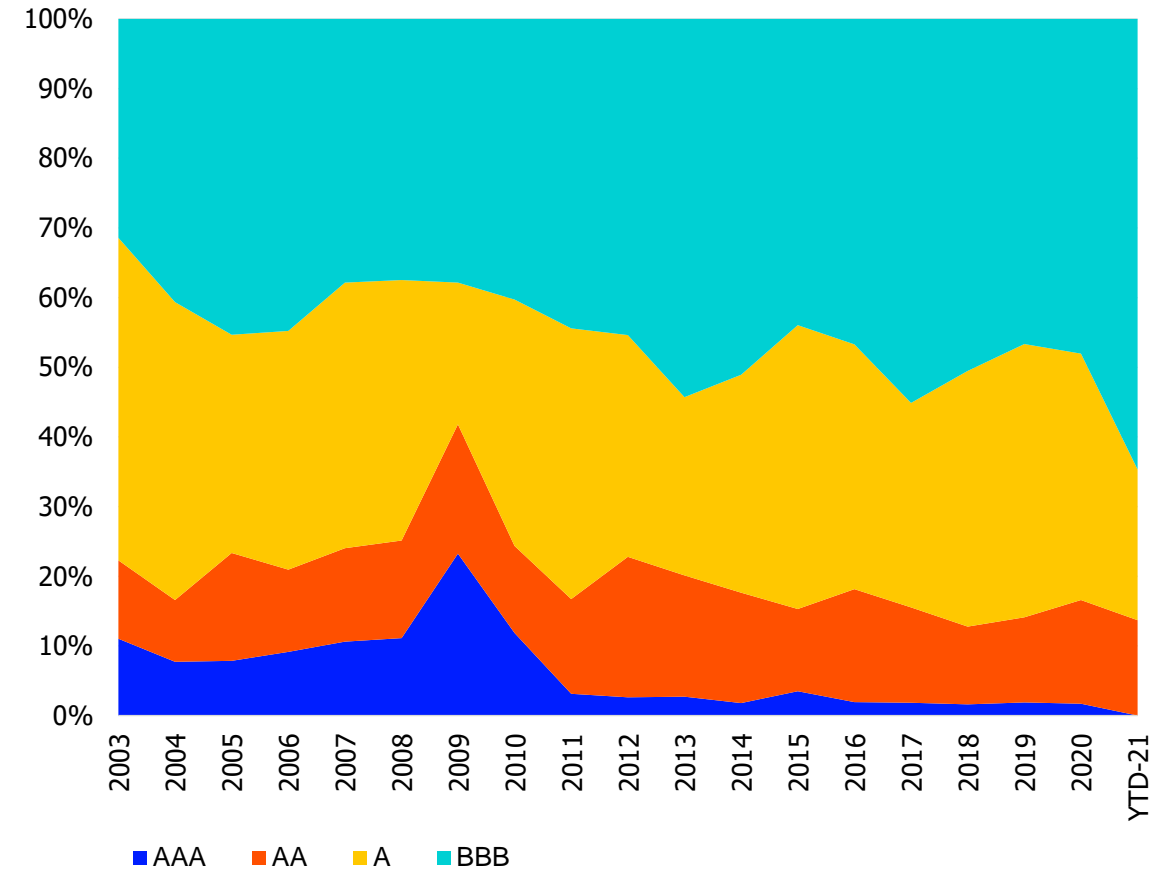
High-grade lenders were optimistic that 2021 could be a big year, and so far, they were right; YTD volume of US\$460bn is 34% higher YOY and 17% ahead of 2019's pace

Activity in the BBB space, the most suppressed in the IG market during the pandemic, has increased substantially, comprising a high 65% of overall IG volume

Quarterly IG volume (US\$bn)



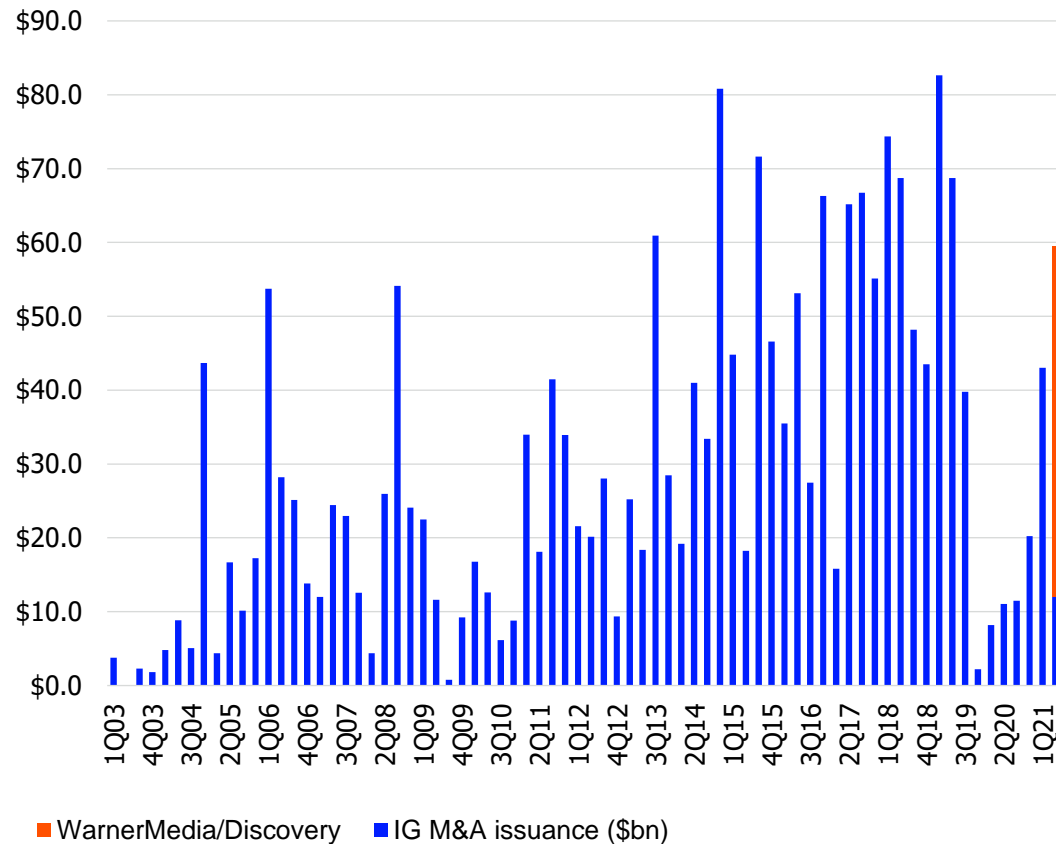
Investment grade market share by issuer rating



High-grade M&A financings, including jumbo deals, return to the fold

The WarnerMedia/Discovery deal totals US\$47.5bn in loans, including a US\$31.5bn bridge loan, the 8th highest in the US all-time. That deal will push US investment grade M&A volume to over US\$100bn this year, on pace for the levels seen in the years before the pandemic.

