



European Loan Market Snapshot

Monthly European loan market update: March 2016 (covering February)

Returns

- The Credit Suisse Western European Leveraged Loan Index (“CS WELLI”) posted a total return of negative 0.93% in February (See Figure 1) as 0.41% of interest was more than offset by 1.34% of capital depreciation. This brings year-to-date return to negative 1.25%.¹
- In terms of broader market sentiment, February saw an acceleration of the negative trends seen in December 2015 and January 2016. Investor concerns about the health of the European banking sector drove liability spreads wider effectively halting Collateralized Loan Obligation (CLO) formation. Active CLO warehouses were forced to adapt to the changing environment by further reducing their primary footprint and shedding lower yielding European Senior Secured Loans (SSLs). The result was new institutional loan supply stuttering to a meager €0.7 billion² and secondary loan prices pressured particularly on issues yielding below 4.5%. Positively, we saw some degree of reversal of these trends coming into month end as market participants began to focus on the prospect of upcoming European Central Bank (ECB) action.
- The heightened risk awareness prevalent throughout the month resulted in relatively higher demand for better quality SSLs. BB rated loans outperformed single B and CCC by returning negative 0.73% versus, single B's returning negative 1.08% and CCC's returning negative 2.62%.¹
- At an industry level, the negative sentiment weighed across the board with almost all sectors registering negative total return in February. Energy continues to be the worst performing industry year-to-date with a total return of negative 12.29%.¹

Fundamentals

- Macroeconomic data continues to be more mixed in 2016 than in 2015 as weak external factors (Oil, China) continue to weigh on issuer data. Positively, domestic demand remains sturdy. We are mindful of the potential risk of financial stress (weak bank sector) and increased volatility flowing through to the European economies in the form of strained corporate sentiment (lower hiring and reduced investment). However, against this weaker backdrop, the case for ECB intervention appears ever more compelling. The “unknown” is the form and size of stimulus from the ECB that will be announced on March 10, 2016.
- There were no new defaults in February 2016. Accordingly, the trailing 12 month default rate on the CS WELLI was 0.58% at the end of the month.¹

Technicals

- Primary institutional loan issuance reached €0.8 billion over 5 deals in February, considerably below the same period last year (€3.4 billion)² due to the technical imbalance. However, thanks to a blockbuster January 2016, year-to-date volume of €7.7 billion is 36% ahead of the same two months in 2015.
- Notable loan deals in syndication in the period included:
 - €339 million SSL facilities to support PAI Partners acquisition of French based budget hotel chain, B&B Hotels. The tranche is priced at E+5.00% with a 1.00% EURIBOR Floor and issued at €0.9500.²
 - Euro equivalent \$200 million SSL cross-border facility to partially support Bridgepoint's acquisition of Element Materials, the Netherlands-based testing services business across Aerospace, Oil & Gas and Transport & Industrial sectors. The tranche priced at L+4.75% with a 1.00% EURIBOR Floor and was issued at €0.9600.²
 - €645 million SSL cross-border facilities to support Visa Equity Partner's acquisition of Solera the US based provider of software and services to the automotive insurance claims and processing industry. The tranche priced at E+4.75% with a 1.00% EURIBOR Floor and issued at €0.9700.²
 - CLO formation in February totaled €0.41 billion issued (1 deal), down from the €1.4 billion (3 deals) issued in the same month last year.² Year-to-date volumes stand at €0.80 billion (2 deals), €1.4 billion (4 deals) less than the same period in 2015.² We expect to see some catch up in CLO formation following ECB stimulus and therefore have not changed our forecast for the full year 2016 of €13-15 billion (versus €13.6 billion in 2015).²

Valuations

- The average lagging 3 month new issue institutional loan spread was EURIBOR + 4.91%, 17 basis points (bps) higher than January. However, All-in-Yields widened by 0.15% to 5.62%, thanks to a combination of the aforementioned higher spread as well as a high upfront discount of 97.95 (the largest discount since Q3'2011). For new issue single-B tranches the All-in-Rolling 3-month Yield-to-Maturity reached 6.18% the highest for the period of information provided by S&P LCD (Q4'2012). Despite better economics credit metrics remained relatively conservative for new deals and flat on January levels with first lien leverage and total leverage amounting to 4.5 times and 4.7 times respectively, well below the peak levels from 2006 and 2007.²
- The Credit Suisse Western European High Yield Bond Index total return was negative 0.60% in February (See Figure 1), outperforming the loan market³ but lagging on a year-to-date basis. At the end of the month of February, Spread-to-3 year take out for SSLs was 6.36% versus European High Yield Bond Spread-to-Worst of 6.94%.²

Figure 1

Total return (EUR, in %)	Q1 15	Q2 15	Q3 15	Q4 15	2015	Dec-15	Jan-16	Feb-16	LTM cumulative	YTD cumulative
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	2.22	1.14	0.00	-0.25	3.14	-0.32	-0.32	-0.93	0.37	-1.25
Credit Suisse Western Europe HY Index (EUR-HDG)	2.97	-0.47	-2.07	0.99	1.36	-1.95	-1.24	-0.60	-3.31	-1.83
Bloomberg Europe 500 Index	16.34	-3.22	-8.20	5.64	9.19	-4.96	-6.32	-4.01	-14.07	-10.08
FTSE All-Share Index	4.76	-1.54	-5.64	4.02	1.25	-1.26	-3.07	-1.41	-9.14	-4.44
10-Year UK Government Bond	0.43	-3.02	2.23	-1.22	-1.65	-0.92	3.26	-1.66	3.31	4.97
10-Year Euro Government Bond	4.09	-5.27	2.39	-0.23	0.72	-1.37	3.63	-1.86	3.63	5.56

Source: Credit Suisse, as at 29 February 2016. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

1 Credit Suisse Western European Leveraged Loan Index (CS WELLI) as at 29 February 2016

2 Standard & Poor's, Loan Market Commentary and Data (LCD) as at 29 February 2016

3 Loan market represented by the Credit Suisse Western European Leveraged Loan Index

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