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**Monthly US loan market update: March 2025**

Loans fell -0.26% in March, bringing year-to-date returns to 0.61%.<sup>1</sup> The monthly return was comprised of 0.70% coupon income, with principal movements detracting -0.96%.<sup>1</sup>

Weak market conditions in February carried over to March amidst macroeconomic concerns around tariffs, weaker consumer confidence, and overall equity and debt market volatility. With the equity market selloff, loan investor demand also waned, with credit spreads widening and repricing activity diminishing. The percentage of loans trading above par decreased from 66% at the end of January to 36% at the end of February and to 10% at the end of March.<sup>1</sup>

High yield and investment grade returned -1.22% and -0.29% respectively in March, with both high yield and investment grade underperforming loans.<sup>2</sup> Within loans, "BBs" (0.11%) led the way in total return during the month, followed by "Bs" (-0.44%) and "CCCs" (-0.69%).<sup>1</sup> The average price in the loan market ended the month at 95.84, slightly lower than February's average price of 96.24.<sup>1</sup> At their current average price, senior secured loans provide an 8.63% yield inclusive of the forward curve, slightly higher than the 8.51% at the end of February.<sup>1</sup>

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**Fundamentals**

- President Trump introduced far-reaching new tariffs on most US trading partners on April 2, 2025. The President announced a minimum 10% tariff on all trading partners as well as incremental "reciprocal" tariffs against select countries. The potential for retaliatory tariffs from US trading partners is yet to be seen but may cause additional volatility in the markets. The tariffs may have far-reaching implications related to sustained inflation, a decline in real GDP, and/or a further rise in unemployment rates.
- The trailing 12-month par-weighted default rate was nearly flat month over month, slightly increasing from 0.81% in February to 0.82% in March.<sup>3</sup> The month saw Jo-Ann Stores roll-off the trailing 12-month calculation while two new issuers were added.<sup>3</sup> The pocket of distress in the market (i.e., the percentage of loans trading below \$80) increased slightly to 3.21% versus 3.05% in March.<sup>3</sup> When aggregating out-of-court liability management exercises with payment defaults, the combined default rate by issuer count increased by 13bps to 4.31%.<sup>3</sup>

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**Technicals**

- The technical picture in March shifted in favor of lenders as the long-anticipated net supply injection finally came to fruition.
- CLO volume decreased 12% from February, with gross issuance of \$47.9 billion (bn) across 98 deals (including \$31.1bn of refinancings and resets) down from \$54.6bn across 117 deals in the prior month.<sup>4</sup>
- Retail mutual funds and ETFs reported \$4.1bn of outflows in the month, with ETFs recording outflows of \$3.7bn and active managers experiencing outflows of \$0.4bn.<sup>4</sup>
- Loan primary decreased 39% month-over-month after declining 50% in February.<sup>4</sup> Volume in March totaled \$56.7bn vs \$93.6bn in February but was ahead of historical March volume of \$49.9bn.<sup>4</sup> Issuance was comprised of \$13.5bn of repricings and \$24.3bn of refinancings, leaving \$18.9bn of net new supply, versus February's \$23.4bn.<sup>4</sup>

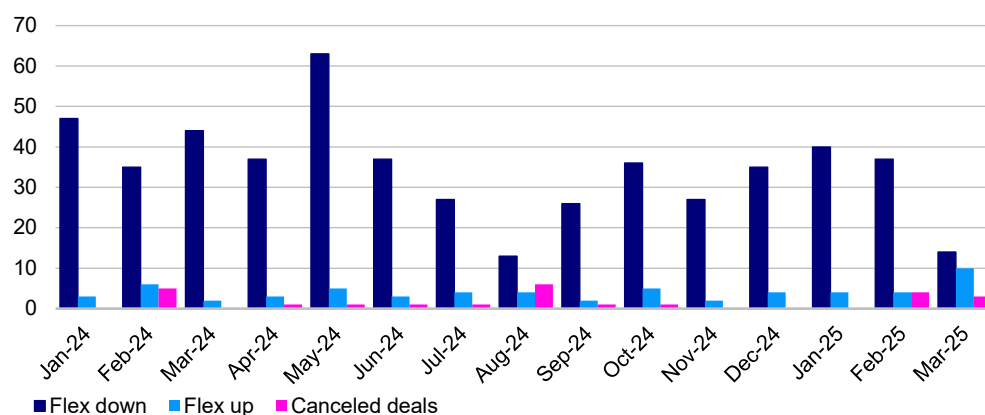
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## Market opportunity

