PILFOR
LENDING SOUNDNESS

1st Quarter 2021

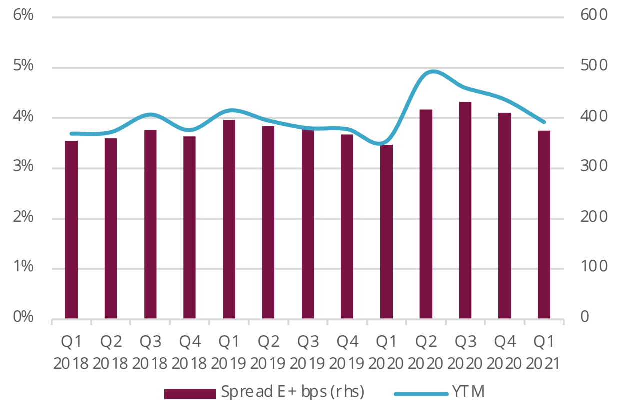
Quarterly Market Insights

1.6.2021

EMEA Financing Environment

Market fundamentals continued to favour issuers in Q1 2021, further tightening "B" rated loans in the quarter for the third consecutive time, thereby dropping to just north of 3.9%. A differentiation among issuers' loan spreads was witnessed due to tighter or looser documentation and loan margin ratchets. Overall, investors in loans became reluctant takers on pricing and terms in Q1, with a majority finding push-backs on pricing requests and terms by issuers and lead arrangers given continued oversubscriptions. Should market conditions start to cloud-in over the next couple of months, such loans may prove less appealing to secondary investors. However, there are currently no signs of concern. All the less so, since CLOs are also seeing wide-spread tightening of new issue liability spreads, conceding to declining loan spreads. Secondary loan prices in Q1 returned to pre-pandemic levels, with the European Leveraged Loan Index (ELLI) ending Q1 at 98.4%, up 19% vs. Q4 2020.

Leveraged loan pricing changes EMEA (bps)

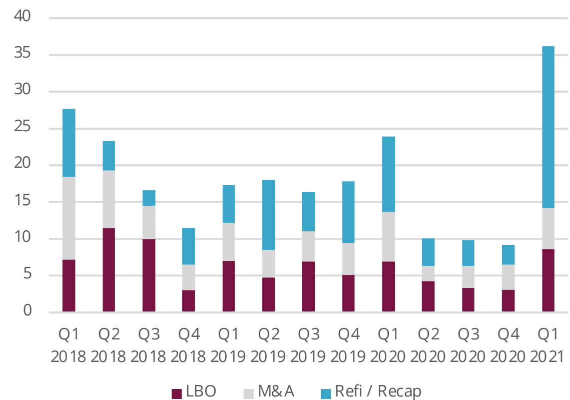


Source: S&P LCD

Leveraged Loan Market Insights

Spurred by strong investor demand, new institutional loan issuance jumped to EUR 36.1 bn in Q1 2021, turning it into the third most active quarter on record with the highest volume witnessed since Q2 2007. Comparing the quarter with Q3 and Q4 2020 which recorded EUR 9.9 bn and EUR 8.9 bn respectively, Q1 2021 posted a significant increase. Overall, Q1 2021 in fact accounted for around 70% of full year 2020 issuance volume. EUR 22 bn, or 61%, related to refinancing and recapitalizations. Based on the widely unmet investor demand, issuance volumes could have turned even higher and are likely to be met with unabating high demand moving forward into 2021. LBO related loan issuance amounted to EUR 8.6 bn or around 24%, while M&A related loan issuance accounted for EUR 5.6 bn or 15%. It is safe to say, that Q1 2021 witnessed hugely unmet investor demand with – in comparison – rather soft supply. The move into the secondary loan market or the bond market was no surprise.

