



# Leveraged Lion Capital

Fixed Income Research Report

1.21.22

## LLC Portfolio Review

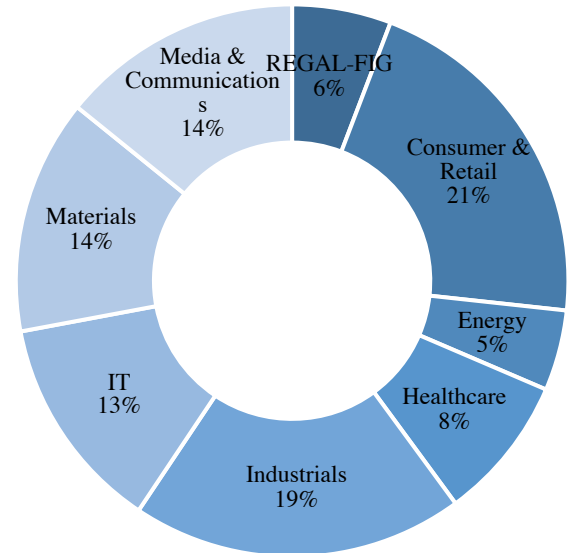
### Portfolio Characteristics

Number of holdings	23
Average price	103.30
Average YTM	5.01%

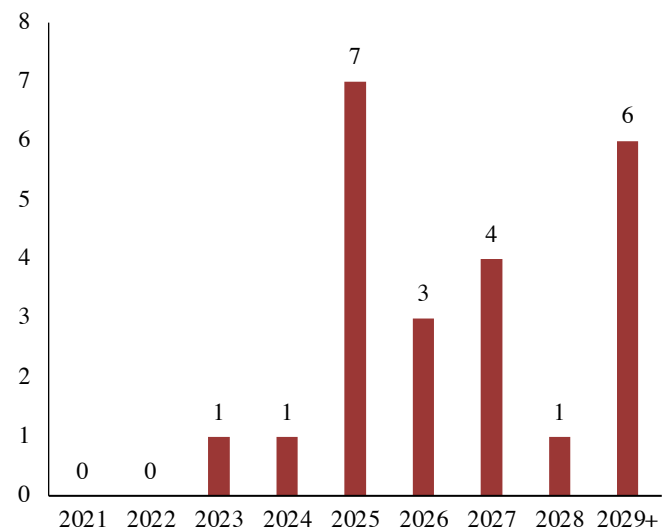
### Credit Quality (# of holdings)

<b>Bank Loans</b>	<b>13.05%</b>
BB+	0.00%
BB	4.35%
BB-	4.35%
B+	4.35%
B	0.00%
<b>High Yield Corporates</b>	<b>47.81%</b>
BB-	8.69%
B+	17.39%
B	13.04%
B-	8.69%
CCC-	0.00%
<b>Cash &amp; Cash Equivalents</b>	<b>36.83%</b>

### Sector Allocation (% of total assets)



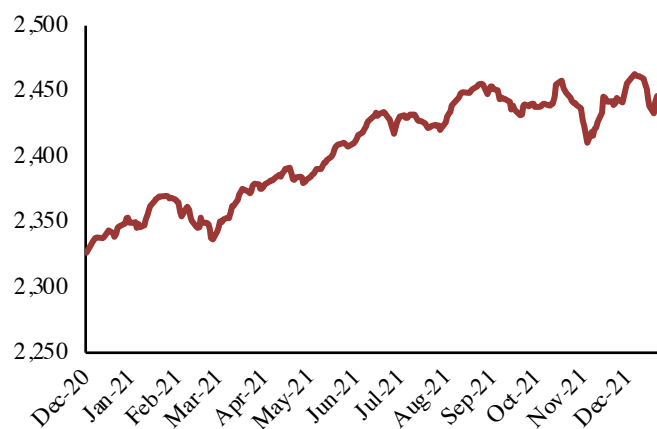
### Maturity Distribution (# of holdings)



