In the first ten days of 2020, Qasem Soleimani, head of Iran’s special forces, was killed in a US drone strike, a passenger plane was struck down in Tehran and millions of hectares of land were burning in Australia, killing almost half a billion animals. And of course, just because it caused significant debate at PDM at least, Harry and Meghan declared “Megxit”. Most recently, the World Health Organisation declared Coronavirus (COVID-19) a global health emergency. As a reference point, since 2003, when SARS broke out, China has grown from the sixth largest economy in the world to the second biggest today and is currently the largest exporter of goods globally.

In this backdrop, since the start of 2020, European CLO BBs have tightened by 65bps, CLO Bs have tightened by more than 100bps and the latest AAA print for Invesco priced at 93bps, versus highs of 120bps in 2019. In the European syndicated loan market, most notably, Refinitiv was the largest repricing of the year, with a €2.3bn repricing of its TLB to E+325bps from E+400bps. One of the tightest prints this year was the €526m repricing of Befesa’s TLB, repricing 50bps tighter to E+200bps.

Looking back to 2019, European CLO issuance grew by 9.1% over the year, ending at a total supply of €29.8 billion which represents the largest yearly total issuance since the market opened. This growth partly stems from a record number of debut managers, with 8 new CLO managers issuing CLOs in Europe versus 6 in 2018, bringing the total number of managers issuing CLOs in Europe to 50. This is more than double what it was just 5 years ago. In addition, seasoned managers are issuing at least one deal a year, highlighting that the issuer base for CLOs has remained committed to the asset class.

In contrast to European CLO issuance, the European leverage loan issuance in 2019 fell short of that recorded in 2018, ending the year with a total supply of €80.95 billion, compared to €96.8 billion in 2018. The largest part of the supply came from M&A related financings, which made up 54% of supply. Buyouts included Power Solutions, Ahsell, Amer Sports, Merlin Entertainment and CRH Europe. Refinancing supply was 34% of the overall volume (up from 21% in 2018). This type of supply was boosted by an end of year increase in opportunistic activity as spreads compressed. In Q4 2019, the average Euro single B TLB spread tightened to 389.3bps from 400bps from the end of Q2 2019. This environment encouraged repricings, which peaked in Q4 to a volume of €16.3 billion. Another trend of 2019 was an increase in add-ons, where €10.9 billion of institutional add-on debt was completed.

October/November 2019 painted a very different picture to the current situation. EUR CLO single Bs priced at wides of 10% in new issue and loan prices fell in October with some notable selling, including a €425 million portfolio. Prices recovered towards the end of the year and the rally has been significant at the start of 2020. More than €250m of European CLO equity has been on BWIC this year and execution levels have been strong. This has been in a backdrop of a pick-up in new issue CLO supply where some CLO managers still have to give up fees to make the arbitrage work.

With more than 40 CLO warehouses open and primary issuance, but also reset/refi activity likely to pick up as CLO liabilities, driven by Euro AAA CLOs, continue to tighten, it remains to be seen what happens to the loan asset side of the picture. For those investors that are already long CLO equity, they may continue to see a drop in equity distributions if managers are not actively trying to find ways to keep the income of their portfolios healthy. And even if liabilities continue to tighten in, the market needs a steady supply of new issue loan supply to feed the growing demand from CLOs and managed accounts. However, given that Private Equity firms raised close to $600bn of capital last year, this should hopefully maintain a healthy loan/bond supply into Europe.

Looking forward to 2020, ESG continues to be extremely topical in Europe and it will be interesting to see how this develops as more investors demand clarity on how managers/issuers are considering this in their investment decisions. For example, the €885 million TLB for Cobham, which provides products for the defence, aerospace and outer-space markets, was topical. The Single B term loan was finally priced at E+375bps, c. 25bps wider than the average new issue TLB spread this year. How a growing focus on ESG could eventually impact the liquidity of credits in portfolios is yet to be seen, especially in the US, given the existing exposure of US CLOs to sectors such as oil and gas is much higher than Europe.