Refinitiv Loan Connector
[US companies seize opportunity to cut cost of debt]
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Companies in the US loan market are eyeing an opportunity to slash borrowing costs on their debt facilities, as issuer-friendly credit markets enable issuers to refinance loans or reprice existing credits.

Investors, buoyed by the development of a vaccine to combat the novel coronavirus, injected a further US$59m into loan funds in the week leading up to December 30, the fourth consecutive week of inflows, according to Refinitiv Lipper data. Such inflow behavior suggests market players are increasingly confident they can better assess credit investment opportunities throughout the pandemic and are preparing to put cash to work in the leveraged loan market.

“We expect to see more in the form of repricings, refinancing and M&A [mergers and acquisitions],” said Anthony Diaz, a managing director and head of syndicated loan sales and trading at Antares Capital. “There is little sign of new issuance slowing down. The market is moving at a frenetic pace.”

JP Morgan wasted little time in tapping into investor demand, launching a US$2.55bn loan for contract researcher Pharmaceutical Product Development (PPD) into the syndicated market on Monday, according to a source familiar with the deal.

PPD’s new debt facility is offered at a rate of 225bp to 250bp over Libor and will refinance its existing loan, due in 2022, that currently pays 250bp over Libor, the source said. In addition to potentially shaving 25bp off its borrowing costs, PPD’s new seven-year loan will extend its maturity by five more years.

A spokesperson for JP Morgan was not immediately available for comment.

“Markets ended [2020] on a strong note and this will rollover into January,” said Art Penn, managing partner at PennantPark Investment Advisers.

“Bankers are always looking for a fee, so for the clients where it makes sense, they will pitch repricing and refinancing opportunities.”

FORTUNE TELLER

A string of inflows into mutual and passive loan funds is an early indicator of investor confidence in the New Year.

The data point can encourage issuers to syndicate more debt.

Mutual funds reported four consecutive weeks of inflows, while inflows into loan exchange-traded funds have stretched out eight weeks – from when Pfizer and BioNTech announced that their Covid-19 vaccine had a 90% efficacy rate – according to Refinitiv Lipper.

In December, loan funds recorded US$525m in total inflows, reversing a ten-month trend of consecutive outflows. While retail loan funds make up only 7% of the entire buyer base of new leveraged loans, bullishness among retail investors is a vital sign of a healthy appetite.

With global interest rates set to remain low for the foreseeable future, investors will likely turn to higher-yielding assets, such as loans, to garner a greater return.

The average three-year yield for first-lien syndicated loans was 5.4% for the fourth quarter of last year, down from 5.9% in the third quarter, according to Refinitiv LPC data. Before the pandemic upending markets last March, three-year yields on first-lien loans were offering about 5% in the first quarter of 2020, the data shows.

With rates unlikely to move, retail investors are now worried the 10-year US Treasury rate, which was 90bp on Tuesday, up from just 50bp in August, could increase to 125bp to 150bp in 2021.

As bond yields rise, prices fall. Such expectation has prompted investors to get ahead of that increase and move toward the loan market for higher returns, according to Rob Hoffman, a managing director of investment research at asset manager FS Investments.

“There is an expectation in the market today that 10-year Treasury rate will go up and that alone could trigger many investors to move into floating-rate assets, such as loans,” said Hoffman.

This sentiment should propel others to refinance their debt or encourage sponsors to raise debt for acquisitions. In just two full business days into the New Year, three companies have already unveiled almost US$2bn in syndicated loans to support acquisitions, according to Refinitiv LPC data.