Quarterly IG M&A volume (US\$bn)



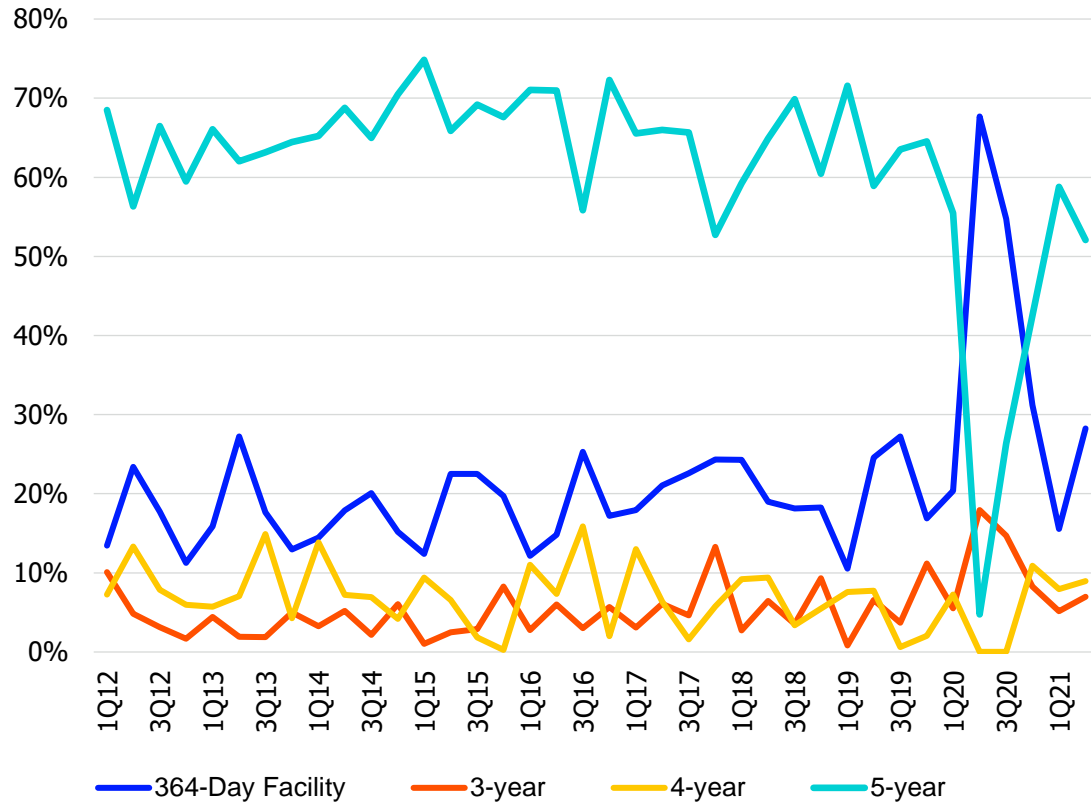
Largest US IG bridge loans

Rank	Borrower	Bridge Loan Size (\$bn)	Year
1	Verizon Communications	\$61.00	2013
2	CVS	\$49.00	2017
3	AT&T	\$40.00	2016
4	Abbvie	\$38.00	2019
5	Walt Disney Co*	\$35.70	2018
6	Allergan Plc/Actavis Plc	\$35.60	2014
7	Bristol Myers Squibb	\$33.50	2019
8	WarnerMedia/Discovery	\$31.50	2021
9	Cigna Corp	\$23.70	2018
10	Anthem Inc	\$22.50	2015

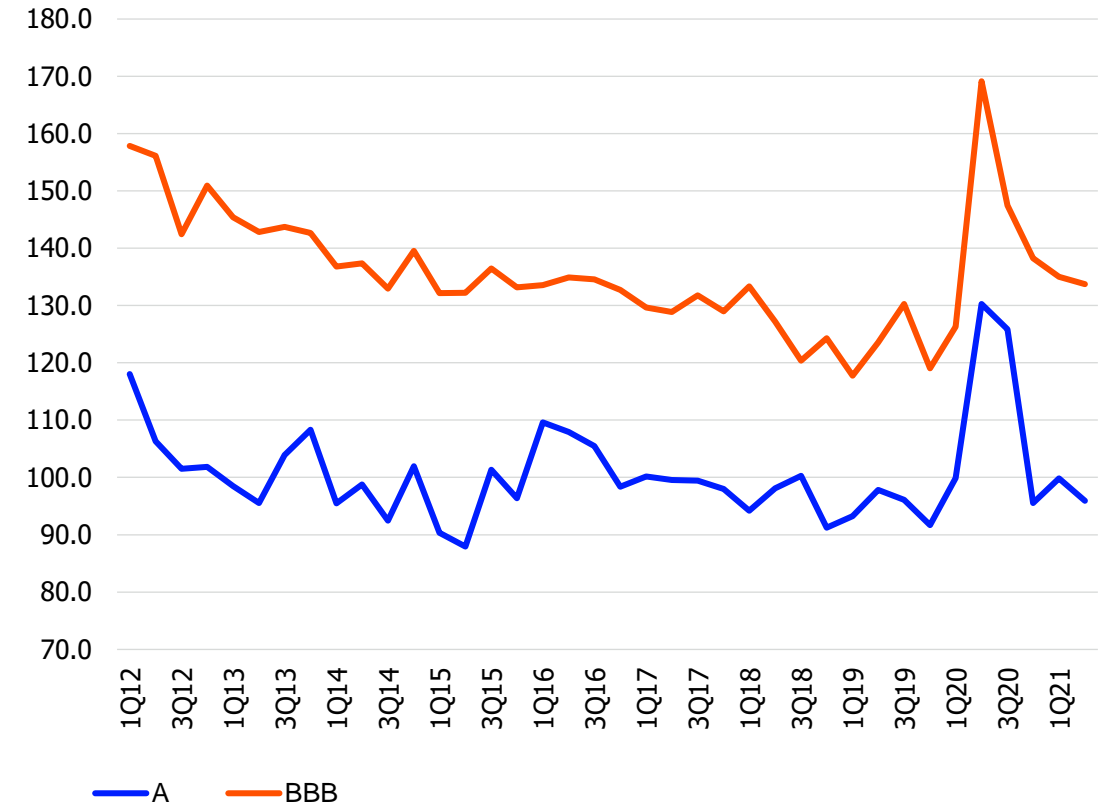
Investment grade tenors and pricing are back to or nearing pre-pandemic levels

The five-year tenor market has returned, comprising an over 50% share of revolver volume after 364-day terms became the popular go-to in 2020
 Spreads for A-rated names have returned to the 95bp area on average while BBB spread averages have come down considerably compared to last year