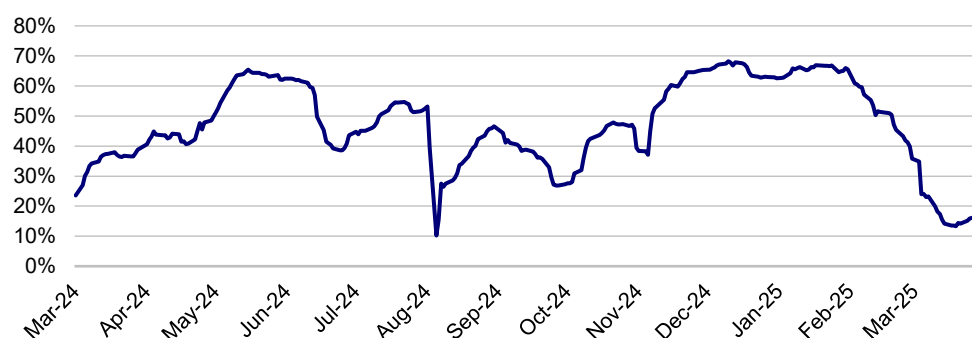
With softer loan market conditions, ten transactions had to 'flex up' or improve pricing/terms to incentivize lenders to participate, the highest number since March 2022 (as shown in Figure 1). With loans priced at par or above falling from 66% at the end of January to 10% at the end of March, the smaller universe of loans at or above par portends less repricing activity moving forward following a near record setting repricing wave in January (depicted in Figure 2).

**Figure 1: Downward versus upward flexes and cancelled deals**



Source: PitchBook Data, Inc. as of March 31, 2025.

**Figure 2: The percentage of loans at/above par declined in the month to recent lows**



Source: PitchBook Data, Inc. as of March 31, 2025. The Morningstar LSTA US Leveraged Loan Index represents US Loans. An investment cannot be made in an index.

When Trump was voted in as President (November 2024), we actively reduced exposure to consumer products manufacturers, industrials, and other issuers that relied heavily on imports, particularly from China. At the same time, we selectively reduced exposure to defense contractors and satellite communication service providers that we thought would be adversely impacted by DOGE related policies. With the broad-based tariffs announced by the Trump administration on April 2, we continue to focus on managing our exposure to those issuers that are overexposed to manufacturing in regions targeted with high tariffs as well as lower quality issuers in recession sensitive sectors (e.g., Consumer Discretionary). Conversely, we feel that the Utility sector should fare well and continue to favor certain subsectors within the Healthcare sector. More generally, as the prospects for an economic slowdown increase, we are actively managing our exposure to single-B rated issuers in order to avoid crystallizing losses by selling issuers that we believe have been unduly penalized in recent market volatility.

## Relative yield

	\$ Price	Yield to worst	Spread	Duration (years)
5 Year Treasuries	100.07	3.95	—	4.47
10 Year Treasuries	103.11	4.21	—	7.84
Bloomberg US Aggregate Bond Index	92.30	4.60	47	6.09
Bloomberg US Corporate Bond Index	93.13	5.15	96	6.88
Credit Suisse High Yield Index	95.02	7.68	376	3.28
S&P UBS Leveraged Loan Index	95.84	8.63	498	0.25
Morningstar LSTA US Leveraged Loan Index	96.31	N/A	461	0.25
Morningstar LSTA US Leveraged Loan 100 Index	97.49	N/A	389	0.25

Source: Barclays, Credit Suisse, Morningstar, PitchBook Data, Inc., and Bloomberg L.P. as of March 31, 2025. Loan "yield to worst" incorporates the SOFR forward curve. Average spread provided for the Bloomberg US Aggregate and Corporate Bond Indices and spread to worst provided for loans and high yield.

- 1 S&P UBS Leveraged Loan Index as of March 31, 2025.
- 2 S&P UBS Leveraged Loan Index and Bloomberg as of March 31, 2025. High yield represented by Credit Suisse High Yield Index; investment grade represented by the Bloomberg US Corporate Bond Index.
- 3 PitchBook Data, Inc. as of March 31, 2025.
- 4 JP Morgan as of March 31, 2025.

## About risk

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Many senior loans are illiquid, meaning that the investors may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the senior loans. The market for illiquid securities is more volatile than the market for liquid securities. The market for senior loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates. Senior loans, like most other debt obligations, are subject to the risk of default.

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