# LEVERAGED FINANCE

***MARKET REVIEW*** ***4Q 23 – 2Q 24***

Carleton McKenna & Co

# Leveraged Finance Market Review

## Market Overview[1]

The leveraged loan market experienced a significant rebound in 4Q23 after a challenging year. US institutional loan issuance reached around $60 billion in December, the highest monthly level since 2021. Europe also saw a pickup, with October and November being the biggest issuance months.

While full-year 2023 volumes were down YoY (US -17.3%, Europe -10.2%), the late rally helped soften the overall decline. Refinancing, extension and pricing activity surged as borrowers took advantage of stabilizing prices to extend maturities, up 1.5% in the US and 43.1% in Europe.

## Pricing & Market Conditions[2,3]

Average US loan margins came down to just under 4% in 4Q23 after peaking near 4.9% earlier in the year. European margins ended 2023 at 4.5%. The secondary loan market improved, with the average US bid rising to 94.6% and Europe at 95.3% of par by year-end.

Repricing activity picked up in early 2024 as European borrowers sought to reduce existing margins by 25-100 bps. The middle market saw an uptick in deal flow, lower spreads, higher leverage, and rising competition in 1Q24 amid receding recession fears.

**Figure 1: Institutional Loan Volume ($B, USD) [4]**

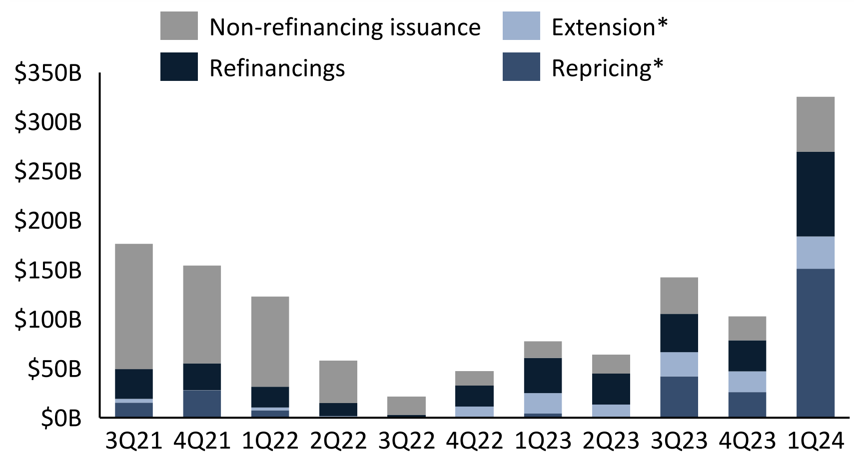
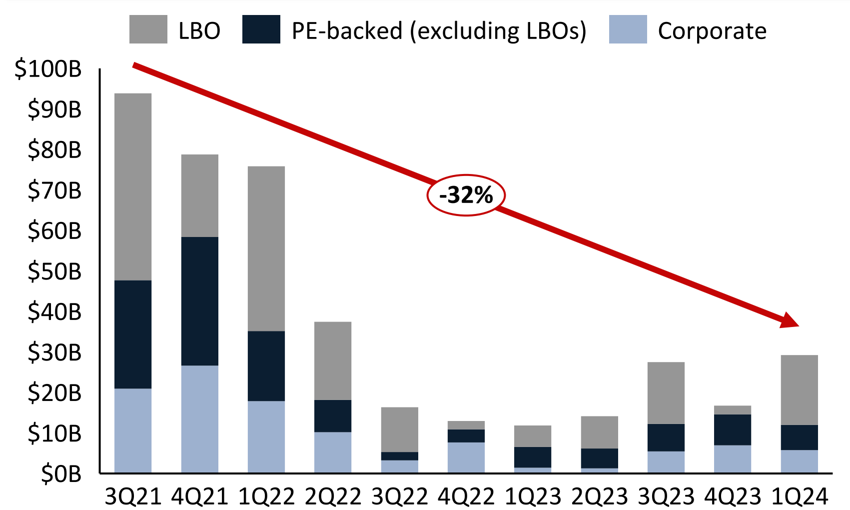



**Figure 2: M&A Domestic Institutional Loan Volume ($B, USD) [4]**




(1) Baker McKenzie
(2) Capstone Partners
(3) FTI Consulting
(4) Pitchbook

# Leveraged Finance Market Review

## Default Outlook[2,3,5]

Default rates in 2023 came in below expectations at 2.1% for private debt, outperforming high yield bonds (4%) and broadly syndicated loans (5.8%). Benign default levels around 2.75% are projected for private debt in 2024, with healthcare, software and consumer sectors comprising 60% of defaults.