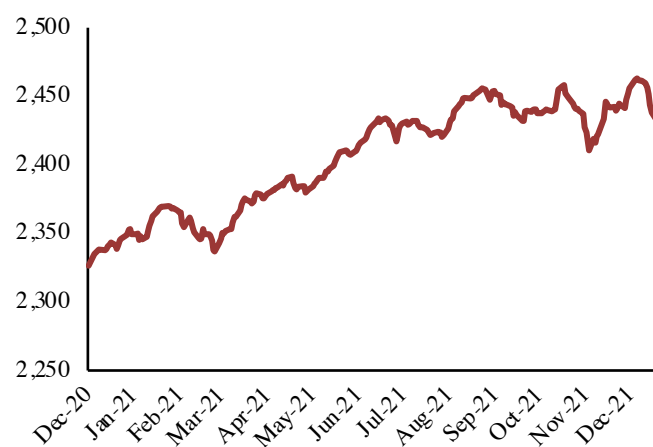
### Loan & HY Bond Market Recap

- Over the past week, weekly leveraged loan launched volume averaged \$19.60 bn
- For the week ended January 14, M&A activity represented 64.70% of gross volume at \$12.70 bn
- This showed evidence of solid momentum in new-issue loans, accelerated deal timing and tight executions including four reverse flexes
- The first two new-issue CLOs with SOFR pricing came from a \$411.00 mm deal from Alliance Bernstein and a \$752.00 mm deal from Palmer Square
- High yield was slow to open the week with just \$6.45 bn of new issuance completed, the lowest output to start a year since 2019
- The slowdown in 2022 is due to the sharply rising interest-rate environment

### S&P/LSTA US Leveraged Loan 100 Index



### Bloomberg Barclays US Corp HY Index



### Notable Moves in Secondary Market

- In the secondary market, the LSTA 100 traded up 0.80% over the past month to a 52-week high of 2,433.32
- Additionally, the Credit Suisse Leveraged Loan Index ended Thursday at 98.73% of par, its highest level since July 30, 2014 - up 13 bps from last Friday's close of 98.60
- The Bloomberg Barclays High Yield Index is down from its 52-week high of 2,460.01 a month ago to 2,440.02

#### S&P/LSTA U.S. Leveraged Loan 100

#### Bloomberg Barclays U.S. Corp HY

	S&P/LSTA U.S. Leveraged Loan 100	Bloomberg Barclays U.S. Corp HY
1-month	0.80%	-0.06%
YTD	2.77%	4.11%
Index value	2,433.32	2,440.02
52-week high	2,433.93	2,460.01
52-week low	2,368.47	2,350.52