Leveraged loan issuance EMEA (EUR bn)

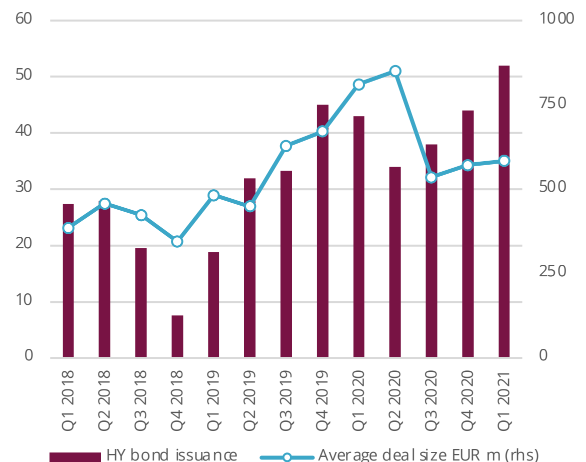


Source:,S&P LCD

Debt Capital Market Insights

Q1 2021 witnessed the European high yield bond market issuance activity surpass pre-pandemic levels with 89 deals adding to a total of EUER 52 bn. Q1 2002 posted 77 deals totalling EUR 43 bn, while Q4 2020 also noted 77 deals amounting to EUR 44 bn. As confidence in the market continued to grow, investors were enticed with good credit stories of lower rated issues. Issuers appeared to take an opportunistic approach to bond issuance given the attractive financing conditions. The high liquidity is definitely keeping yields low, weighing on pricing accordingly. The "BB" issuers clearly dominated issuance volumes, although there "CCC" and lower rated issuers recovered noted an uptick, equalling nearly 8% of all deals. In terms of sector activity, Financials, Industrials, Consumer Staples, Energy and Consumer Discretionary accounted for 73% of issuance volume. The largest high yield issue amounting to EUR 3.1 bn was used to finance parts of the acquisition of Asda Group by Issa and TDR Capital. Gatwick Airport debuted with a GBP 500 m bond, while Deutsche Lufthansa tapped the market for a total of EUR 1.6 bn.

High yield bond issuance EMEA (EUR bn)

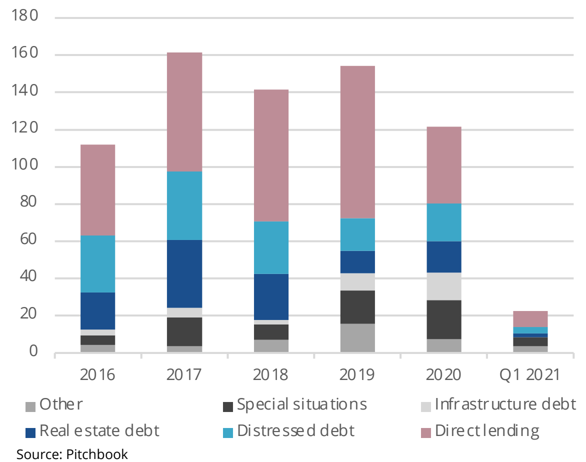


Source: S&P LCD

Private Debt Market Insight

Private debt fundraising continued its flattish stance in Q1 2021 with USD 22.4 bn across 28 funds, brining capital raised and number of funds in-line with quarterly totals of Q3 and Q4 2020. Direct lending funds, enjoying records years in 2018 and 2019, witnessed the largest decline in Q1 2021. Given the size of direct debt funds, the absence or delay of just a few can have a thorough impact on total capital raised. Despite this somewhat soft start into 2021, fundraising is likely to rebound in 2021 given a number of mega funds across various strategies are due to hold final close in due course. Yet another point worth mentioning is management fee compression and carried interest, with fees falling below 2% and a majority of funds reporting carry south of 20%. This is striking when compared to other periods. Growing average fund sizes, increasing prevalence of direct lending strategies vs. more opportunistic strategies, and more standardized fees across private markets are likely drivers thereof. Private debt AuM is heading towards USD 900 bn, with around 35% thereof representing dry powder.

