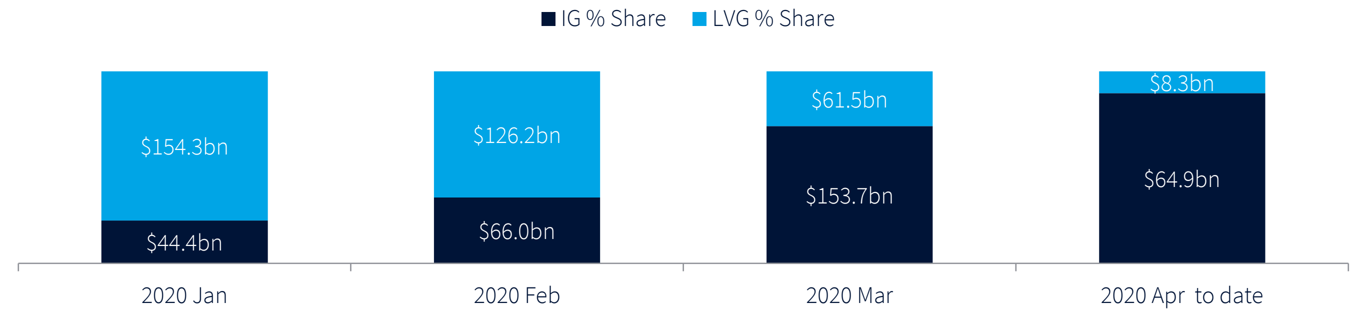
Liquidity rush alters US borrowing patterns

Huge swing from Leveraged to Investment Grade borrowing

The COVID-19 pandemic over the past months has drastically changed the borrowing pattern of the US loans market. From January to April there has been a 66-percentage point swing from leveraged to investment grade (IG) borrowing. A once buoyant leveraged loans market raising $154.3bn via 187 deals in January plummeted by 60% to $61.5bn in March whilst investment grade borrowing grew exponentially from $44.4bn raised in January to $153.7bn in March 2020.

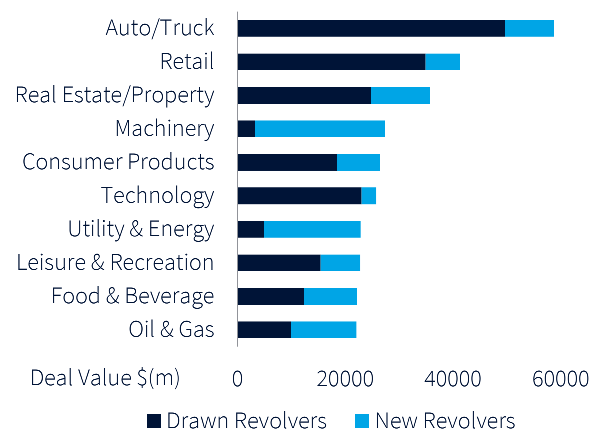
US Investment Grade VS Leveraged Borrowing



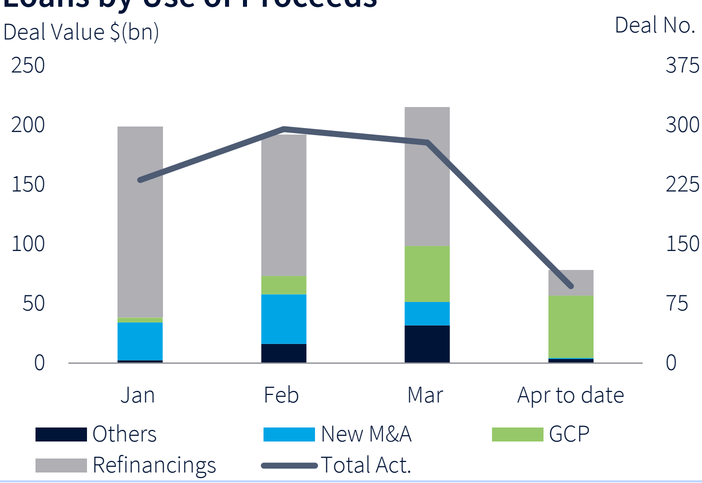
Revolvers dominate borrowing pattern

The rush for liquidity is one of the main reasons underpinning this swing. It has been characterized by a surge in both revolving credit facilities (RCF) and 364-Day Term loans volumes which jumped from a 30.3% share in January to 91.4% in April. Revolvers have been the impetus for US volume since March when they accounted for 65.8% of borrowings. So far in April, they accounted for nearly 80% of all loans signed. The most active RCF borrowers in the last six weeks were in the Machinery, Utility & Energy and Finance sectors with 14.7%, 11.0% and 9.0% shares, respectively. In parallel, $281.8bn of RCFs were drawn in the last six weeks led by Auto/Truck, Retail and Real Estate with $49.6bn, $34.9 and $24.8bn, respectively.

Top 10 RCF Borrowed and Drawn*



Loans by Use of Proceeds



Borrowers favour balance sheet consolidation over new investments

The trend towards securing liquidity is further reinforced with the large jump in loans for general corporate purposes (GCP) as well as COVID-related use of proceeds which reached $48.1bn according to publicly available announcements. GCP loans which on average account for 6.5% of the market, dominated April with a 66.8% market share. Additionally, caution from borrowers has seen the collapse of the acquisition financing market. New acquisition related loans which accounted for a 15.9% share of volume in January drastically dropped to a mere 1.2% share in April. Xerox, which had $24bn of bridge financing committed, cemented that trend by pulling out of a hostile merger bid with HP due to COVID-19 concerns. Reduced M&A activity will undeniably undermine future volume and revenue generation.

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

Data source: Dealogic as of 21 April 21, 2020
*Last 6 weeks rolling