Share of IG revolver volume across tenor



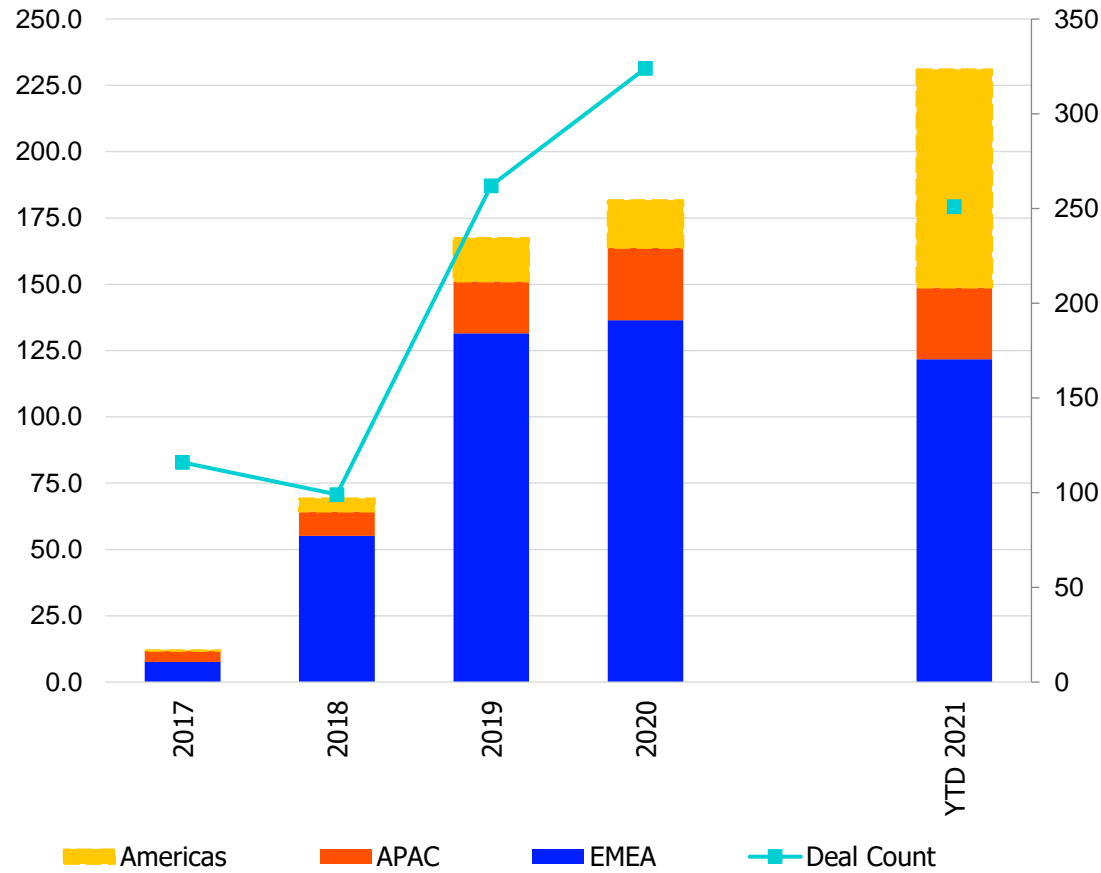
Average drawn investment grade spreads (bps)



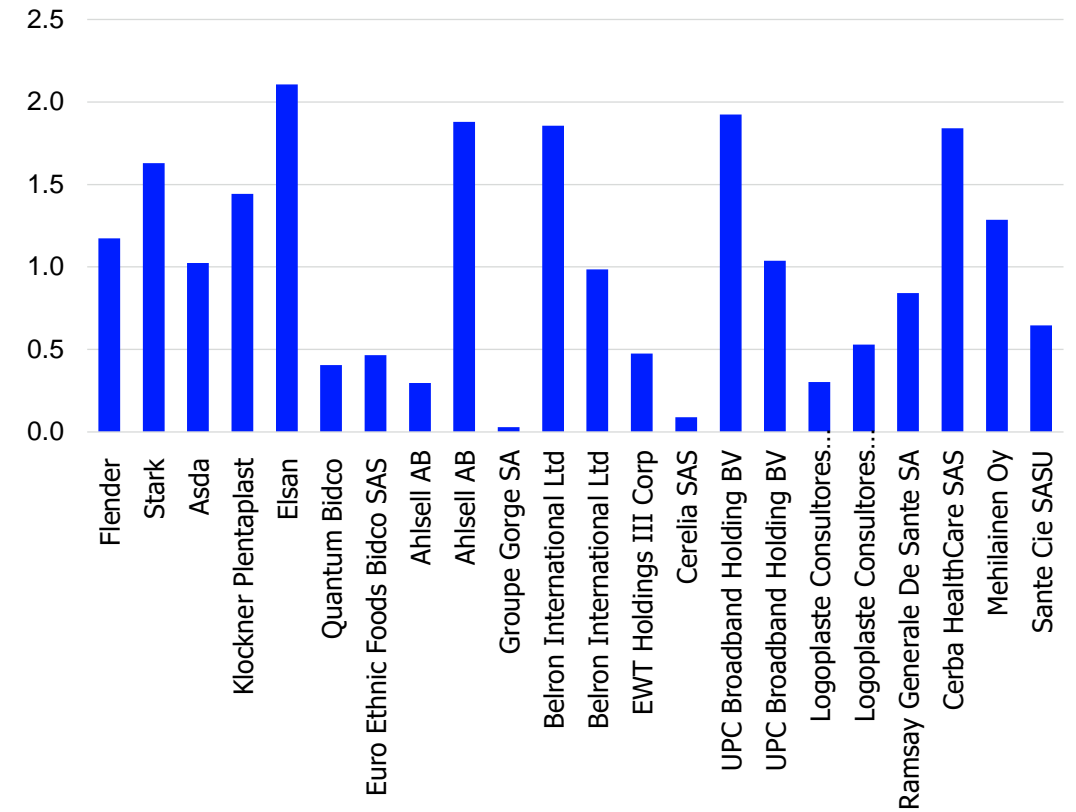
Americas green & ESG loan activity officially takes off, jumping over 4.5x year-over-year; YTD global green & ESG loan volume already exceeds full year 2020 totals;

Over US\$22bn of ESG linked institutional loan volume has hit the global loan mart so far this year

Global Green & ESG loan volume (US\$bn)



ESG Linked Institutional loan volume (US\$bn)

