Insights

insights@iongroup.com

Thursday, June 27, 2024

Written by Jose Roberto Castro

Loan Highlights 1H24

Leveraged loan resurgence backed by Americas and refinancing issuance

The loan market in the Americas, EMEA and Asia-Pacific regions is a useful gauge of improvement when compared with the previous year. To that end, combined volumes across the three regions amounted to USD 2.6 trillion in 1H24, marking a 13% rise from 2023 YTD.

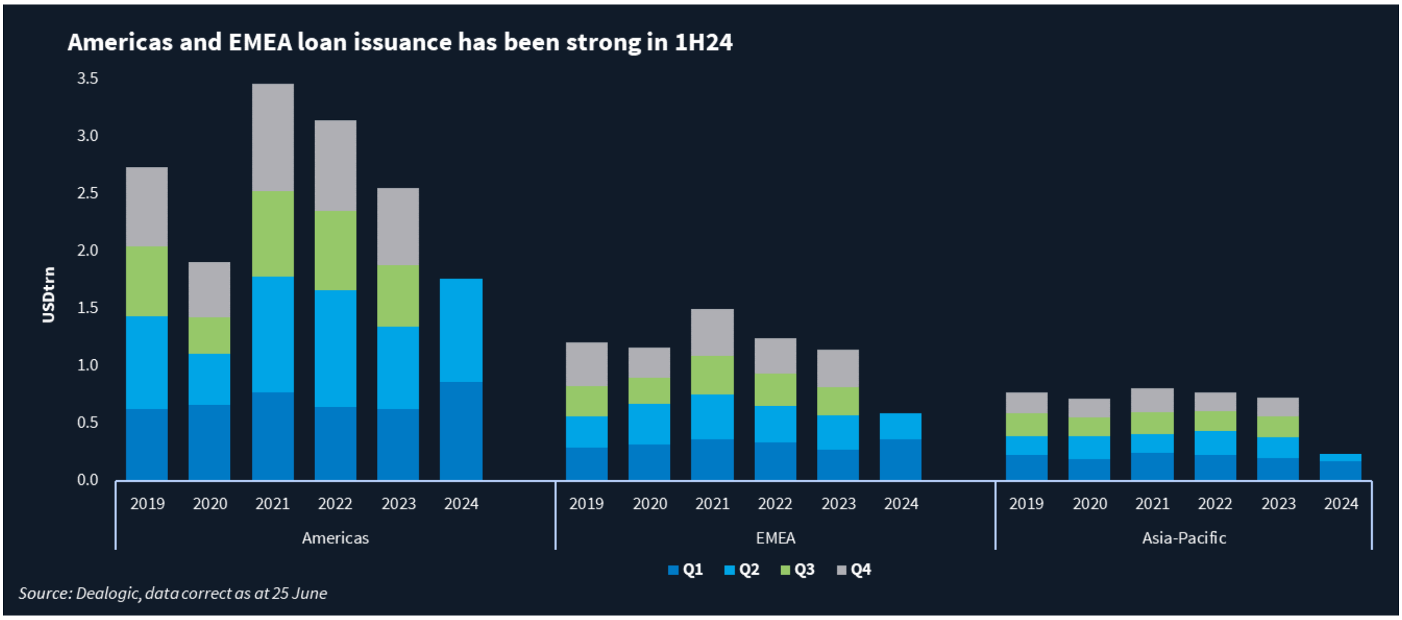
Expectations that central banks are set to cut interest rates in the US and Europe at some point this year are energising borrowers in the Americas and EMEA. Even lower volumes printed in APAC have not been enough to dampen global growth.

Volumes have been boosted mainly by the Americas, the biggest market in the world. The volume printed in 1H24 (USD 1.76trn) jumped 31% from 2023 YTD. Volume in 2Q24 alone (USD 898bn) was the highest quarterly figure in two years.

Volume in the year to date (YTD) is illustrative insofar as it is already close to the amount printed in nine months last year. It is also in line with first-half issuance in 2021 and 2022, which are considered banner years in the loan market.

