Europe

US

SENIOR SECURED LOANS – WHAT'S IN THE PIPELINE?

Paul Hatfield, chief investment officer at Alcentra believes 2014 is an attractive year for senior secured loans with a backdrop of high rates of recovery and low defaults in both the US and Europe.

POSITIVE OUTLOOK FOR US & EUROPE

Continued economic recovery and a decline in default rates mean Alcentra's view of the asset class remains highly positive.

> "We've seen declining default rates and I expect 2014 to remain a year with very few defaults. Outside of the loans we already know are headed that way, there should be no surprises in that area."

PAUL HATFIELD, ALCENTRA

INCREASING DEMAND

The private equity sector has plenty of funds to invest and M&A activity is increasing. These will help encourage new issuances in 2014.

ANNUAL RETURNS

For 2014, Alcentra expects total returns of 5%–6% from a diversified portfolio of US loans; for European loans 6.5%–7.5%.

2003–2012[6]:
US 5.60%
Europe 5.50%

COVENANTS

These are usual in Europe, less so in US. From Q1–Q4 2013, US loan issuance was 52% 'cov-lite' against 26% in Europe.[4]

Alcentra expects covenants will remain key to the European market, with institutional investors looking to maintain lender-friendly deal structures.

LIQUIDITY VS VOLATILITY

The US liquidity market is much larger than Europe's – over $400bn traded every year since 2007[3].

In Europe, the private nature of many financings limits trading volumes, with many loans held to maturity. But a lack of liquidity puts less pressure on prices (up and down), leading to greater price discipline and reduced volatility.

KEY FACTS 2014

TOTAL ISSUANCE[1]	NO. OF ISSUES[2]	VALUE OF LOAN MARKET
US $620.6bn	**US 1,478**	**US $751bn**
Europe €75.8bn	**Europe 508**	**Europe €144bn**

HEALTHY FUNDAMENTALS

With inflation under control, the Fed should delay tapering and interest rates will stay low, which is good news for borrowers.

QUALITY CONTROL

FALLING DEFAULT RATES

US and European default rates are converging. The US 12-month lagging average default rate fell from 2.41% to 2.11% from 30 September 2013 to the end of Q4 2013. In Europe, the rate fell from 3.14% to 2.88% over that period[5]. By end 2014, we expect rates will normalise below the mean of 2.5%–3.0%.

Alcentra Located in London, New York and Boston, Alcentra is a global asset management firm focused on sub-investment grade debt capital markets in Europe and the US.

1. Credit Suisse, Leveraged Finance Strategy Monthly, April 2014
2. Credit Suisse, Leveraged Loan Index and Western European Leveraged Loan Index, Monthly Excel Data, April 2014
3. S&P/LSTA, 2013.
4. Credit Suisse, 2014 Leveraged Finance Outlook and 2013 Annual Review, February 2014
5. S&P ELLI Default Rate, Excel Data, April 2014.
6. S&P Capital IQ, April 2014.

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