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LevFin Highlights FY24

Gross issuance breaks records, buoyed by refinancing and repricing deluge

Leveraged finance (LevFin) issuance across the US and European institutional loan and high-yield (HY) bond markets soared to USD 1.86trn in 2024 year-to-date (YTD), surpassing the previous record of USD 1.60trn from 2021. LevFin markets roared back into action this year as strong investor demand and tighter spreads created supportive conditions for issuance.

However, the record-breaking gross volume was largely buoyed by a deluge of refinancing and repricing activity. New money supply, nevertheless, registered a modest uptick from last year's lows as an increase in dividend recapitalisation and migration of borrowers from private credit to the syndicated markets replenished part of the missing volume historically supplied by merger & acquisition (M&A) and leveraged buyout (LBO) deals.

LevFin markets delivered another year of strong performance to investors, with total returns climbing above 8% YTD across the US and European HY bond and leveraged loan indices. The markets were armed with a lot of firepower as the two asset classes attracted large inflows of capital, while collateralised loan obligation (CLO) issuance in 2024 broke through all-time records.

Although there were brief bouts of volatility surrounding geopolitical and economic events during the year, cooling inflation, easing of monetary policies and the relative resilience of economic growth and corporate fundamentals on both sides of the Atlantic fuelled investors' appetite for risk assets.

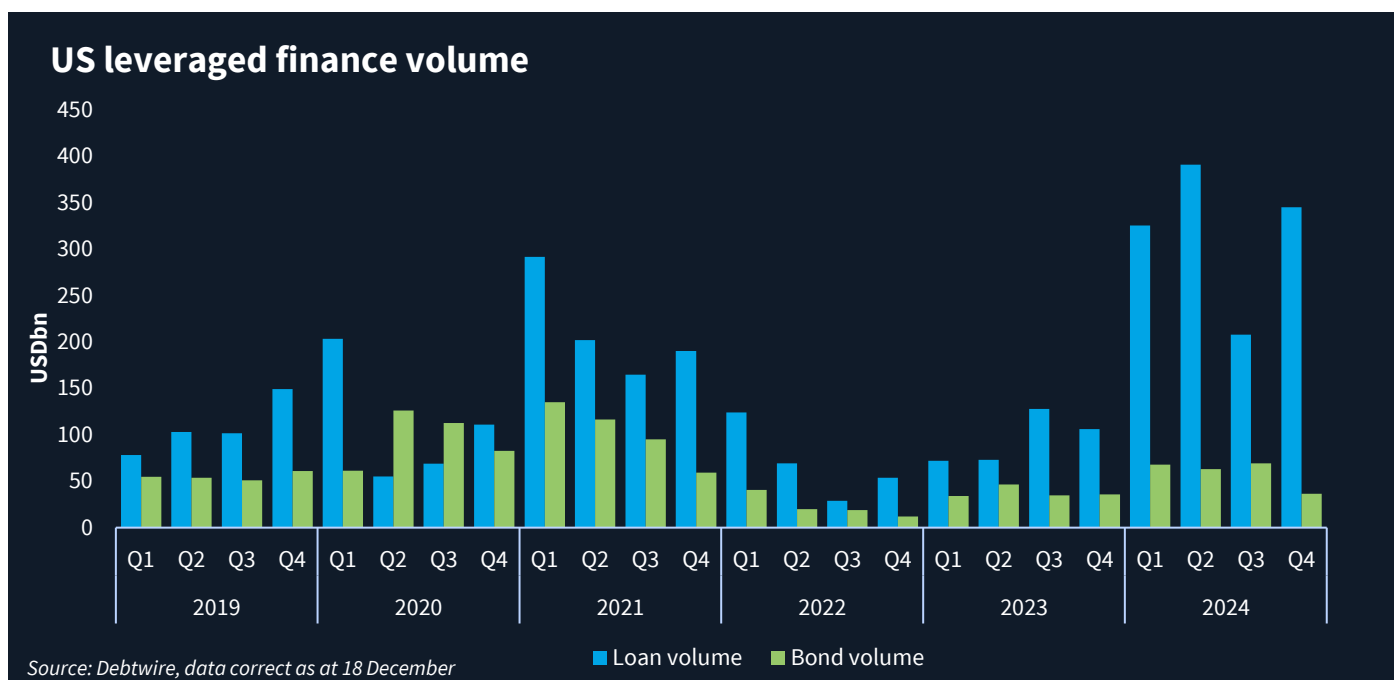
Donald Trump's win in the US Presidential election in November sparked a strong rally across HY bond and leveraged loan markets in the US on the prospect that the former president's return to the White House will unleash deregulation and M&A activity, lower corporate taxes and higher economic growth.