EMEA has recorded loan issuance of USD 585bn so far this year, 2.8% above 2023 YTD's USD 569m. Issuance in 1Q24 is 17% below the first-quarter average between 2019 and 2023.

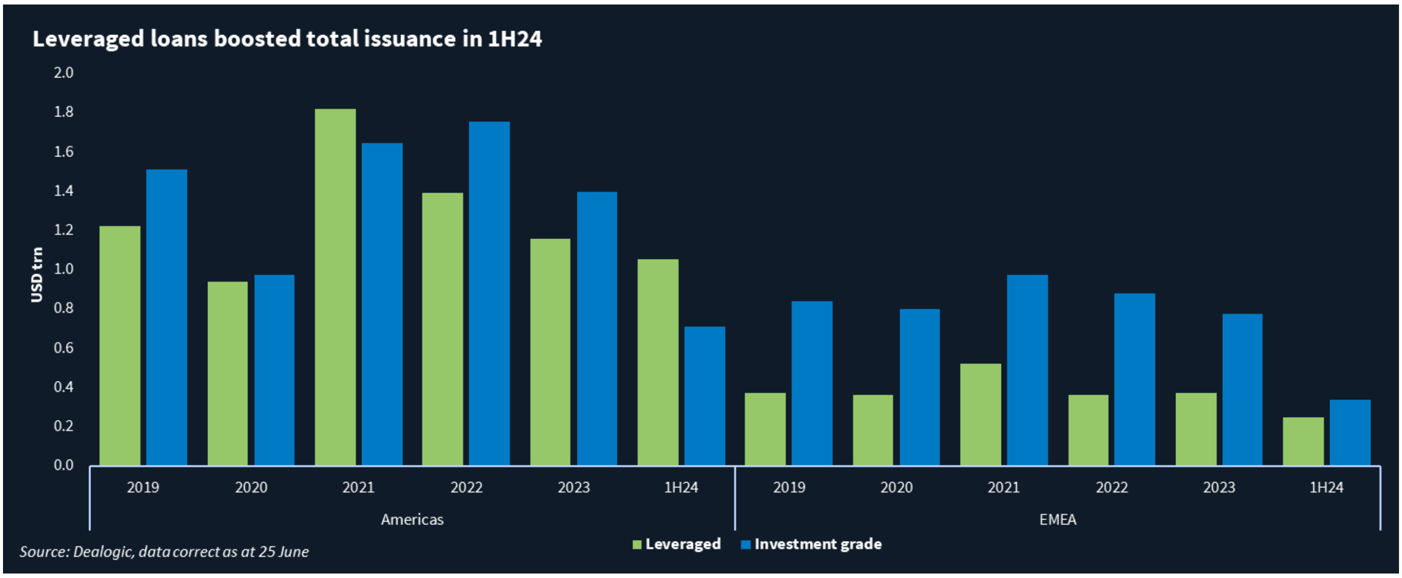
In APAC, according to the data as at 26 June (subject to further updates), volume is down on the previous year. First-quarter numbers reflect a decline in the YoY comparison, a trend that may be strengthening given that 1H24 figures show a 37% fall.



Leveraged deals drive growth

After years of investment-grade (IG) loan predominance, the loans market revival has been accelerated by leveraged deals. In 1H24, the volume of leveraged loans printed in the Americas (USD 1.05trn) was higher than that of IG. This marks the first time this has happened since 2021, when leveraged loans boomed globally in the aftermath of the pandemic. The amount recorded in 1H24 is already about to overtake 2023 full-year issuance (USD 1.16trn).

In the EMEA region, the situation is less remarkable, but leveraged deals have also been the main booster of issuance. The gap between the issuance of IG (USD 337.5bn) and non-IG loans (USD 247.5bn) is considerably smaller than in previous years, with leveraged loans representing 42% of total issuance, its highest than every year since 2019. The leveraged loan volume printed in 1H24 is also very close to the amount issued in the whole of 2023 (USD 371bn) and 2022 (USD 363bn).



