

Penn Capital Credit Month in Review

Executive Summary

Leveraged loans and high yield (HY) bonds both continued to rally throughout February as better than expected 4Q earnings, minimal inflation, and the anticipation of a trade deal drove solid returns. HY returns (+6.33% YTD) continued to best those of loans (+4.06% YTD) in 2019, but the magnitude of outperformance was smaller than last month.

Bonds

The HY bond asset class returned +1.69% in February, as yields and spreads decreased 30 bp and 37 bp, respectively, to end the month at 6.93% and 437 bp. This strong performance was driven in part by the Feds dovish pivot, better 4Q earnings, and improving US/China trade talks. Gross new issue activity totaled \$21.2b in February. This represents the highest issuance level since March 2018 but is still slightly below historical issuance levels for the month. Refinancings continue to represent a significant portion of the new issue market with February refi volumes equaling 64% of total issuance. YTD, refinancing activity totaled \$21.4b, or 55% of total issuance. Including distressed exchanges, the US HY bond default rate stands at 1.19% at the end of February, down 68 bp month-over-month.

Loans

February leveraged loan returns of +1.60% were almost on par with that of HY for the month despite continued (albeit lighter) outflows from actively managed loan funds. New issue activity totaled \$24.9b in February, up 78% month-over-month but below typical volume of ~\$51b. Acquisition financing (~70% of total February volume) continued to be the primary use of proceeds for the month with refinancings representing only 19% of February volume and 13% of loan new-issue volume YTD. Gross US collateralized loan obligation (CLO) volume of ~\$16b in February marked a significant rebound from January's multi-year lows. Of that ~\$16b, ~\$2.9b or 18% of US CLO volume was used for refi/reset deals. Including distressed exchanges, the leveraged loan default rate ended February at 0.97%.

Source: JP Morgan

Bonds

Best performing Industries during the month:

- Consumer Products (+2.46%)
- Utility (+2.45%)
- Chemicals (+2.33%)

Largest underperformers during the month:

- Telecommunications (+0.80%)
- Energy (+1.19%)
- Transportation (+1.35%)

Best performing Industries YTD:

- Energy (+7.58%)
- Consumer Products (+7.34%)
- Healthcare (+7.34%)

Largest underperformers YTD:

- Transportation (+3.44%)
- Broadcasting (+4.32%)
- Media (+4.50%)

Performance ranked by ratings during the month:

- B-rated bonds (+1.74%)
- CCC-rated bonds (+1.74%)
- BB-rated bonds (+1.63%)

Performance ranked by ratings for YTD:

- B-rated bonds (+6.57%)
- CCC-rated bonds (+6.22%)
- BB-rated bonds (+6.15%)

Loans

Best performing Industries during the month:

- Telecommunications (+2.30%)
- Cable & Satellite (+2.12%)
- Media (+2.04%)

Largest underperformers during the month:

- Consumer Products (+1.13%)
- Transportation (+1.27%)
- Automotive (+1.27%)

Best performing Industries YTD:

- Telecommunications (+4.81%)
- Cable & Satellite (+4.77%)
- Retail (+4.72%)

Largest underperformers YTD:

- Consumer Products (+3.10%)
- Automotive (+3.33%)
- Metals & Mining (+3.38%)

Performance ranked by ratings during the month:

- B-rated loans (+1.71%)
- BB-rated loans (+1.48%)
- Split B/CCC loans (+1.30%)

Performance ranked by ratings for YTD:

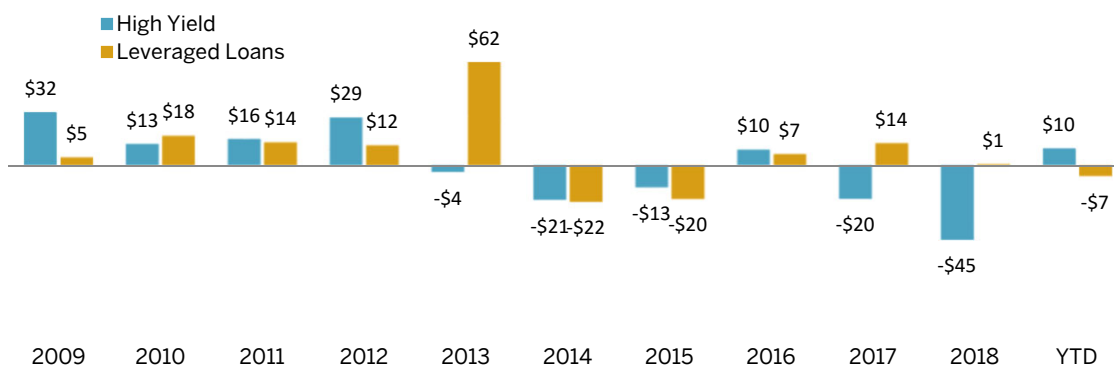
- BB-rated loans (+4.59%)
- B-rated loans (+3.87%)
- Split B/CCC loans (+2.60%)