Although the US election result initially had a positive effect in Europe in terms of credit spreads and equity performance, Europe and particularly its automotive sector could face headwinds from Trump's promise to impose across-the-board tariffs on all imports coming into the US.

The European Central Bank (ECB) and the Federal Reserve (Fed) delivered 100 basis points (bps) in interest rate cuts this year, lowering the respective rates to 3% and 4.25%-4.50%. Although market participants expect additional rate cuts in the coming year, which could in turn stimulate greater M&A activity, the US and European path of inflation and monetary policy could diverge next year. At its last meeting of the year on 18 December, the Fed adopted a more cautious tone regarding inflation and the pace of rate cuts in 2025.

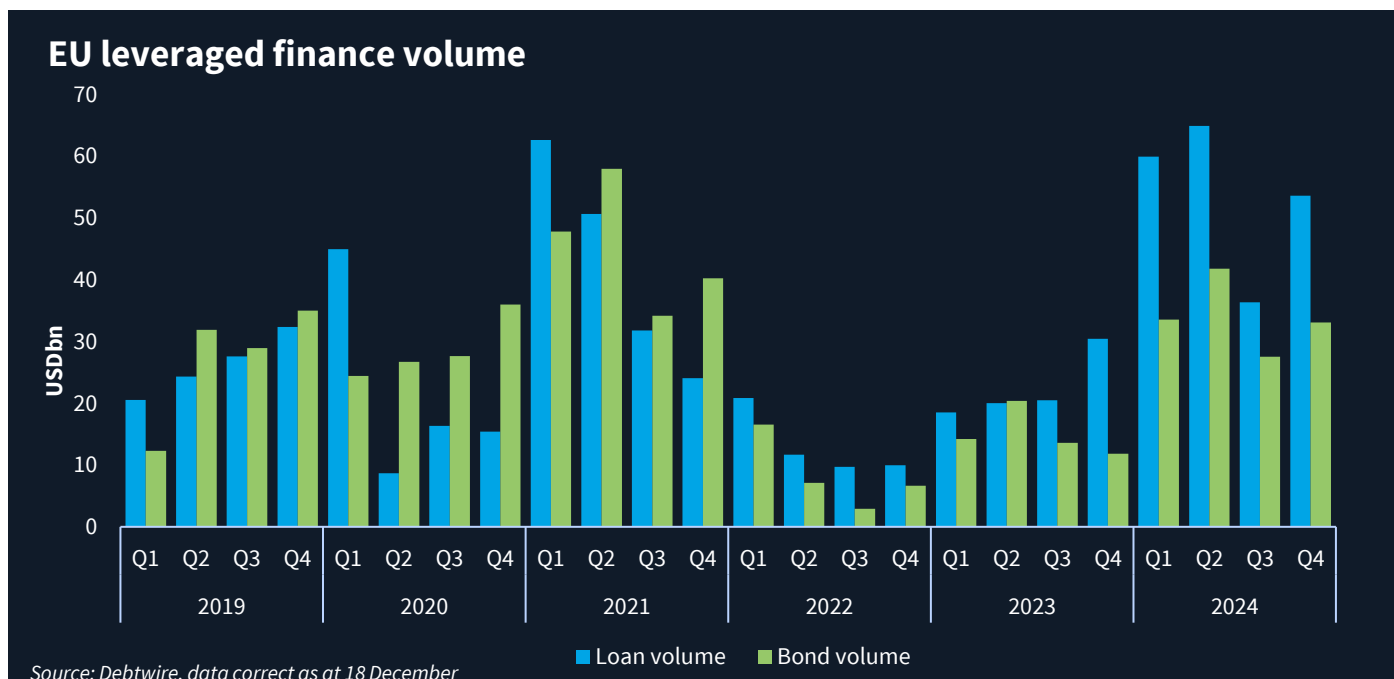
Loan issuance smashes records as HY bonds post strong revival

The leveraged loan markets on both sides of the Atlantic had a record year in terms of gross issuance, which was boosted by several repricing waves throughout 2024. The HY bond markets made a strong recovery from the lows of 2022 and 2023 but lagged the all-time highs of 2021.



