

## Bank Loans

# Favorable Technicals Lift Prices



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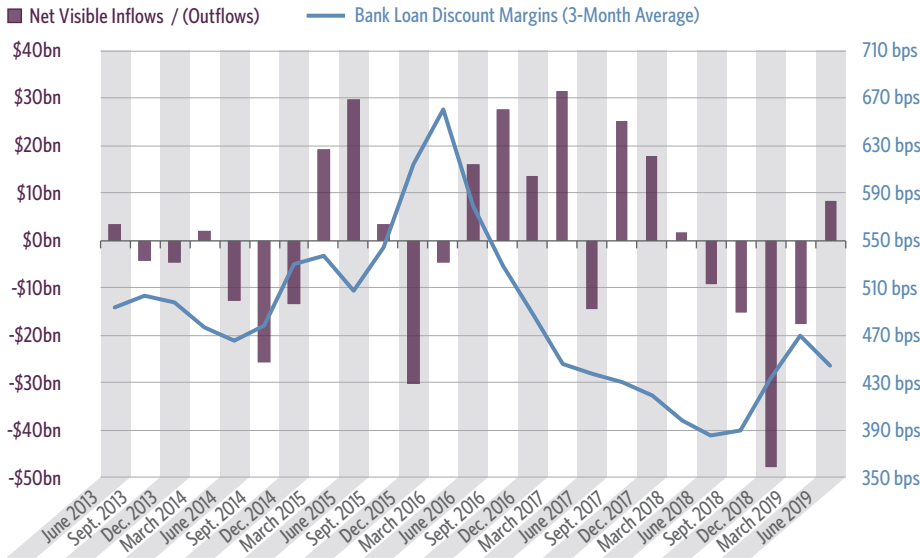
Secondary loan prices rose in the second quarter on the back of robust CLO demand.

As of the end of the second quarter, bank loan mutual funds and exchange-traded funds have witnessed nine straight months of net redemptions, shrinking their share of the loan market down to approximately 10 percent from 17 percent in June of last year. Robust demand from a high volume of CLO originations, on the other hand, overwhelmed the supply of loans in the second quarter. Visible demand in the second quarter was almost \$11 billion greater than the change in loans outstanding, according to S&P LCD, solely due to weak loan issuance against heavy CLO originations in April (see chart, top right). This helped lift secondary loan prices and tighten spreads on new issue B-rated loans, which represented the majority of loan issuance this year.

The Credit Suisse Leveraged Loan index gained 1.6 percent in the second quarter, boosting the year-to-date return to 5.4 percent. This represents the index's best first-half performance since 2009. Performance across all rating categories was positive in the second quarter, with BBs gaining 1.7 percent, Bs gaining 1.6 percent, and CCCs gaining 0.6 percent.

Over the next few months, investors should expect to see a reduction in loan coupons as the Fed delivers rate cuts. The index performance attributed to interest returns since January already reflects some decline in the one-month and three-month London inter-bank offered rate (Libor) since the market began to price in Fed easing. We do not expect this to have an impact on CLO demand for loans given that they will also see liability costs decline. We may see some pickup in loan supply in the third quarter, but August tends to be a quiet month for primary markets so any pickup in issuance would likely come in September (see chart, bottom right).

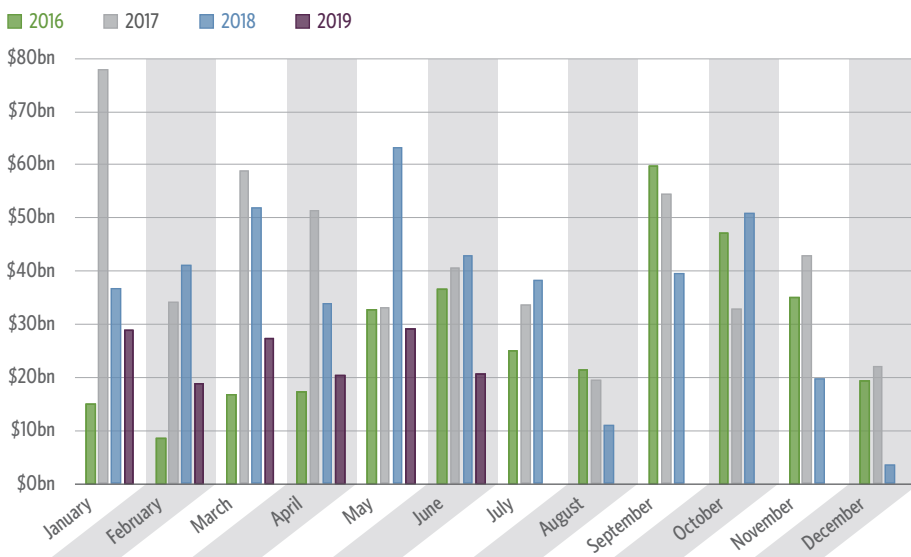
### Bank Loan Technical Dynamics Help Drive Valuations



Source: Guggenheim Investments, S&P LCD, Credit Suisse. Data as of 6.30.2019.

Mutual fund outflows have continued for nine consecutive months, but robust CLO volume in the second quarter more than offset visible net outflows and helped tighten discount margins. Although not the sole driver, the balance between net visible flows and loan issuance can drive spreads wider or tighter.

### Late Summer Loan Issuance Tends to be Muted



Source: Guggenheim Investments, S&P LCD. Data as of 6.30.2019. Based on institutional loan issuance only.

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