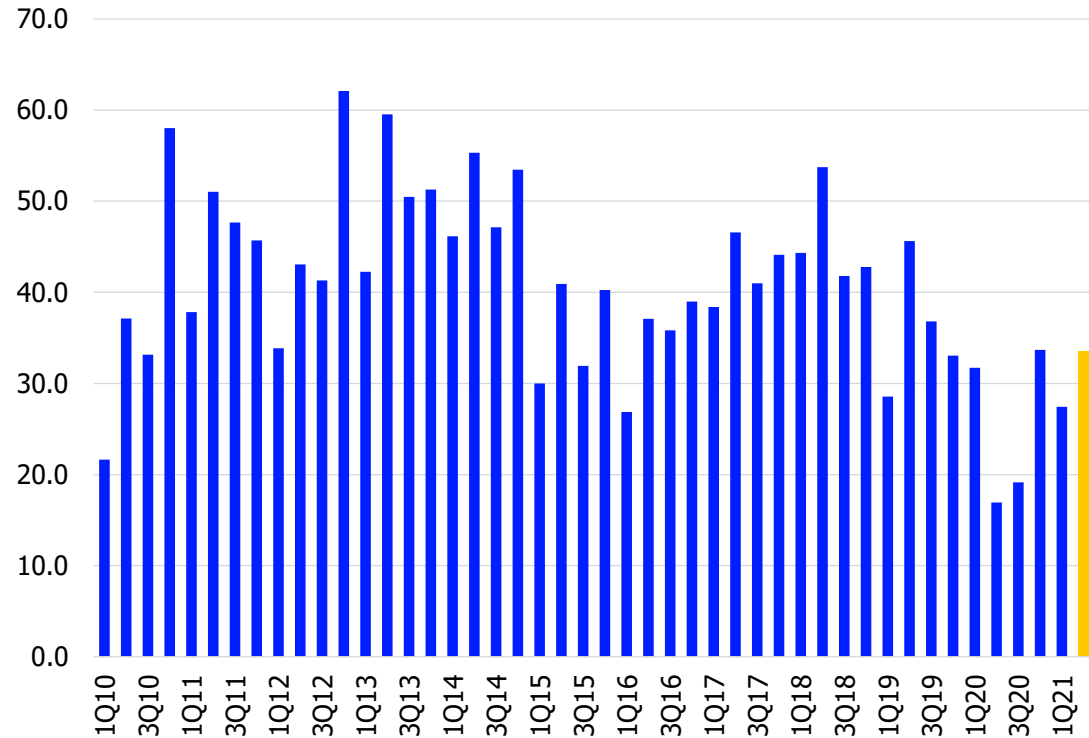


Syndicated US middle market activity has been stronger this quarter with over \$33bn of completed volume tracked through early June

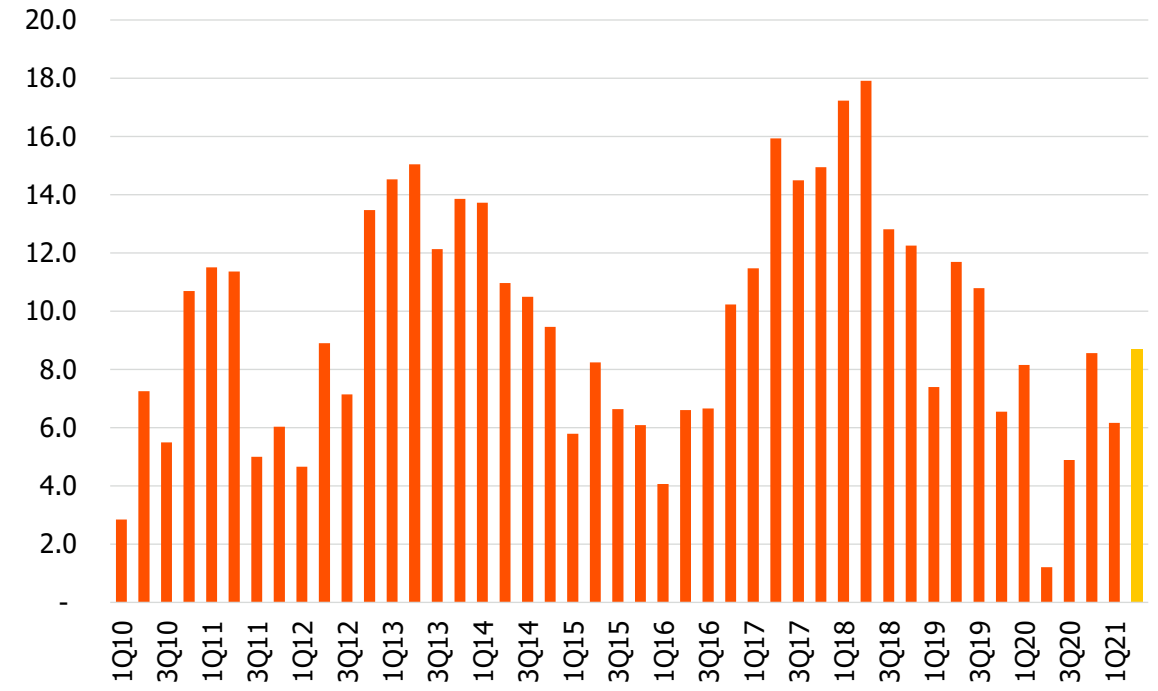
2Q21 volume is on pace to be the highest level since the onset of the pandemic

There has been more institutional middle market volume as well, over US\$8bn so far this quarter, which is on pace for the highest level since 3Q19

US syndicated middle market loan issuance (US\$bn)



US syndicated middle market institutional Issuance (US\$bn)