Source: JP Morgan

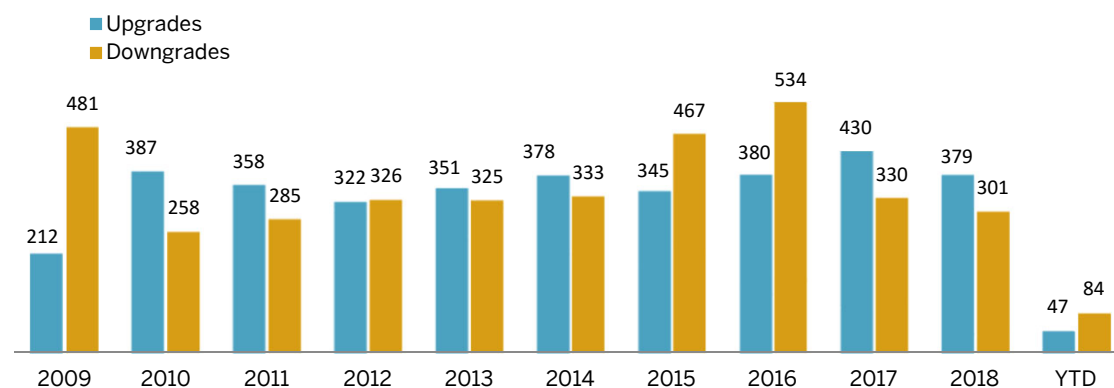
As of February 28, 2019	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	YTW	YTM
10-Year Treasury	-0.47%	0.23%	---	---	---	2.7%	2.7%
Bloomberg Barclays US Aggregate Bond Index	-0.06%	1.00%	58 bp	-8 bp	\$100.64	3.2%	3.2%
JP Morgan BB/B Loan Index	1.68%	4.61%	369 bp	-129 bp	\$98.22	6.0%	---
ICE BofA Merrill Lynch 1-3 Year BB-B Rated US Cash Pay High Yield Index	0.98%	3.34%	229 bp	-155 bp	\$101.37	4.8%	5.2%
ICE BofA Merrill Lynch BB-B Rated Non-Distressed High Yield Index	1.70%	6.15%	314 bp	-118 bp	\$99.54	5.7%	6.0%
ICE BofA Merrill Lynch BB-B Rated US High Yield Constrained Index	1.65%	6.15%	333 bp	-130 bp	\$98.95	5.9%	6.1%
ICE BofA Merrill Lynch US High Yield Constrained Index	1.69%	6.36%	401 bp	-138 bp	\$97.28	6.6%	6.8%

Sources: Barclays, BofA Merrill Lynch, JP Morgan. Past performance is no guarantee of future results.

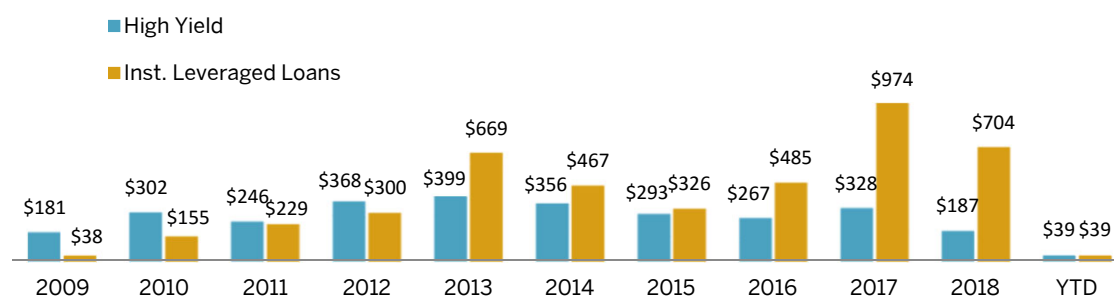
Mutual Fund Flows (\$ billion)



High Yield Upgrades/Downgrades (Issuer)



New Issuance Volume (\$ billion)



Source for Charts: JP Morgan



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Historical Spreads / Default Rates	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
ICE BofA Merrill Lynch US BB-B Rated High Yield Index	521 bp	485 bp	612 bp	443 bp	344 bp	434 bp	558 bp	348 bp	297 bp	462 bp	333 bp
ICE BofA Merrill Lynch US BB Rated High Yield Index	445 bp	399 bp	503 bp	357 bp	281 bp	336 bp	427 bp	286 bp	228 bp	365 bp	247 bp
ICE BofA Merrill Lynch US B Rated High Yield Index	613 bp	573 bp	736 bp	524 bp	417 bp	549 bp	722 bp	432 bp	381 bp	578 bp	437 bp
ICE BofA Merrill Lynch US CCC Rated High Yield Index	980 bp	874 bp	1,262 bp	943 bp	766 bp	976 bp	1,648 bp	977 bp	843 bp	1102 bp	897 bp
J.P. Morgan's 12-Month Default Rate	10.3%	0.8%	1.7%	1.3%	0.7%	2.9%	1.8%	3.6%	1.3%	1.8%	1.1%

Sources: BofA Merrill Lynch. J.P. Morgan. Past performance is no guarantee of future results.

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