In the US, institutional loan issuance shot up to an all-time high of USD 1.27trn across 1,148 deals, more than trebling from only USD 379bn raised in 2023. Market activity boomed in the first half of the year, with 2Q24 issuance rocketing to an impressive USD 391bn. This was followed by a slowdown as worse-than-expected macro indicators at the start of August dampened primary issuance. However, the market bounced back in September and maintained a strong pace for most part of the fourth quarter, with issuance climbing to USD 345bn.

US HY bond issuance rose to USD 236bn across 316 transactions, marking a 57% YoY increase from USD 151bn raised in 2023. Bond issuance exceeded USD 60bn in each of the first three quarters this year but fell to USD 36bn in 4Q24, as market activity slumped during the election period in November.



The European HY bond market posted the second-highest gross volume ever as issuance more than doubled to USD 136bn on 312 deals from USD 60bn in 2023. Market activity was the strongest in 2Q24 with USD 42bn of bonds issued, while an action-packed October propped up the volume in 4Q24 to USD 33bn.

Institutional loan issuance in Europe jumped 140% YoY to USD 215bn on 317 deals, overtaking the USD 169bn record from 2021. In step with the HY market, loan issuance peaked in 2Q24 at USD 65bn, which was then followed by a slowdown in the summer months. However, the market switched gears by mid-September and operated at a heightened pace of issuance in the fourth quarter, hauling in USD 54bn.

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Borrowing costs descend

The cost of issuing loans and bonds continued to descend from the peaks of 2022 as central banks cut interest rates this year, while spreads also tightened amid strong market technicals.

In the European primary loan market, the weighted average margin fell to 397bps in 4Q24 from 445bps at the end of last year. In the US, the average margin descended to 333bps in the fourth quarter from 400bps a year ago. Original issue discounts (OIDs) also tightened from last year, with recent buyout deals clearing at around 99-99.5.



In the US and European HY markets, the weighted average yields on new bond issues fell to 7.6% in 4Q24 from 8.7% at the end of last year. However, the yields widened slightly from 7.5% in 3Q24, which was also the tightest point in the US primary market this year. In Europe, the lowest yield was at 6.6% in the second quarter.