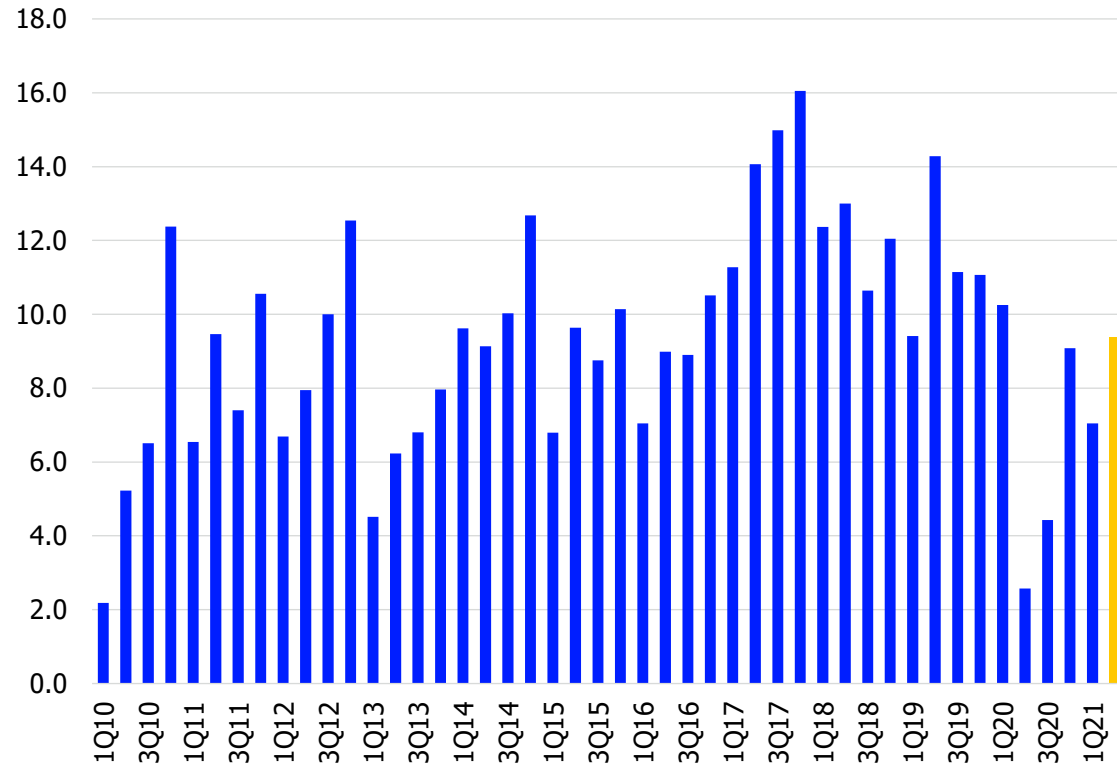


Middle market definition: issuers with revenues of \$500M and below and a total loan package of \$500M and below
 * Syndicated: facilities syndicated to at least one participant up to \$500M in deal size or clubbed up to \$150M in deal size

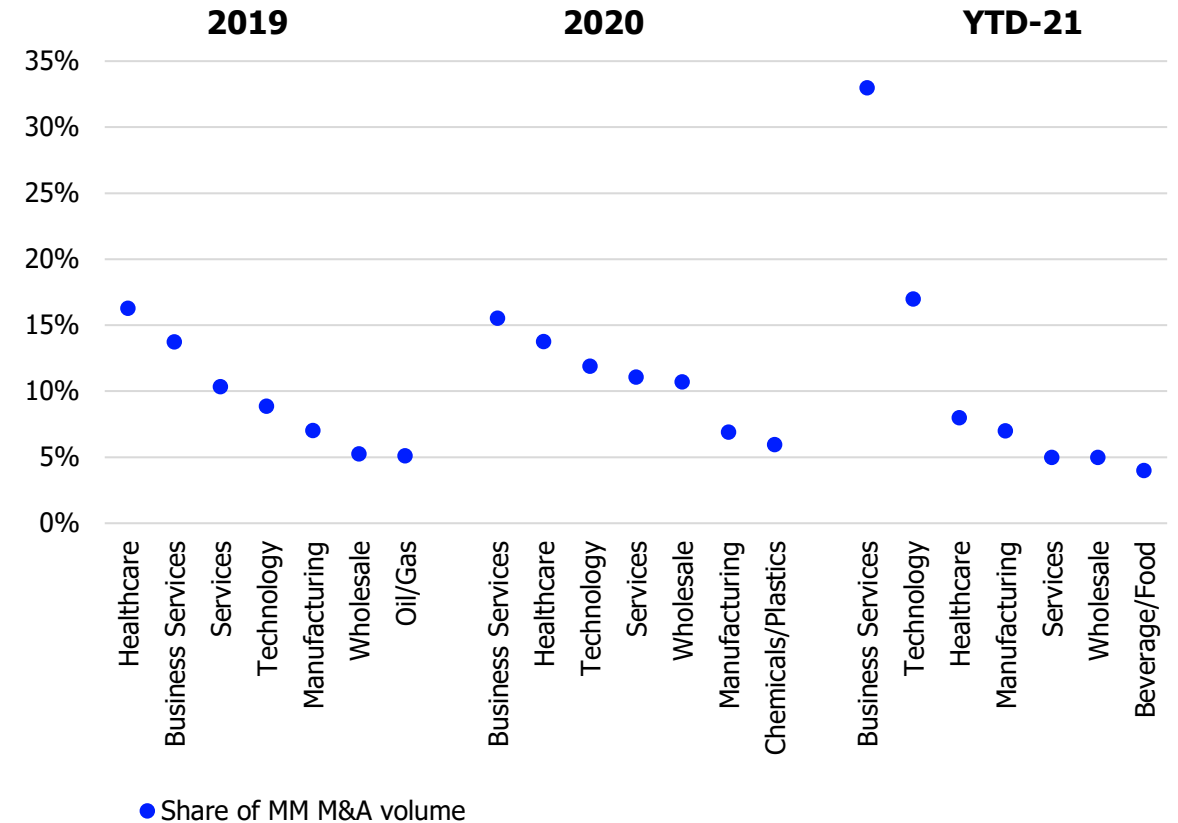
Syndicated middle market M&A activity has been a driver of loan volume, with over US\$9bn used for M&A purposes so far this quarter

2021 middle market M&A loan activity has been more focused on business services and technology issuers compared with pre-pandemic

Middle market M&A loan volume (US\$bn)