Refinancing hits fresh highs

'Use of proceeds' analysis shows the reason behind the rise in loan issuance in 1H24: refinancing. With most players thinking interest rates have peaked, borrowers have found an opportunity to extend their maturities at better prices than those applied to similar deals in 2023. The result is the biggest wave of refinancing in recent times.

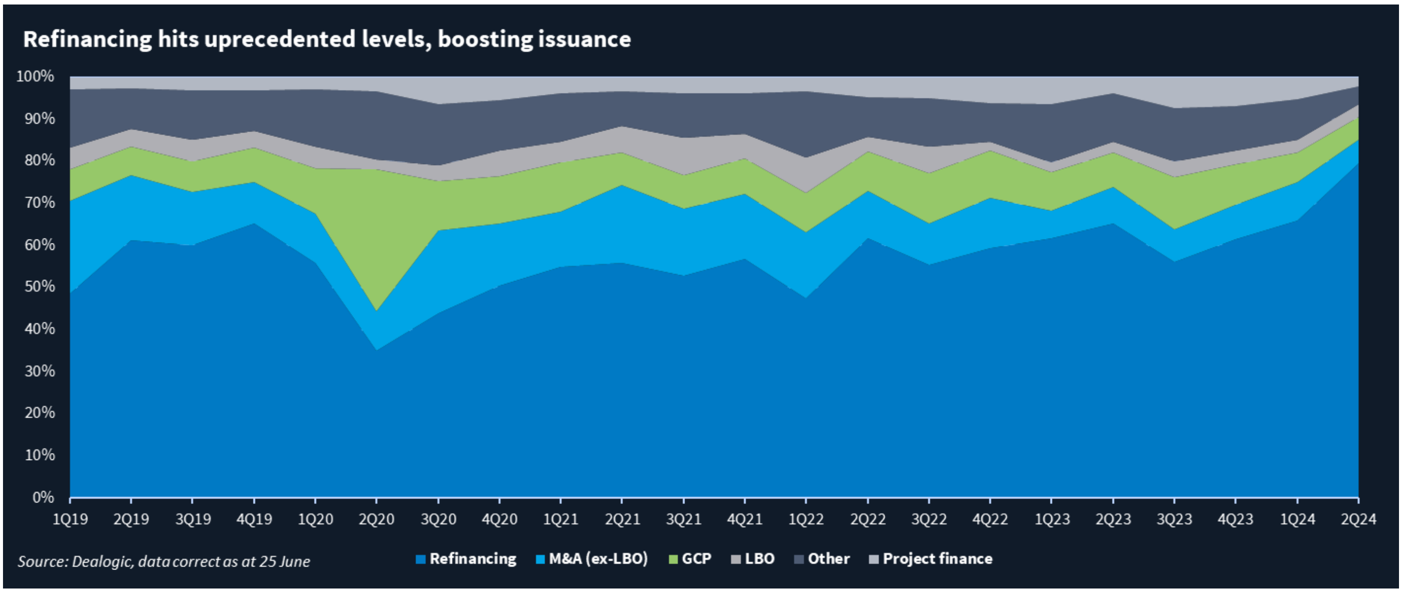
Deals with 'refinancing' as the main use of proceeds reached USD 944bn across the three regions in 2Q24, the highest volume since 2Q22. The difference is the share of market that refinancing represents. In 2Q22, at the peak of the series, refinancing deals made up 62% of total issuance, whereas in 2Q24 it reached 79%.

This happened because the rise in refinancing came combined with a decline in all other types of deals. Merger and acquisitions, leveraged buyouts (LBOs), general corporate purposes, project finance and other types of deals all fell in 2Q24 in the quarter-on-quarter (QoQ) comparison.