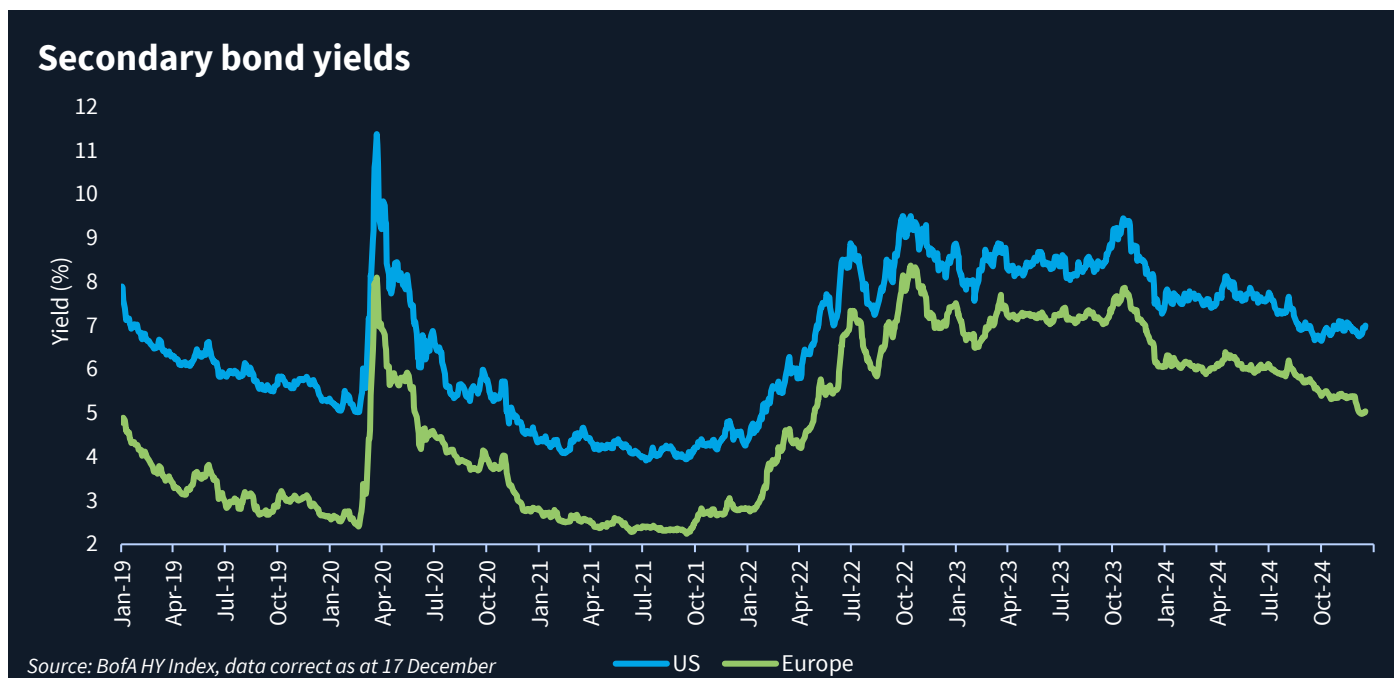
Secondary markets grind tighter

Aside from brief periods of volatility, positive investor sentiment sustained a rally in the secondary HY bond and leveraged loan markets this year.

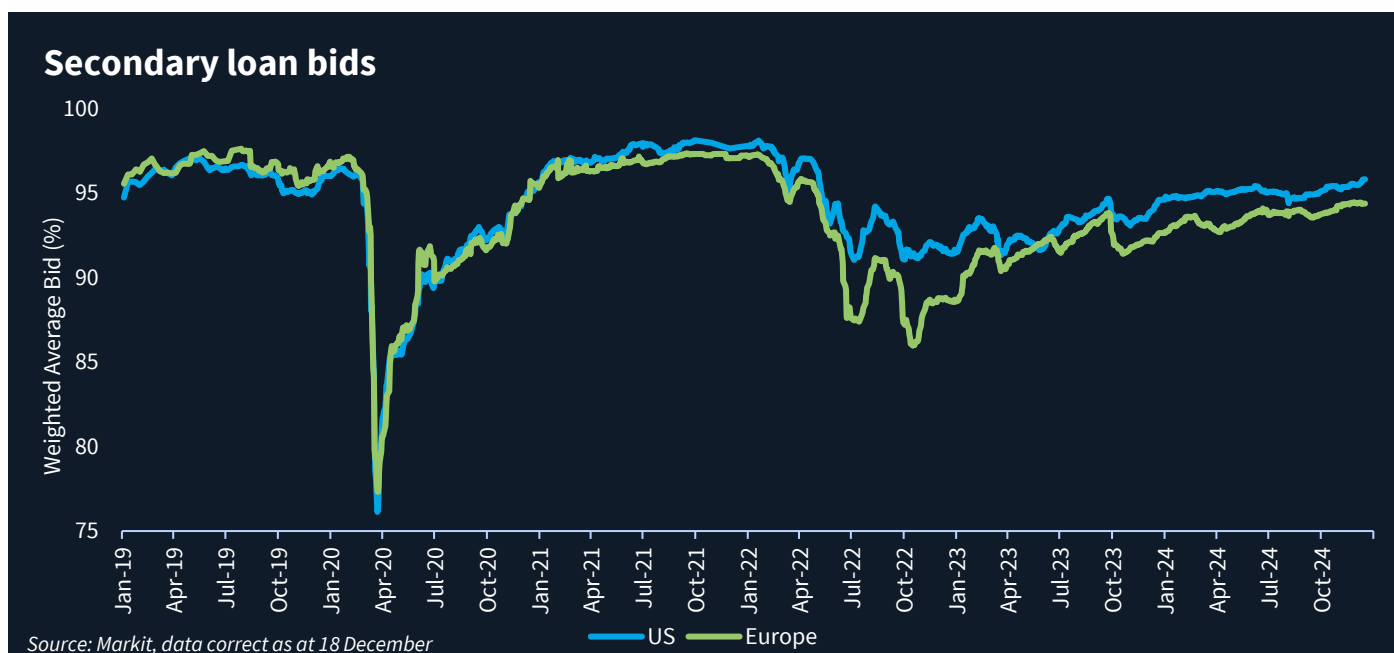
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Weighted average yields fell to 7% in the US and 5% in Europe from 7.4% and 6.1%, respectively, at the end of 2023. However, the average yield in the US widened slightly from 6.7% reached at the start of October.