Top Sectors: Share of Syndicated Middle Market M&A Volume

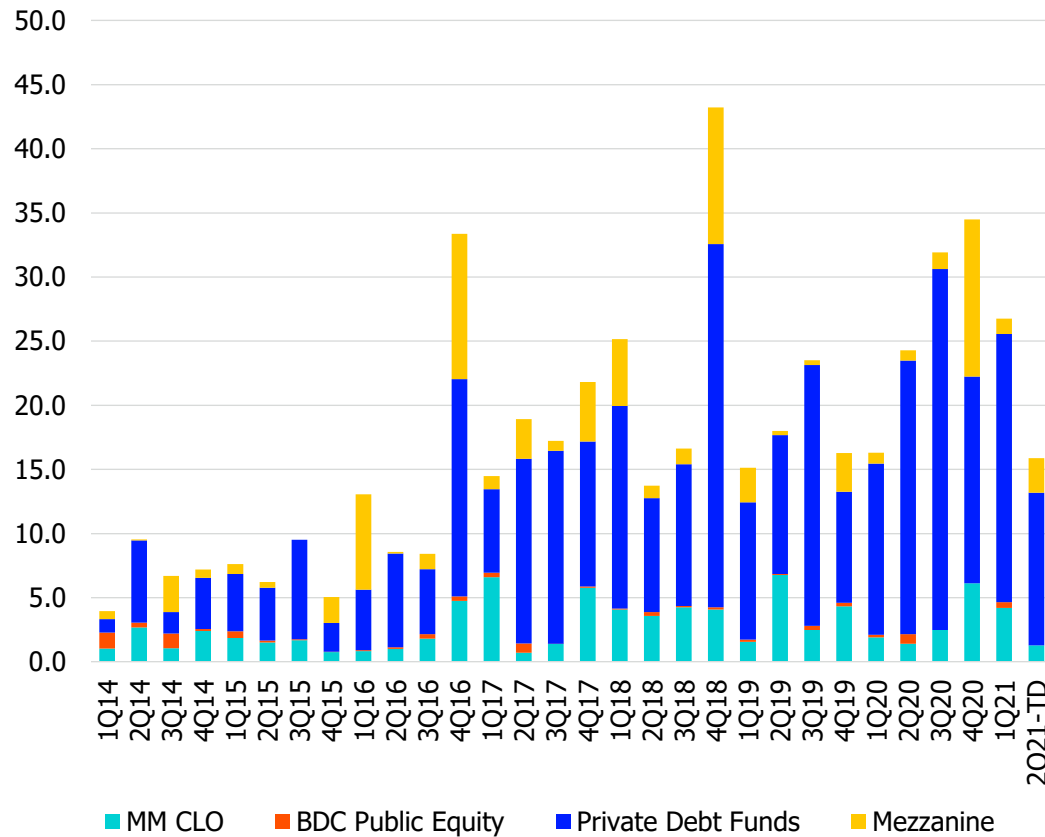


Middle market loan fundraising remains consistently strong

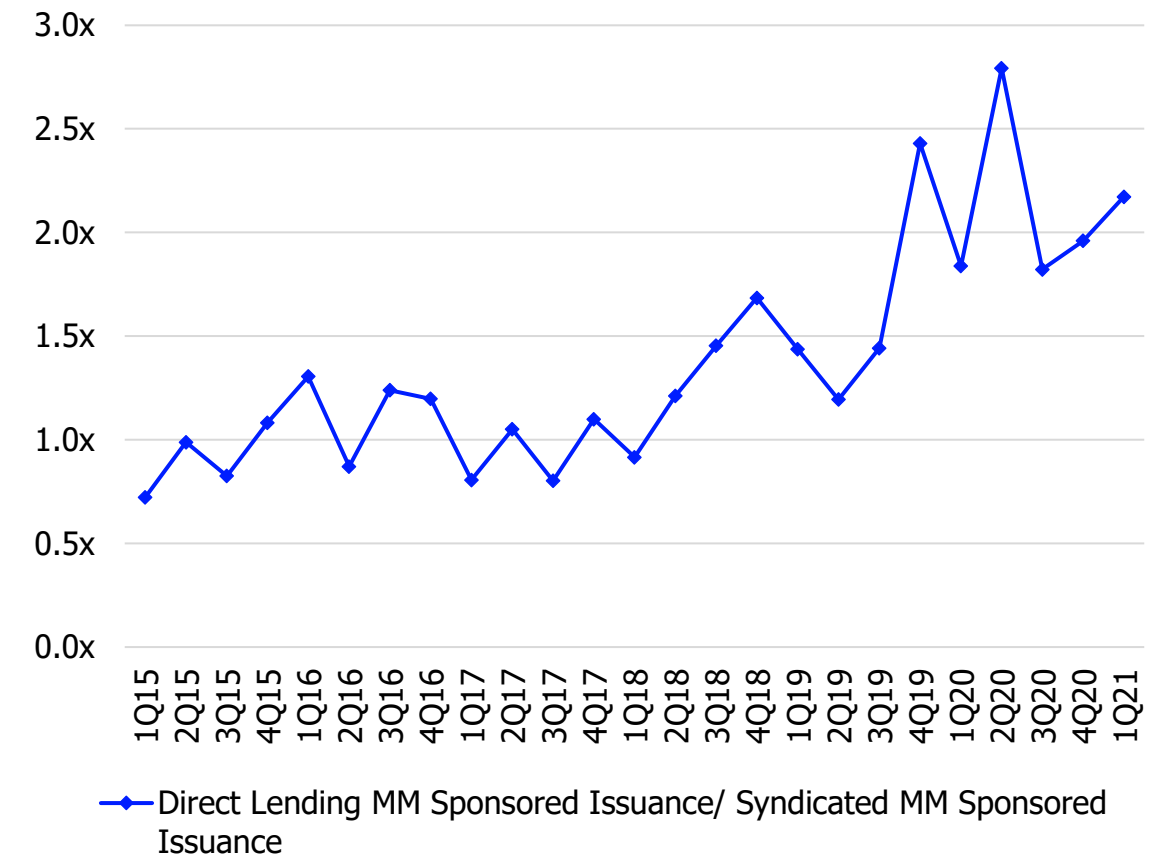
Refinitiv LPC has tracked roughly \$43bn in YTD US middle market fundraising through the end of May, after over US\$100bn was raised in 2020

More sponsors have found the ease of execution in the direct lending market more favorable, leading that market to see around two times more volume compared to the syndicated market over the last six quarters

Quarterly: Middle market loan fundraising (US\$bn)



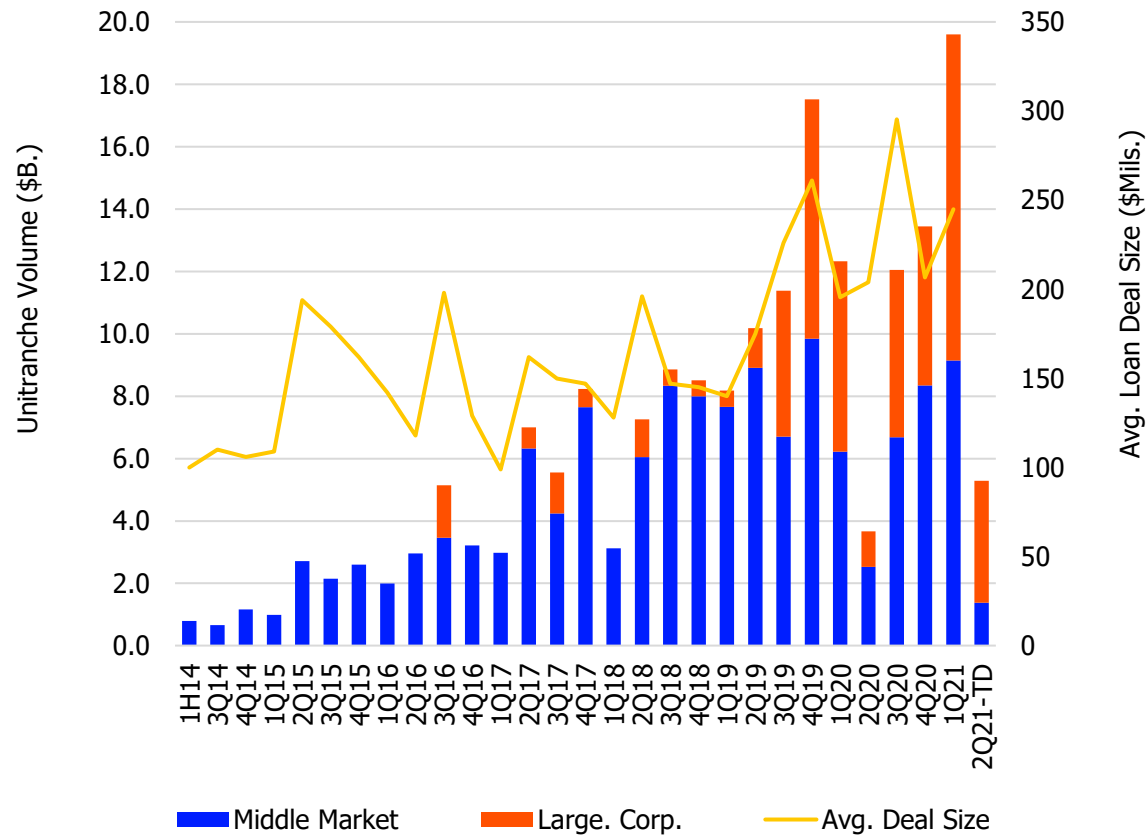
MM Direct Lending Sponsored Volume relative to Syndicated MM Sponsored volume (x:1)