Combined, loans to finance M&A, LBOs, general corporate purposes (GCP) and project financing slumped to 18% of the overall amount issued during 2Q24 from 31% in the previous quarter - the lowest share for any quarter in recent years. Contributions from LBOs slipped year-on-year (YoY) to 4% from 10%, while M&A fell to 6% from 9%.

The market has been dominated of late by companies that need to extend maturities, with a trend towards refinancing deals, and this reached another level in 1Q24. The share of deals in which the main use of proceeds is refinancing original facilities hit 70% from 62% in the previous quarter. The refinancing share of the market has been growing continuously since mid-2020, when it bottomed out at 35%, as firms raised GCP deals to support operations, and it is now at its highest rate in recent years.

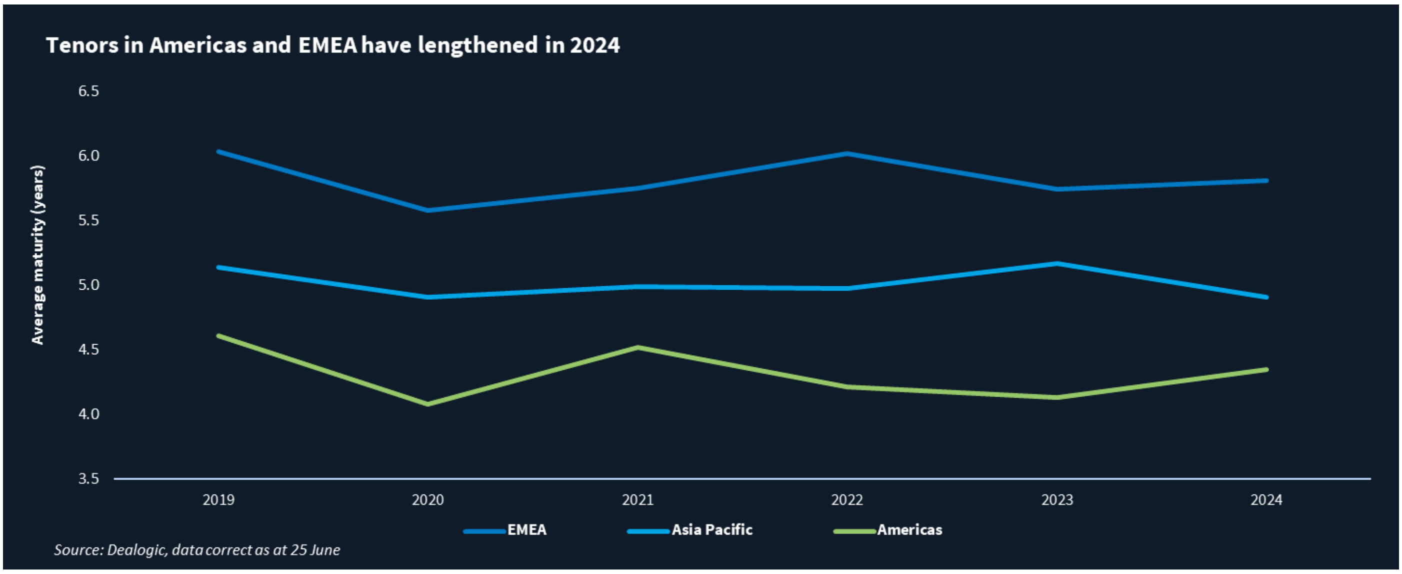
insights@iongroup.com



Tenors tightening

Borrowers have been able to lock themselves into slightly longer maturities in 2024. The trend, started during the first quarter, has strengthened in the second quarter.

Average tenors in EMEA, which were at five years at the end of 1Q24, have jumped to 5.81 years with the inclusion of second-quarter data. In the Americas, the average tenor went from 4.29 years at the end of first quarter to 4.31 years. In both regions, it is an extension compared with 2023 tenors. Conversely, APAC tenors have shortened in 2024, down to four years from 5.17 years.