In the secondary loan market, the weighted average bid in the US rose to around 95.81 from 94.60 in the previous year, while it tightened to 94.38 from 92.64 in Europe.



M&A inches up as refinancing and repricing activity roars

Refinancing was the main driver of LevFin volumes as issuers took the opportunity to extend maturities at tighter pricing, while a deluge of loan issuers also took advantage of the persistently low net supply of new money amid strong investor demand to cut margins.

LBO-related financing remained subdued as the valuation gap between buyers and sellers dampened deal making. As such, some private equity firms turned to dividend recaps to distribute cash to their investors. UK-based glass repair manufacturer [Belron](#) raised more than EUR 8bn-equivalent in leveraged loans and high-yield bonds for a record-setting dividend payout of EUR 4.4bn to shareholders.

Spread tightening in the syndicated markets also attracted borrowers to refinance costlier private credit debt that was raised in 2022 and 2023. Most of these deals found strong appetite in the syndicate markets aside from [FNZ](#), which failed to gain traction among European loan

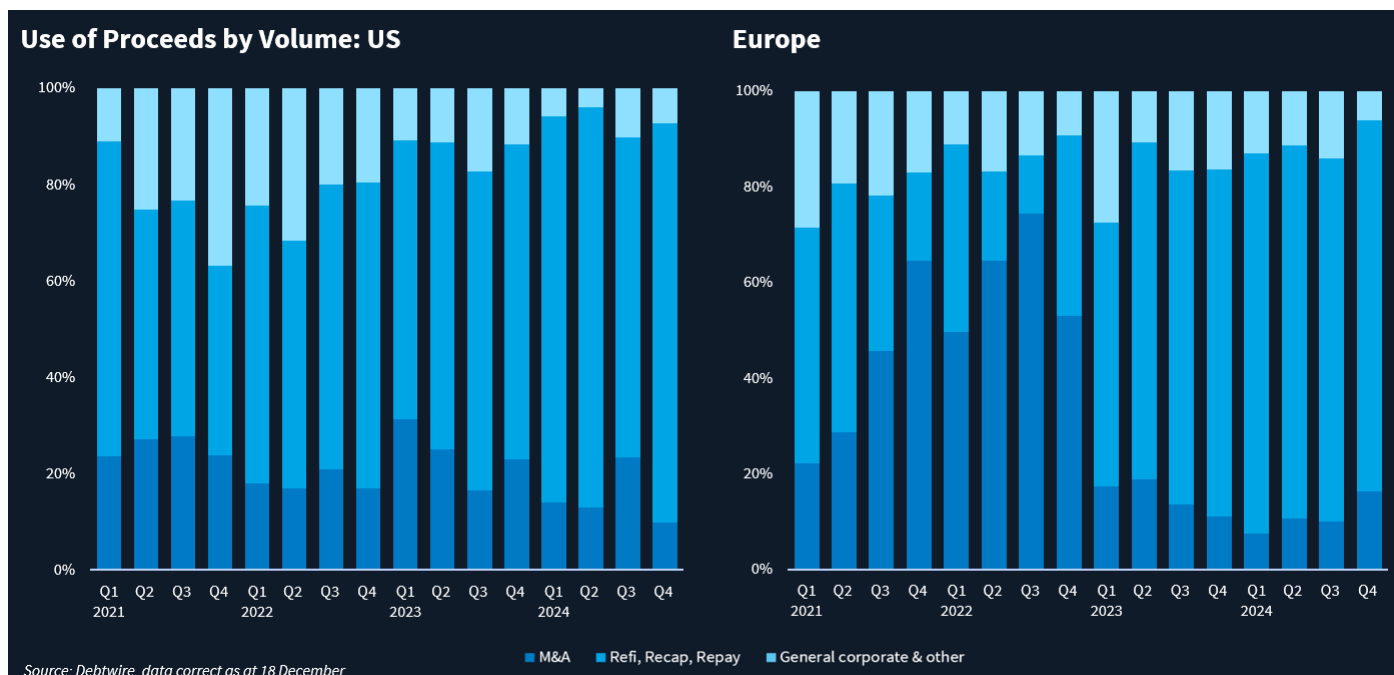
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investors. The UK-based platform-as-a-service provider was, however, well received in the US loan market, while part of the hung euro loan ended up on the arrangers' balance sheets.