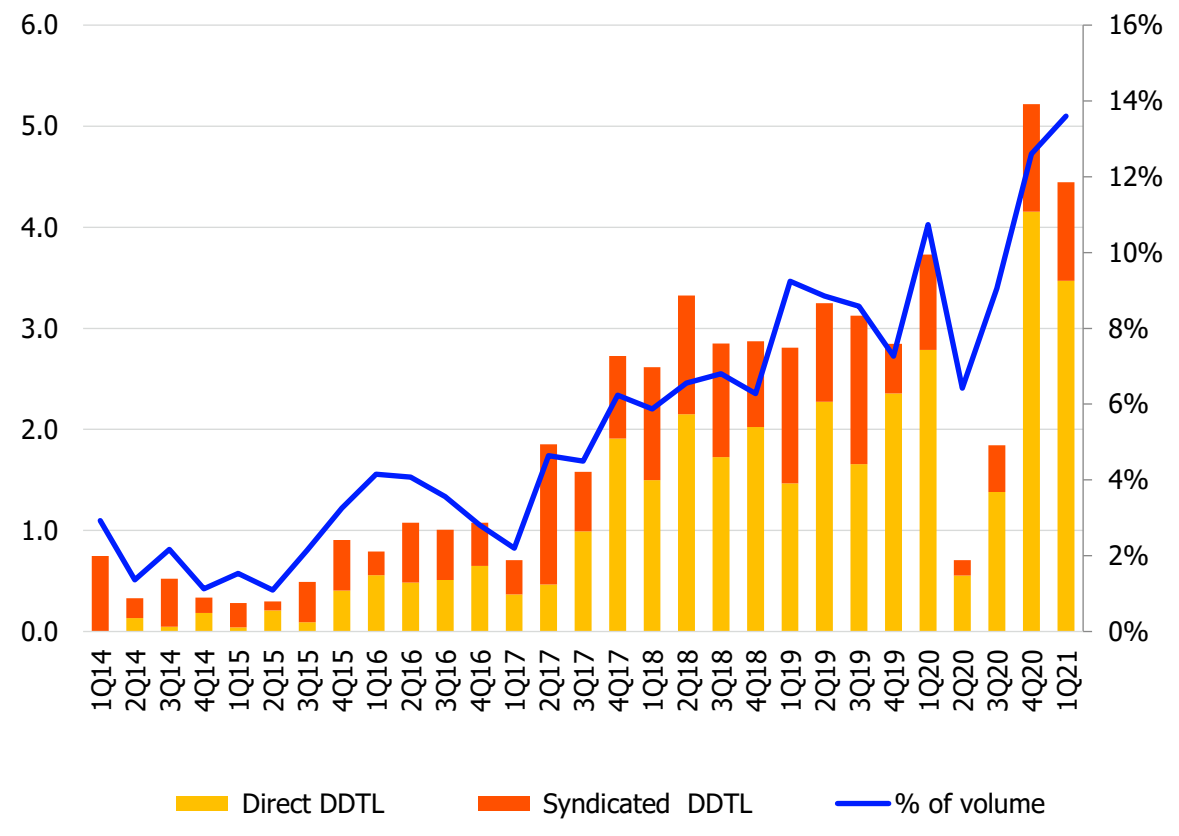
US unitranche volume scored a record in 1Q21 as larger uni deals return

Large corporate unitranche deals bounced back in 1Q21, and in April, Calypso Technology obtained a US\$2.3bn unitranche loan as part of its LBO financing. Delay-draw term loans have become more popular to include in direct lending loan structures, sometimes for a specific acquisition in mind, or to back an overall strategy that includes potential tack-on acquisitions.

Quarterly US Unitranche Volume (US\$bn)*



MM Delay Draw Term Loan Volume (US\$bn)



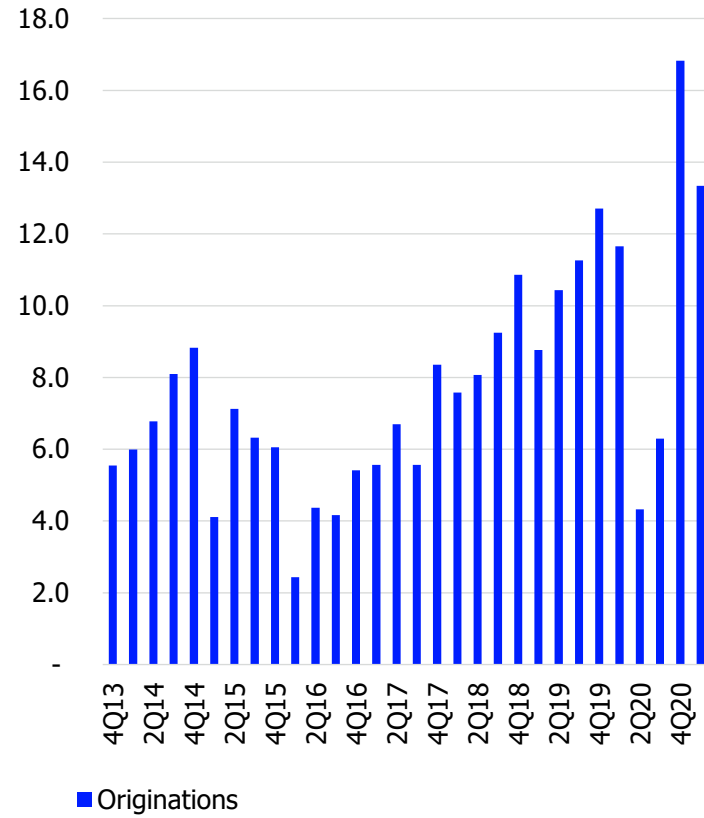
*Includes both large corp. and middle market unitranches. Refinitiv LPC relies on lenders to flag deals as unitranches. Refinitiv LPC also looks at a combination of spread (in conjunction with EBITDA size), leverage and loan-to-value (LTV) to flag unitranches. Middle market is for issuers with a deal size and revenue size of \$500M and below. Large corp. is either deal size or revenue size > \$500M.