Sources: LevFin Insights, S&P Global, Bloomberg

# Leveraged Lion Capital

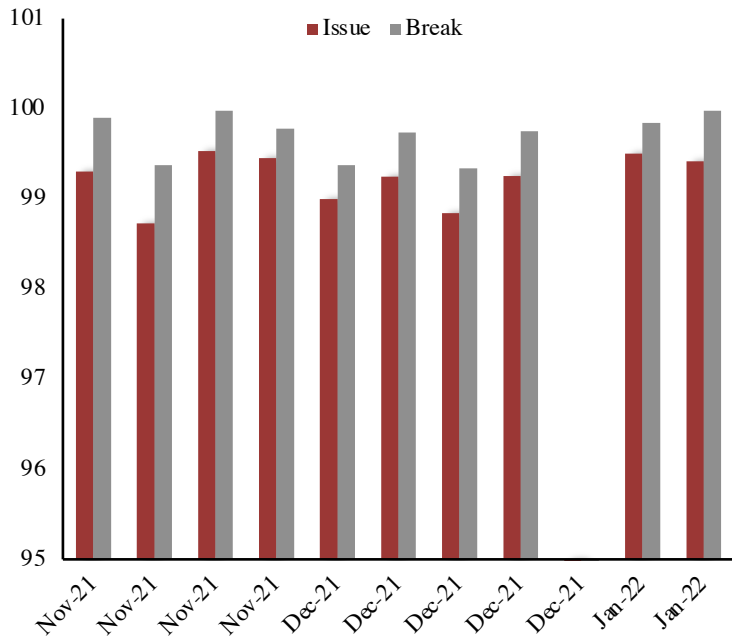
# LLC

January 21, 2022

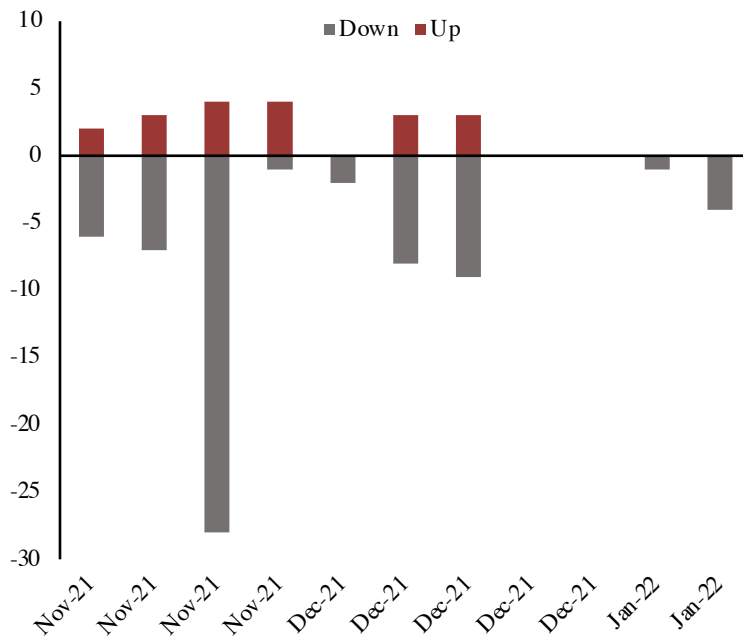
Credit Research Report

+1.38%

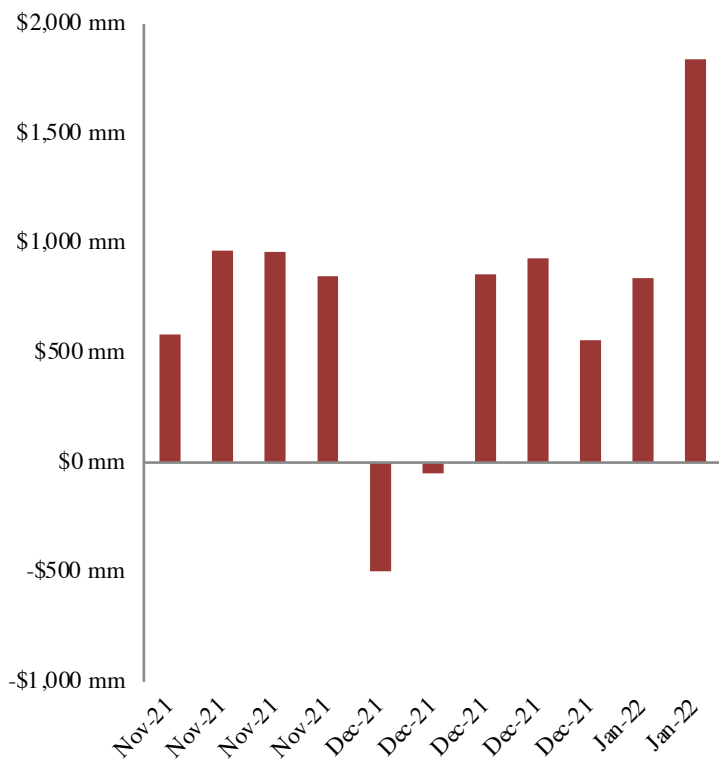
## Prices (first-lien deals)