Although M&A/LBO activity remained below expectations, it nevertheless improved from last year's figures, increasing 74% YoY in the US to USD 221bn. However, it only accounted for 14% of the total institutional loan and HY bond issuance in 2024. At USD 1.22trn, refinancing, repayments and recaps accounted for 79% of the total US issuance. General corporate purposes (GCP) made up the remaining 7% of the volume, with USD 101bn raised.

Similarly, in Europe, M&A/LBO financing rose 75% YoY to USD 36bn but only represented 11% of the total loan and bond issuance. Refinancing, repayments and recaps made up 78% of the total with USD 255bn raised during the year, with USD 36bn for GCP accounting for the remaining 11%.



CLO issuance sets new record

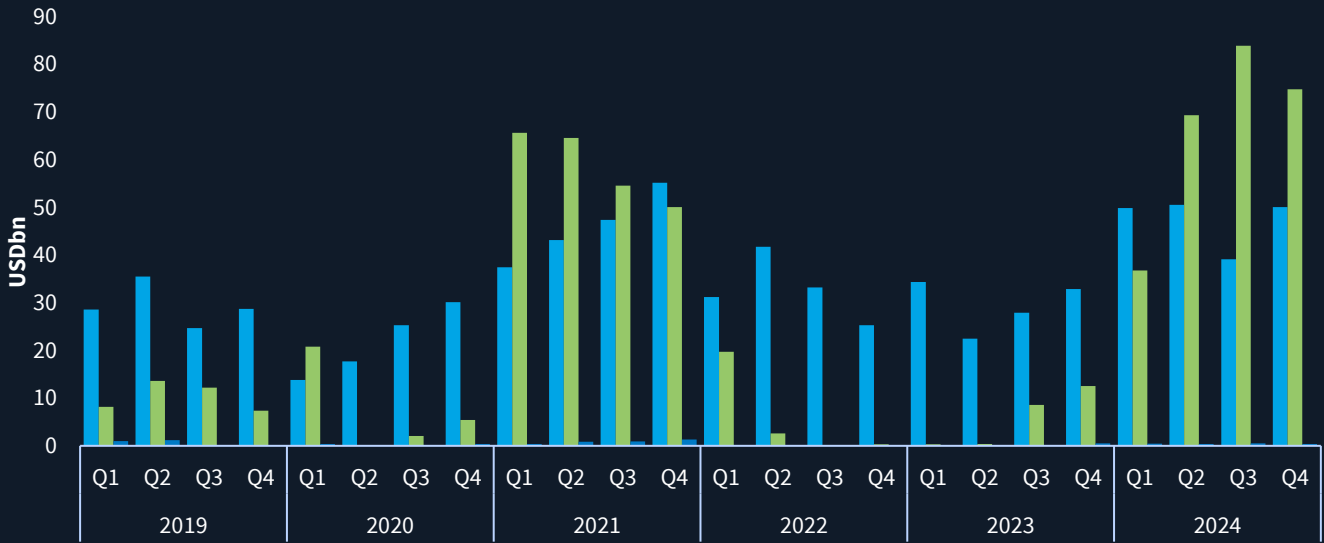
CLO machines were firing on all cylinders this year as the asset class continued to attract strong investor demand, supported by better-than-expected credit fundamentals of the underlying collateral and more favourable macroeconomic conditions.