BDC originations saw the two highest levels on record in 4Q20 and 1Q21

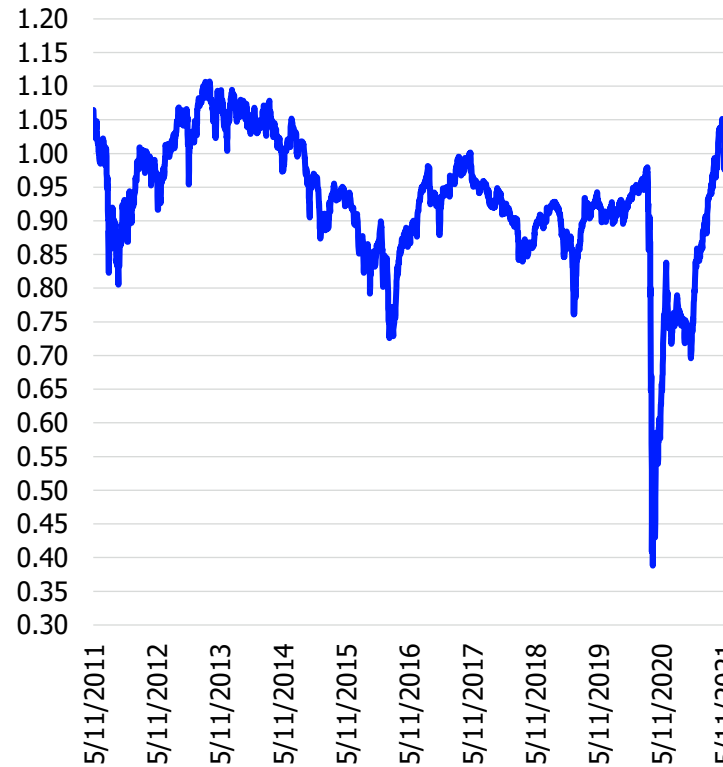
BDC share price to NAV recently rose above 1x for the first time since 2017; by contrast, that average bottomed out at 0.39x in March 2020

Looking at cross asset returns shows the Wells Fargo BDC Index is returning over 30% so far this year, well above the S&P/LSTA Index and S&P500 returns

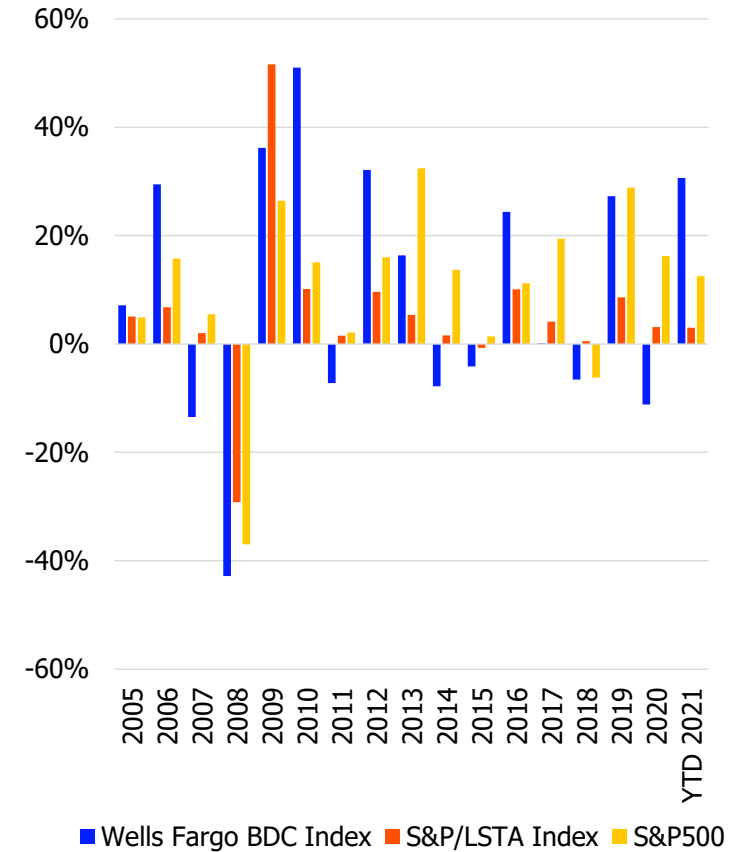
Quarterly BDC origination volume (US\$bn)



BDC share price to Net Asset Value (per share)*



Cross asset returns %



Note: Origination analysis includes bulk of the public BDCs and a few of the bigger private BDCs, roughly 45 names in the cohort

BDC COLLATERAL

The one-stop resource for analyzing BDCs, holdings and performance

Why choose BDC Collateral?

BDC Collateral provides a standardized view of the BDC asset class, arming CFOs within BDC managers, research analysts, investors, and valuation firms with news, data and analytical insights on nearly 100 public and private BDCs.

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- Market-level news
- Asset-level secondary loan pricing (where available)
- Historical and special dividends
- Broker recommendations and reports
- Competitor/peer comparison analysis

[View an introductory BDC Collateral video here!](#)

The screenshot displays the Refinitiv BDC Collateral website. At the top, there is a navigation bar with 'MARKET', 'MY PORTFOLIOS', 'EXPLORE BDCs', 'SEARCH INVESTEEs', and 'ASSET SEARCH'. A search bar on the right contains the text 'Search BDCs, News and Keywords'. Below the navigation bar, there are tabs for 'All News', 'Market', and 'LPC Investee'. The main content area features several news articles, each with a title, date, and a brief description. To the right of the news articles, there are two tables titled 'Movers August 3, 2020'. The first table lists BDC tickers with their prices, percentage changes, and dollar changes. The second table lists more tickers with similar data.

Ticker	Price	Change (%)	Change (\$)
BKCC	\$2.82	11.02%	+\$0.28
OFS	\$4.63	8.43%	+\$0.36
HTGC	\$11.53	4.44%	+\$0.49
SCM	\$7.99	3.23%	+\$0.25
NEWT	\$19.33	3.20%	+\$0.60

Ticker	Price	Change (%)	Change (\$)
RAND	\$10.42	-2.71%	-\$0.29
FDUS	\$8.49	-1.96%	-\$0.17
GECC	\$4.29	-1.72%	-\$0.07
ORCC	\$12.05	-1.63%	-\$0.20
MAIN	\$29.99	-1.06%	-\$0.32

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