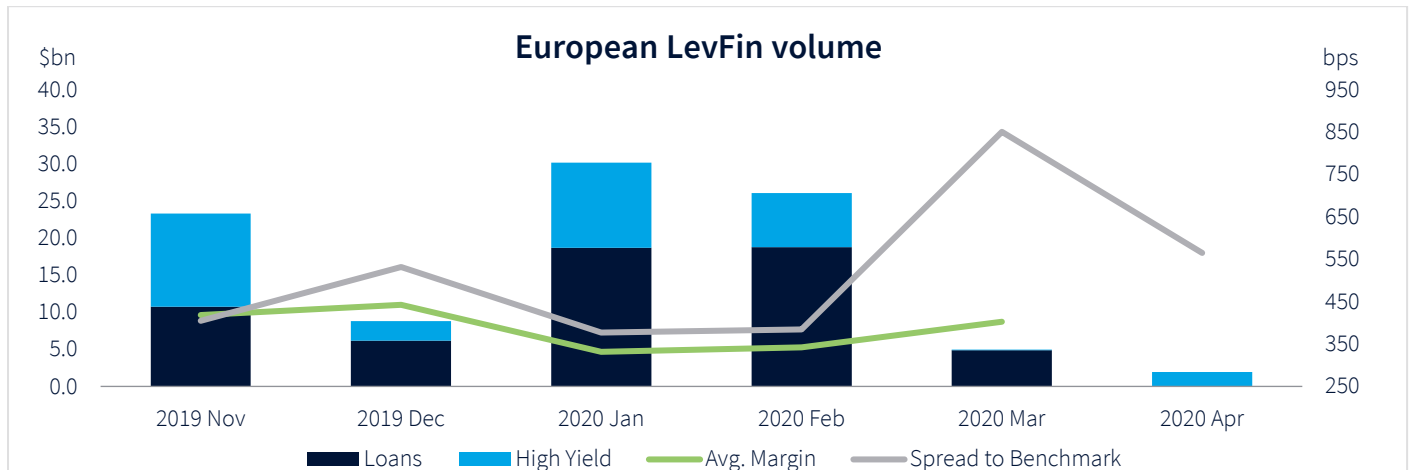


30-day Drought in European Institutional Loans

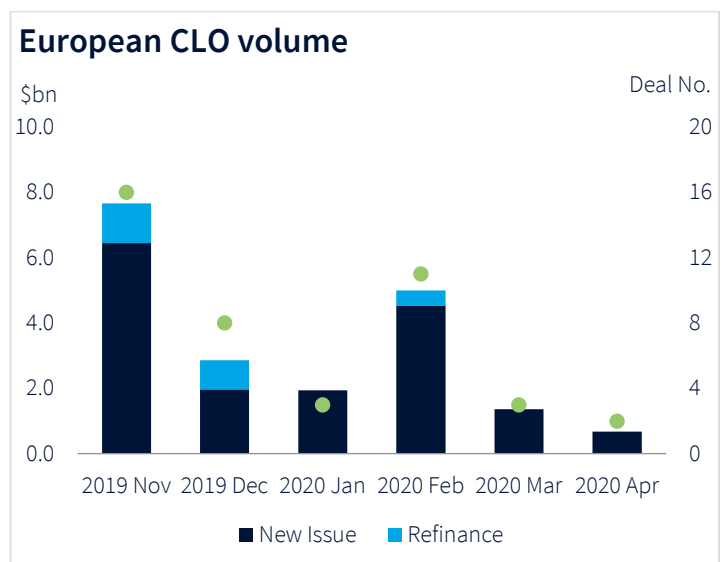
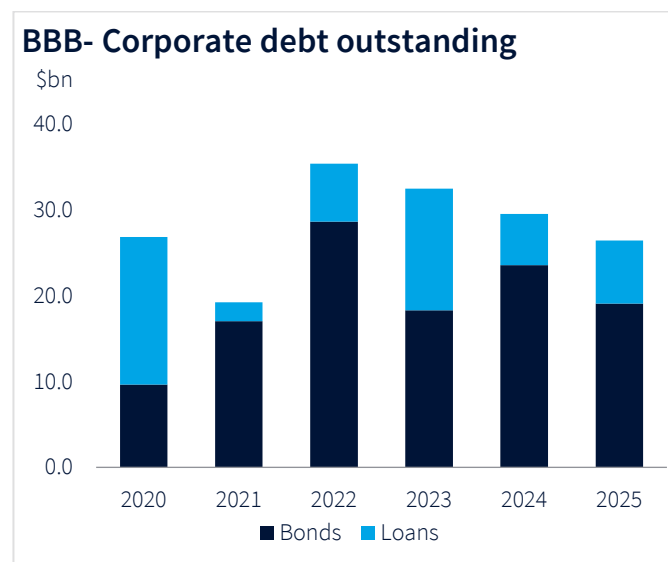
Strong start to 2020 melts away by April

Following a slow beginning to 2019 on the back of global uncertainties such as the unresolved US-Sino trade war and Brexit, European leveraged institutional loans* rallied and recorded a very strong start in 2020 with \$18.7bn volume achieved in January — the highest monthly volume since January 2018. Echoing a similar pattern in the US market, a low-margin environment drove refinancing activity which accounted for 63.1% of loan volumes between January and February 2020, up by 36 percentage points from the same period last year. The European market also benefited from a volume-boosting 24 cross-border deals, accounting for 38.7% of institutional loans activity.



HY Issuers timidly return while borrowers shy away

Unfortunately, the COVID-19 pandemic has sent a chill through Europe’s LevFin market. The first 15 days of April did not see any borrower or issuer coming to market. Whilst the HY market brought a beacon of hope through Merlin Entertainment issuing a €500m bond, even though paying 250bps more than on its previous issue, the institutional loans market continued in lockdown. European borrowers are facing more expensive borrowing costs with the average margin jumping from 332bps in January to 403bps in March. With downgrades likely to happen, the \$169.8bn of European BBB- corporate debt outstanding over the next 5 years should be on close watch.



CLOs on negative watch

Likewise, a significant number of European CLOs have been put on negative watch by rating agencies, particularly in the double B and single B area, indicating potential future rating downgrades. Issuance for European CLOs saw a monthly volume and activity contraction of 73% from February to March. Lower CLO issuance can materially impact banks’ performance, leaving risky assets on their balance sheets, thereby impacting future liquidity for the LevFin market.

Please contact us at DealogicCortexSupport@dealogic.com if you have any questions or comments.

Data source: Dealogic as of April 29, 2020

*European leveraged institutional loans include the total facility where at least 75% is distributed to institutional investors