New CLO issuance surged to USD 190bn in the US and EUR 49bn in Europe in 2024, overtaking the previous record issuance of USD 183bn and EUR 38bn in 2021. CLO refinancing and reset activity flourished, with USD 265bn clearing the US market and EUR 31bn in Europe. CLO reissues were less popular, particularly in Europe where just EUR 900m cleared in the first quarter, while in the US, reissues featured in each of the three quarters, totalling USD 1.76bn.

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CLO issuance: US

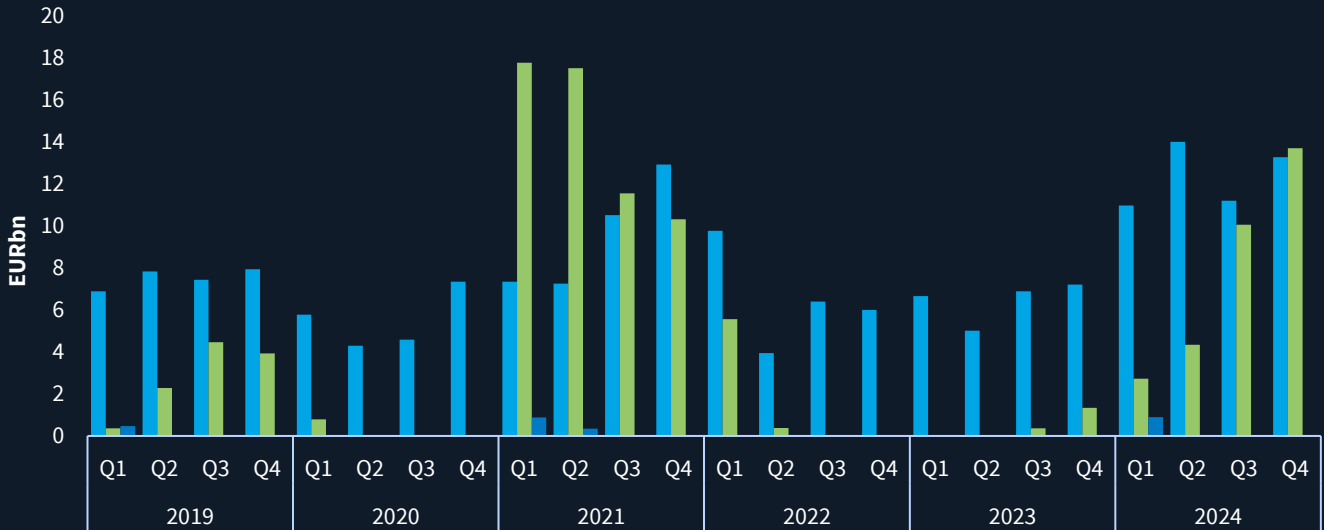


Source: Creditflux, data correct as at 18 December

■ New ■ Refi/reset ■ Reissue

Spreads ground tighter on the back of strong investor demand, with recent benchmark triple-A tranches printing at around 128bps from 188bps in the US and 172bps in Europe at the start of the year.

CLO issuance: EU



Source: Creditflux, data correct as at 18 December

■ New ■ Refi/reset ■ Reissue

Popular sectors: technology tops in US, healthcare leads in Europe

The technology sector (computers & electronics) churned out an impressive USD 310bn, taking the top spot in the US LevFin chart. Healthcare and professional services followed with USD 118bn each. The financial and insurance sectors came in fourth and fifth place with volumes of USD 99bn and USD 94bn, respectively.

In Europe, healthcare topped the chart with USD 45bn, followed by the tech sector with USD 41bn, while professional services trailed with USD 39bn. The food & beverage and retail sectors hauled in USD 20bn and USD 19bn, respectively.

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