The private debt market is expected to outperform broadly syndicated loans in 2024 in terms of lower defaults and higher recoveries due to better loan structures and control.

## Market Dynamics[1,2,3,6]

The proportion of lower-rated "B-" issuers in the loan market have skyrocketed since 2015, supported by strong collateralized loan obligation demand providing funding access. While benefiting economic growth, this raises potential risk.

The improving tone in early 2024 is driven by receding recession fears, steady corporate earnings, rising consumer and business confidence, and a backlog of sponsors looking to sell their portfolio companies.

**Figure 3: Measurable Investor Demand ($B, USD) (4)**

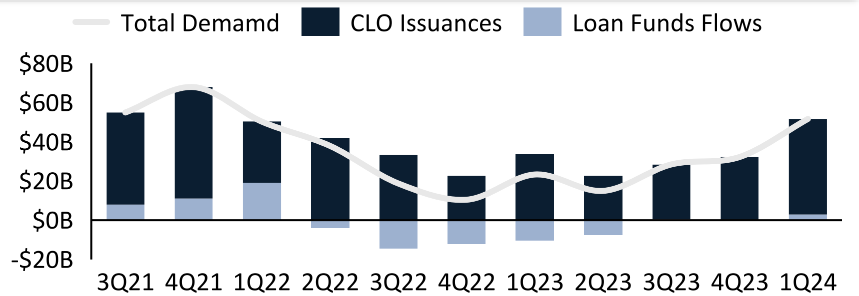



**Figure 4: Count of LBOs* Financed in BSL & Private Credit Markets (4)**

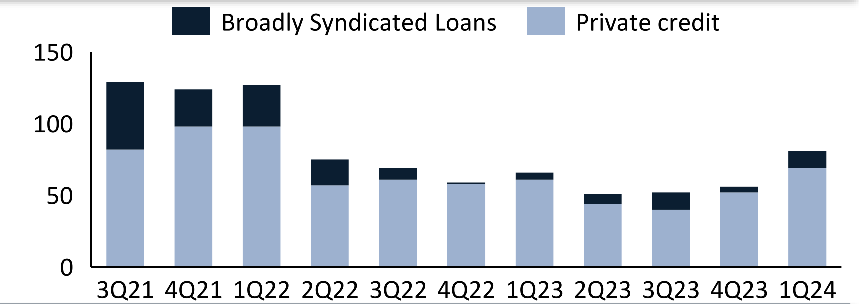
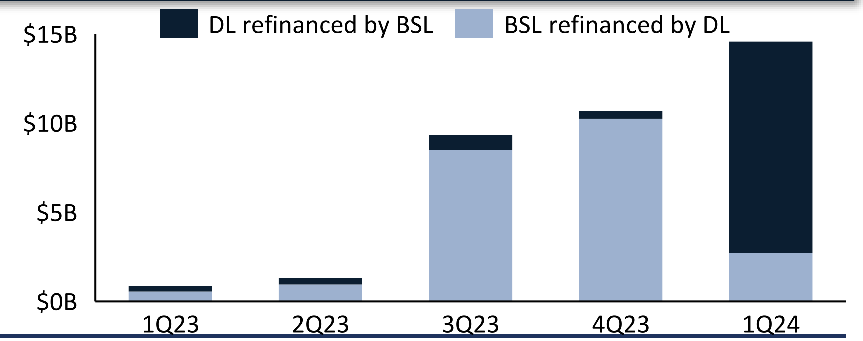



**Figure 5: Broadly Syndicated Loans & Direct Lending Takeouts ($B, USD) (4)**




(1) Baker McKenzie
(2) Capstone Partners
(3) FTI Consulting
(4) Pitchbook
(5) Fidelity
(6) SPGlobal

# LEVERAGED FINANCE MARKET REVIEW—2024 MARKET OUTLOOK

## Strong Returns Expected in 2024[3,7]

In terms of returns, investors should expect another strong year of leveraged loan performance in 2024. Bank of America is forecasting a 7% total return figure for the asset class. Invesco previously outlined expectations for a 10% total return in 2023, which was exceeded with the market returning 13%.

## Improved Issuance Likely[3,8]

Issuance volumes are projected to improve into 2024 after a challenging 2023. The late rally in 4Q23 helped soften the overall YoY decline in issuance. With the Fed's rate hiking cycle appearing complete, issuance volumes are projected to improve into 2024 after a challenging 2023. The late rally in 4Q23 helped soften the overall YoY decline in issuance. Barring a resurgence in inflation prompting new Fed hikes, economic growth is poised to improve, supporting increased leveraged lending activity.