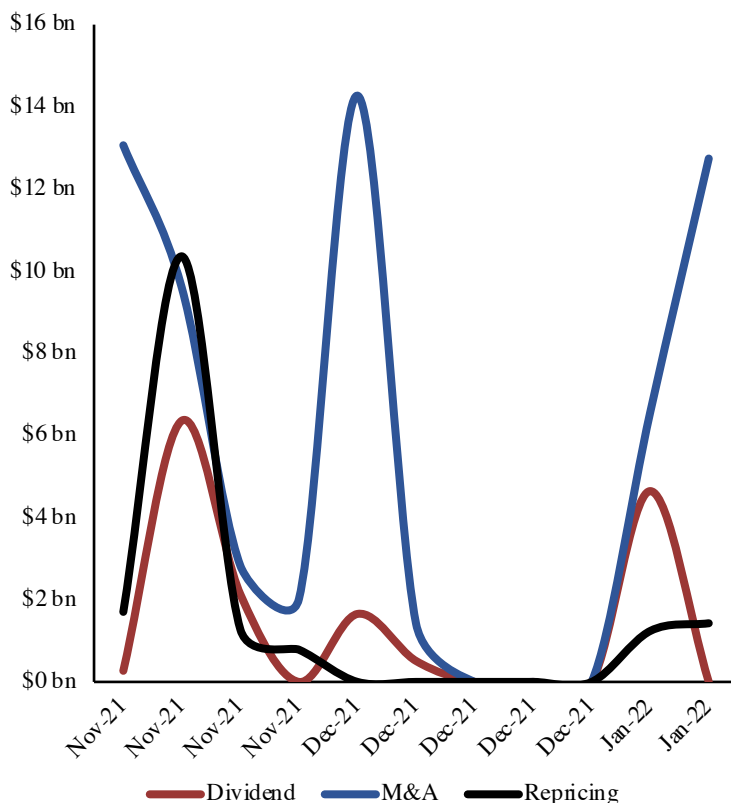
## Loan Flex Activity



## Leveraged Loan Mutual Fund Flows

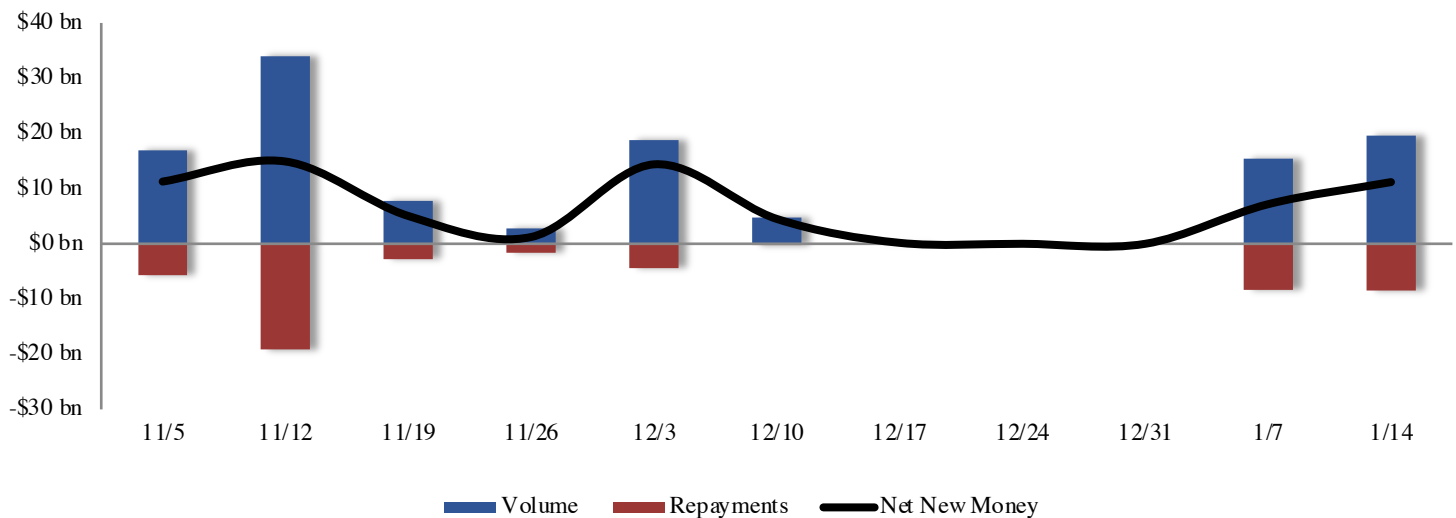


## Launched Deal Volume by Purpose



Source: Capital-Structure.com

### Net Launched Volume



### Recent Leveraged Loan Deals

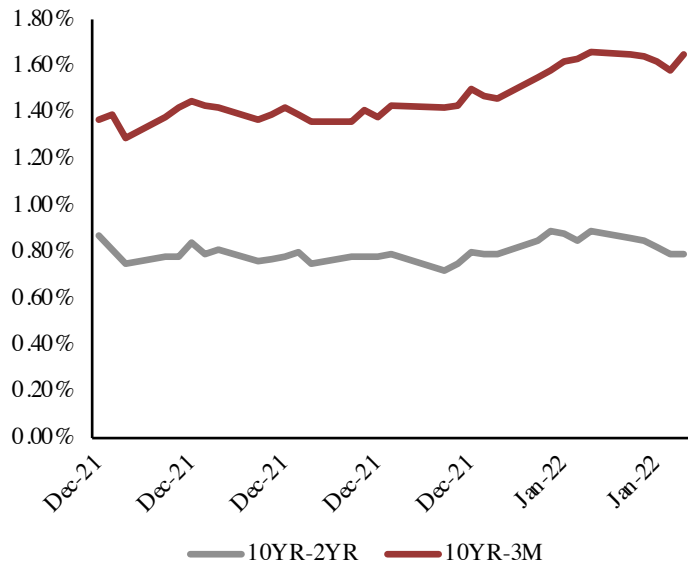
Company	Purpose	Tranche Size	Spread (bps)	OID
Atkins	Repricing	\$431.50 mm	S+325	100.00
Maravai Life Sciences	Repricing	\$544.00 mm	S+300	100.00
MI Windows & Doors	Repricing	\$463.50 mm	S+350	100.00
SRS Distribution	M&A	\$800.00 mm	S+350	99.50
Cano Health	Repricing	\$644.00 mm	S+400	100.00
<b>Virtu Financial</b>	<b>Recapitalization</b>	<b>\$1,800.00 mm</b>	<b>S+300</b>	<b>99.75</b>
