Bloomberg hosted a dialogue on 4th December 2014 between key players in the world of leveraged finance on the sell-side in Europe and the buy-side in the U.S.

**PANELLISTS**
- Leland Hart – Head of Bank Loans Team, BlackRock, New York
- Elizabeth McLean – Executive Vice President, PIMCO, Newport Beach
- Thomas Stein – Head of Capital Markets, Guggenheim Partners, New York

**MODERATORS**
- James Crombie – Editor, Bloomberg Leveraged Capital Brief, Bloomberg L.P., New York

**KEY TOPICS INCLUDED**
- Trends in Cross-Border Borrowing
- Relative Value Between U.S. and European Credit
- Implications of October Market Volatility
- Outlook for 2015

**OUTLOOK FOR EUROPEAN VS U.S. HIGH-YIELD BONDS & LEVERAGED LOANS**
Global asset managers have increased exposure to Europe in global mandates over the last few years. European deals provide a good diversification opportunity.

European deals typically offer less liquidity and transparency versus the U.S. The lack of liquidity makes it harder to pick up European paper in significant size in the secondary market. As spreads on European names have compressed during 2014, there is not currently much relative value on offer versus the U.S.

The European economic outlook is clearly less positive than that of the U.S. and credit fundamentals are worse. However, with the ECB considering a corporate bond purchase program and the Fed moving away from QE there could be more technical support for European credit. ECB action may even translate into expectation-surpassing growth. Therefore, Europe offers more uncertainty and potential upside and downside volatility than the U.S.

U.S. buy side panellists agreed that loans look like good value versus bonds; loans are less volatile and offer similar returns with less exposure to rate risk.
DEVELOPMENT OF CROSS-BORDER FINANCING
USD Leveraged Loan and HY Bond offered by European companies originally emerged to fill a vacuum left by the lack of accessible non-investment grade loan and bond markets in post-crisis Europe.

As markets have developed, we have seen the emergence of a European high-yield bond market with record volumes each year. Now in the last two years European leveraged market issuance has started to revive.

Cross-border issuance is now partly about a company’s needs—for example Flint, Ineos, and Altice are looking to grow globally, so there is a need for multi-currency financing.

At times, basis and pricing make it efficient for European issuers to access USD funding and swap back to Euros.

For big deals, such as Numericable, USD financing is required as the Euro market does not consistently offer enough depth.

The USD market has allowed issuers to access covenant-lite funding. However, this year has seen all-Euro covenant-lite deals starting with Ceva Sante Animale.

The upturn in Euro currency leveraged loan issuance has been underpinned by the revival of the Euro CLO market and increased demand from institutional investors.

SECONDARY MARKET LIQUIDITY & RECENT MARKET VOLATILITY
A number of factors can be seen to inhibit liquidity. One of these is regulation—the cost of capital limits banks’ capacity to hold inventory. More broadly, the global leveraged finance market has expanded quickly and the number of participants has increased, but the number of broker-dealers has not grown. The resulting lack of liquidity has at times exacerbated market volatility.

October arguably saw some investors selling to raise cash due to a fear of outflows. While these outflows largely did not materialise, there was a lack of buyers in the market.

The U.S. buy-side panellists agreed that the high-yield bond market fell due to a change in valuation and outlook, and the oil price shock, and that while the loan market was more stable it also fell to some extent due to relative value. There was a crossover effect as some high yield managers sold their larger liquid loans—either to raise cash liquidity or to buy same or similar-issuer bonds that had fallen much further in price. Thus, despite little underlying fundamental change, the technical dislocation caused great volatility in liquid loans than the broader, less liquid, loan universe.
FOURTH QUARTER NEW ISSUE UPWARD MARGIN FLEX & FALLING AVERAGE ISSUE PRICES
Deals underwritten in the summer of 2014 were sold into a changed market in the fourth quarter, with assets available below par in the secondary market. Upward flex and lower issue prices were a natural reflection of this. Deals in specific sectors such as retail were particularly difficult, as well as deals with heavily adjusted EBITDA. U.S. buy-side panellists stressed the growing importance of credit selection, but pointed out that credit was relatively consistent throughout the year from an underwriting perspective.

OUTLOOK FOR U.S. LEVERAGED FINANCE ISSUANCE & PERFORMANCE 2015
The credit fundamental outlook is strong with high interest coverage ratios and low near-term maturities. Outside of particular sectors—especially energy—the main risk is of price declines attributable to technical factors such as illiquidity rather than fundamental weakness.

Investor demand is expected to remain strong. CLO issuance is estimated to fall to $75-85bn but this is still significant volume. Asset managers like Pimco, Blackrock and Guggenheim are all net adders of assets.

Leveraged lending guidelines mean LBO volumes are unlikely to be high. Refinancing activity will be reduced so gross issuance volume numbers will be lower, but corporate M&A was a strong driver in 2014 and may sustain net issuance levels.
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