Private Debt raised by fund type 2020 (USD bn)

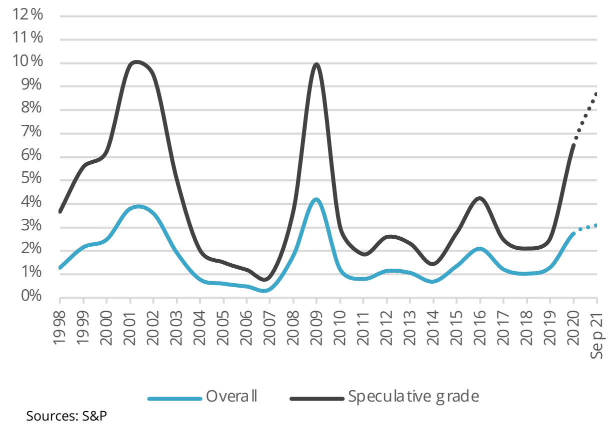


Source: Pitchbook

Rating Market Insights and default developments

While rating outlooks have taken a more stable stance heading into 2021 compared to the south-bound roller-coaster experienced during 2020, uncertainties related to the development of the pandemic, government actions and corporate financial policies continue to weigh on ratings. Recessions include, or are followed by, pronounced increases in corporate defaults. 2020 was clearly not an exception with global speculative grade defaults increasing to 6.5% according to S&P. However, this stands at a lower level than expected in spring 2020 when the pandemic struck. More than half of 2020 came from consumer services and energy & natural resources. Given the continued deterioration of ratings since 2008 and considering the correlation between defaults and ratings, the relatively low default levels of 2020 somewhat come as a surprise. However, heading further into 2021 the de-masking of governmental measures is likely to offer some catch-up potential in terms of corporate defaults.

Global corporate default developments

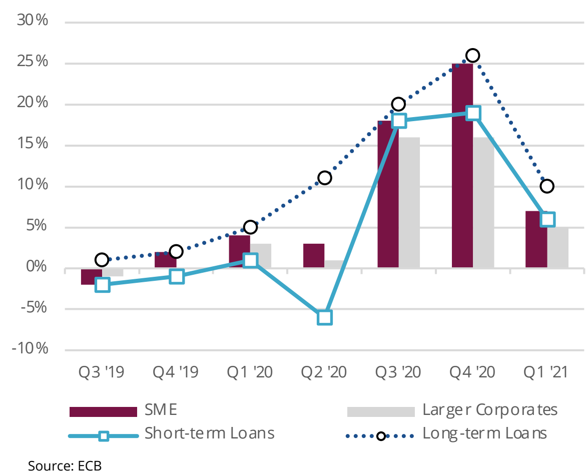


Sources: S&P

It ain't over till it's over

Despite the massive medical global advances in the shape of inoculations and wide-spread testing, the pandemic continues to heavily weigh on social lives, economies and businesses. Recovering and recouping will take time and undoubtedly bring the corporate casualty count higher as we move further into 2021 and 2022. While the global economy is getting back on track, albeit with some missteps, countries and regions are moving at different speeds. The nearing process of withdrawing stimulus is likely to be fraught, especially as hidden vulnerabilities make the spot lights. The aftermath of the crisis is set to reveal asset quality stress looming to affect banks with the toughest test since 2008, even if this is more of a specific than a systemic risk. A shifting focus from liquidity sourced from debt towards sufficiently solid equity cushions following a prolonged period of losses will pose yet more challenges, especially for SMEs or companies in sectors hit the hardest with recoveries not expected in the near term.

Bank loan tightening for corporates in Europe (net)



Source: ECB

Sources used in this report include Pitchbook, Preqin, ECB, Dealogic, Fitch, Moody's, Pitchbook, S&P

PILFOR is an independent and specialized debt & capital advisor establishing and optimizing funding access - financial flexibility - financing costs

PILFOR AG
Fürstensteinerstrasse 9
CH - 4053 Basel
+41 61 511 42 40
info@pilfor.com
www.pilfor.com

The information contained in these pages does not have the status of advice nor any form of investment recommendation. In addition, we do not accept liability for any third party information. The use of this document does not constitute or create the basis for any client relationship or any other form of contractual relationship. Should you desire professional advice, please contact us. Communication by e-mail is not protected against third party interception and is therefore neither secure nor confidential. Should you use this means of communication, you therefore do so at your own risk, and such usage will also be construed as consent on your part for us to communicate with you also by email.