LSTA

THE LOAN SYNDICATIONS AND TRADING ASSOCIATION

Trading Volumes Hit 7-Month High of $56.3 Billion in January

February 28, 2018 - U.S. secondary loan trading volume increased sharply in January to a seven-month high of $56.3 billion. January marked the second busiest start to year and a substantial 38% increase over December (noting that monthly volumes actually fell during two of the previous three Januarys). The market has now traded north of $55 billion permonth during three of the previous four months. And over that period, an average of 460 loans traded each day with volumes totaling in excess of $2.7 billion per day.

Looking more closely at January, market breadth (the number of unique loans traded) remained robust at 1,460 loans traded. January represented the third consecutive month where that figure came in above 1,450 loans – a record high for any three month period. And not only did a larger number of loans trade, they did so more frequently. Monthly Market depth, or trade frequency, illustrated a more liquid secondary with the percentage of loans traded 20 times or more coming in at a three month high 43% market share.

So why the spike in secondary market activity? First off, CLOs picked up where they left off last year with $6.6 billion in new-issue volume in January, marking the busiest start to a year since 2013. January's issuance pushed CLO assets under management to record $501 billion – and that was before the LSTA announced it had won its lawsuit on Risk Retention. At the same time, loan mutual funds finally became net buyers again after posting outflows over the last three months of 2017. January fund flows totalled $600 million, which raised AUM to $157 billion – the highest level reported since third quarter 2014. Second, the new issue market took a breather and hence managers concentrated their efforts on the secondary. (TRLPC noted that institutional lending was down 27% year-over-year in January, with new-money loans accounting for just 39% of the total).

The result? The market turned out its best January in five years as the S&P/LSTA Leveraged Loan Index posted a 0.96% return (February returns are tracking towards a much more subdued 0.2%). The average trade price surged 56 basis points in January to a 7-month best 98.25 handle. Even more impressive, the median trade price hit 100.25 – tying the highest level reported in four years. Furthermore, 55% of January trade volume, or $31 billion, moved at a price above par compared to the 51% reported in December.

On the settlement front, par results followed their historical seasonal trend in January by increasing over their previous month totals. While both the mean and median settlement time increased one day to 20.9 and 14, respectively, their month-over-month percentage increases were half the amount reported across the two previous years. But that said, the last time the mean approached 21 days was back in January 2016 while the median had hit T+14 or higher twice last year – in January and again in July.

Looking more closely at January, market breadth (the number of unique loans traded) remained robust at 1,460 loans traded. January represented the third consecutive month where that figure came in above 1,450 loans – a record high for any three month period. And not only did a larger number of loans trade, they did so more frequently. Monthly Market depth, or trade frequency, illustrated a more liquid secondary with the percentage of loans traded 20 times or more coming in at a three month high 43% market share.

LSTA Full and Associate Members can access the full Summary, including charts, here. For more information, please contact Ted Basta.