Digi International	M&A	\$385.00 mm	L+500	98.00
Digital Room Inc	LBO	\$390.00 mm	L+525	99.00

### Recent High-Yield Bond Deals

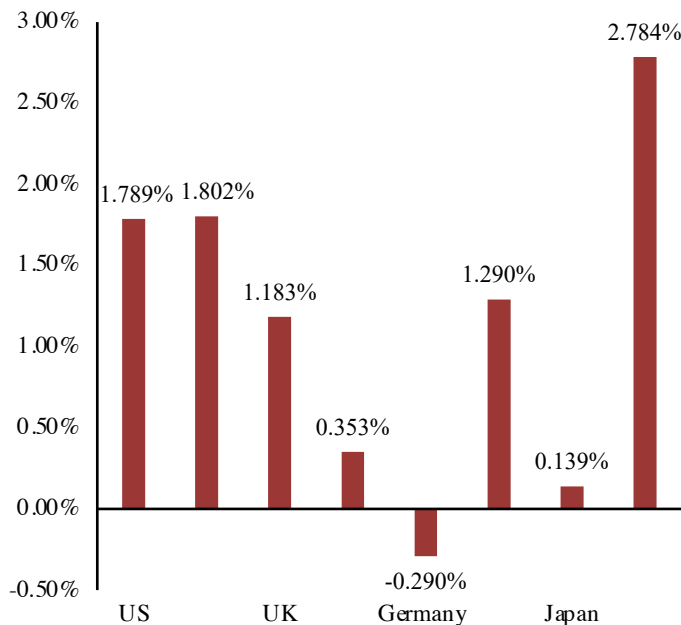
Company	Purpose	Tranche Size	Coupon	Issue Price
Charter Communications	Corporate Purposes	\$1,200.00 mm	4.750%	100.00
Commercial Metals Co.	Corporate Purposes	\$300.00 mm	4.375%	100.00
Range Resources	Refinancing	\$500.00 mm	4.750%	100.00
Golden Nugget	Refinancing	\$1,000.00 mm	4.625%	100.00
Golden Nugget	Refinancing	\$1,250.00 mm	6.750%	100.00
Ciena Corp	Corporate Purposes	\$400.00 mm	4.000%	100.00
Starwood Property Trust	Corporate Purposes	\$500.00 mm	4.375%	100.00
Ziprecruiter	Corporate Purposes	\$550.00 mm	5.000%	100.00