## Lender Sentiment[3]

Lender sentiment reflects cautious optimism for 2024. While more upbeat than 2023, many express tempered enthusiasm, expecting a more stable lending environment amid a domestic economy that has refused to buckle under monetary tightening. Lenders believe the worst effects of the Fed's tightening are likely behind us.

## Favorable Default Outlook[2]

Default rates are projected to remain benign in 2024. For private debt, defaults are forecast at around 2.7%, outperforming expectations for 4% in broadly syndicated loans and 3% for high-yield bonds.

**Figure 6: Domestic Refinancing Institutional Loan Issuance Volume ($B, USD) [4]**

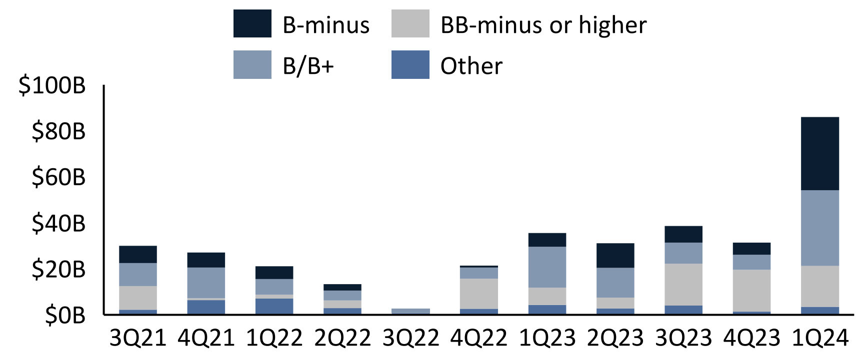



**Figure 7: Weighted Average Bid for Domestic Leveraged Loans [4]**

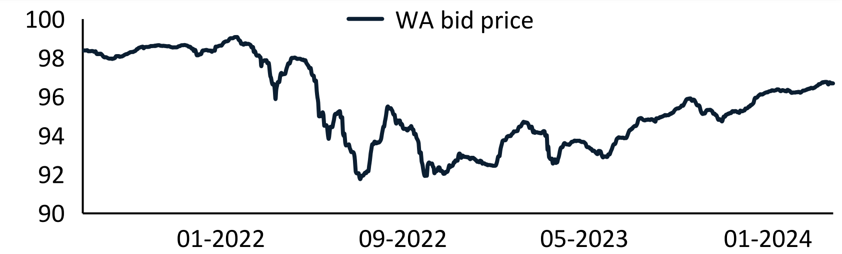
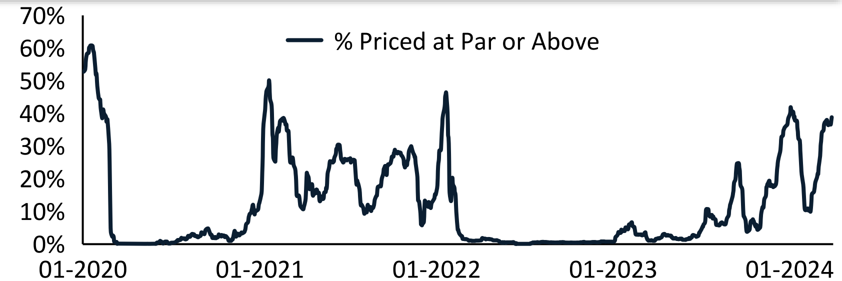



**Figure 8: Loans Priced at Par and Above[4]**




(2) Capstone Partners
(3) FTI Consulting
(4) Pitchbook
(7) Invesco
(8) MUFG

# Carleton McKenna Overview

Carleton McKenna & Co is an independent investment banking firm providing M&A and Capital Raising advisory services. We work with middle-market closely-held family businesses, multi-generational family businesses, portfolio companies of private equity firms and divisions or subsidiaries of public companies focusing in B2B Services, Specialty Manufacturing, Consumer, and Healthcare.

Our Team is made up of finance and accounting experts, entrepreneurs and operators, C-Suite and Board professionals, lawyers, consultants and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate to maximize life changing transactions.

## Middle Market M&A and Capital Raising Sectors

- Business-to-Business Services
- Specialty Manufacturing & Industrials
- Consumer Products, Food/Beverage & Retail
- Healthcare

*Research, Analysis & Publishing*

***Brandon Novak***
*Analyst*

***Emily Kuznik***
*Marketing Analyst*

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