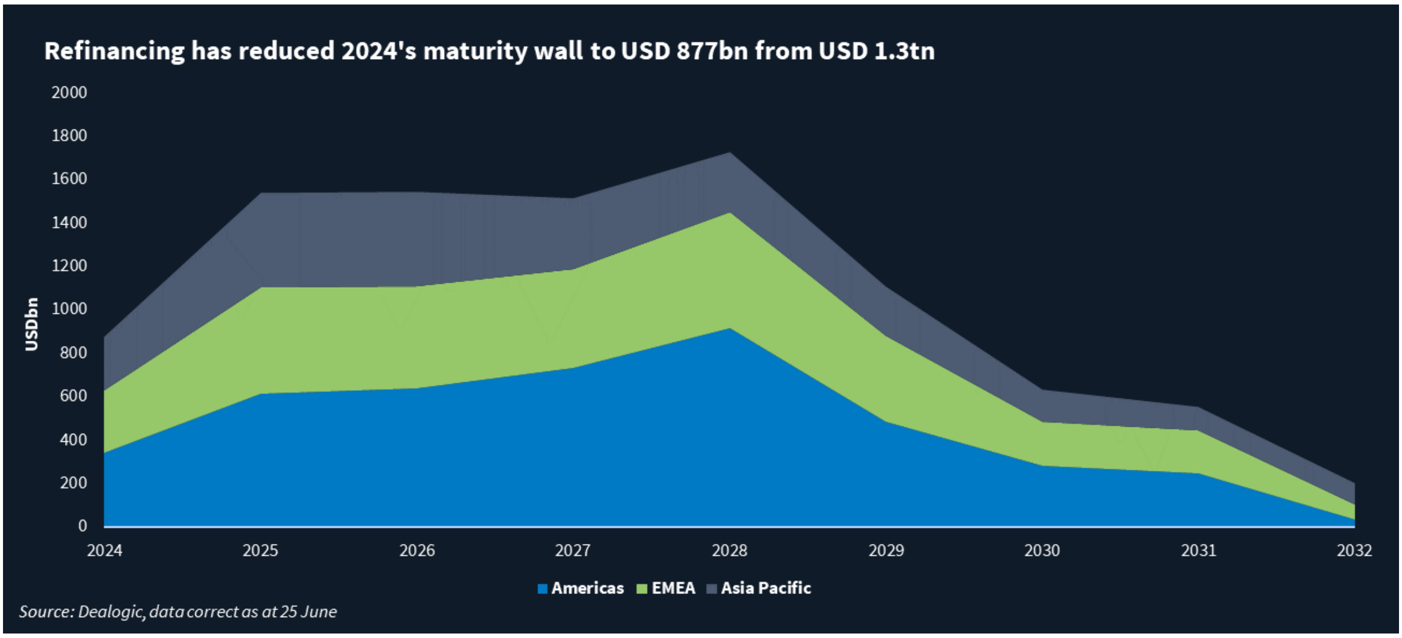
The refinancing wave has brought some relief to the maturity wall. Across the three regions, the share of the outstanding debt due in 2024, 2025 and 2026 fell to 8%, 21% and 34% from 11%, 24% and 38%, respectively.

At the end of 1Q24, half of the outstanding loan volume was due by the end of 2027 and 74% by 2029. As of the end of June, these figures have fallen to 47% and 62%, respectively.

Insights

insights@iongroup.com

Because of shorter tenors put in place, the Americas region has the closest maturity wall, with 73% of the outstanding balance due by 2028 compared with 78% three months ago. In EMEA, the debt due by 2028 has dipped to 58% from 61% and in APAC to 53% from 55%.



ESG tumbles

The current high interest-rate environment has not done environmental, social and governance (ESG) loan issuance any favours. According to 26 June data, ESG issuance across the three regions is down 64% in the QoQ comparison. Even if late submissions improve the scenario, it is highly unlikely that the volume will get close to the previous two quarters figures. ESG has also tumbled as a share of the market, failing to reach 5% for the first time since 2Q20.