Source: LevFin Insights

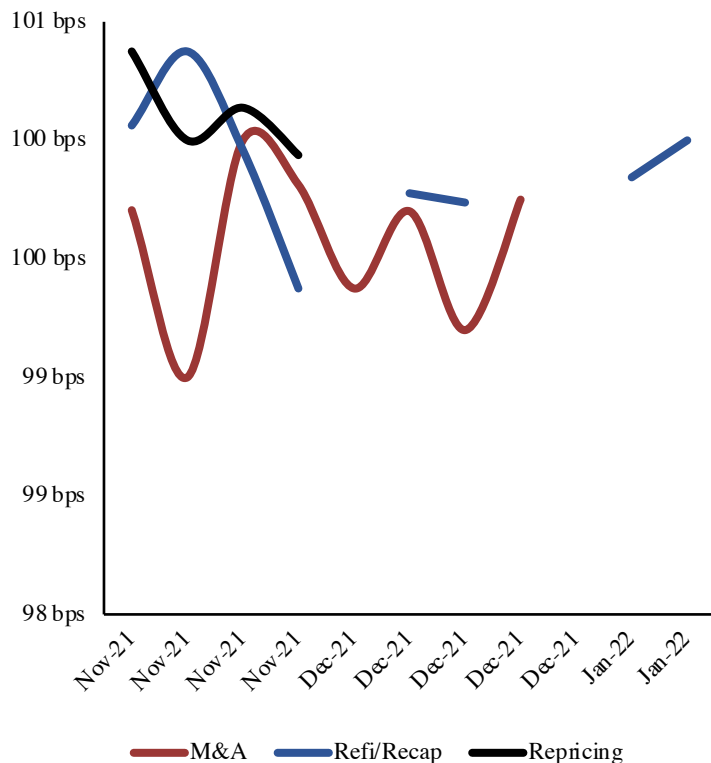
## Treasury Yield Curve Spreads



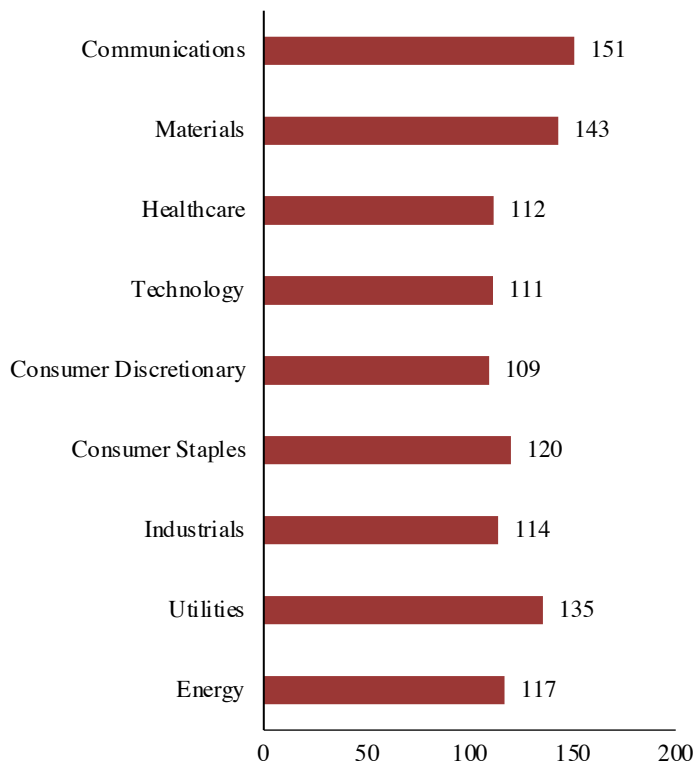
## 10-Year Government Bond Yields



## Avg. Gap Between Issue and Break Price



## HY OAS by Sector



Sources: Levfin Insights, St. Louis Fed

### Special Topics & Notable Developments

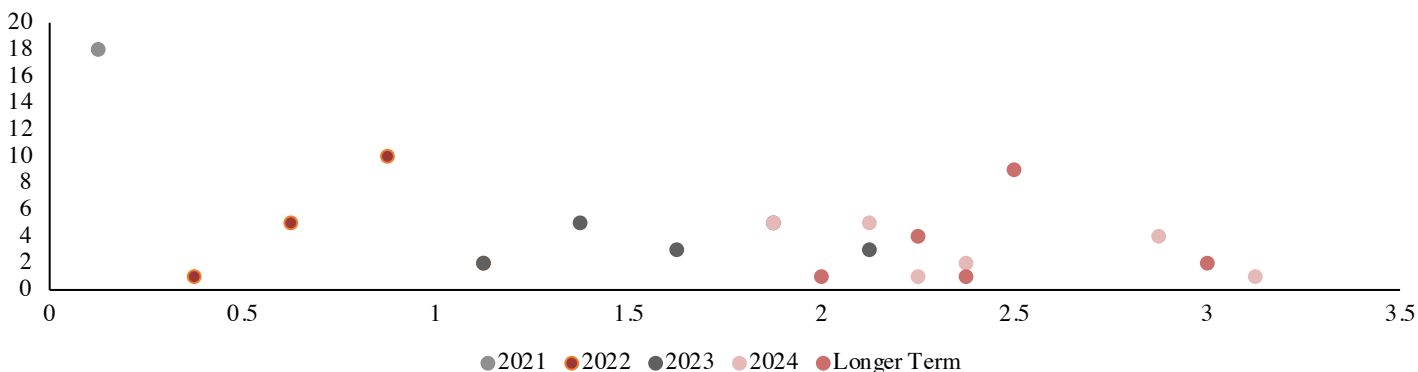
#### High Yield Default Rate ends 2021 at a Record Low

- The 2021 high yield default rate in the U.S. finished the year at a record low of 0.50%, with the low volume expected to continue through 2023
  - Fitch is projecting a 1.00% default rate for 2022 and between 1.00%-1.50% in 2023
    - These rates are both below the historical non-recessionary average default rate of 2.20%
  - The lower-than-average default forecast reflects strong capital markets access that allowed issuers to extend maturities and build liquidity
  - The record \$447.00 bn of issuance in 2021 underscores investor appetite for debt
  - Telecommunication and broadcasting/media are two sectors that could see higher default rates in 2022 compared with Fitch's overall forecast

#### U.S. High Yield Themes for 2022

- The major focus in credit markets is the Federal Reserve's hawkish stance of an accelerated taper of its bond buying in early 2022, followed by three rate hikes later in the year
  - With communication from Jerome Powell being well received, the yield curve was steepening with lower short-term rates and steady-to-higher long-term rates
  - Inflation uncertainty and rate volatility in early 2022 won't help corporate credit performance over the near term
- High-yield bond supply should fall in 2022 from the record levels in 2021 of \$464.00 bn but remain elevated in a historical context around \$400.00 bn - \$435.00 bn
- Refinancing was a major trend in 2021 but will start to decline again in 2022 as there will be more of an uptrend in M&A/LBO offerings
- As of December 15, the average spread to U.S. Treasuries was T+323 and Wells Fargo is predicting that spreads at the end of 2022 will be in the 300 bps-325 bps range

#### Fed Dot Plot (December 2021)



Sources: Bloomberg, WSJ