

# Strong Repricing Activity Is Likely to Persist

**Borrowers have opportunistically repriced loans as strong investor demand keeps prices high.**

Repricing activity in the leveraged loan market surged in 2024, with over \$350 billion in institutional term debt repriced, accounting for more than a quarter of the market. Some borrowers repriced their loans multiple times within the year, as call protection typically lasts only six months, enabling borrowers to reduce interest expense by 53 basis points in contractual spread. As of December 2024, about 62 percent of loans continued to trade above par, suggesting repricing activity will remain brisk in the first half of 2025. With market expectations for rate cuts reduced to just one by midyear, borrowers will likely continue to focus on cutting expenses, further driving repricing activity.

## Sector Commentary

- Bank Loans outperformed fixed-rate corporates during the fourth quarter, posting a total return of 2.3 percent, according to BofA Global Research. Performance remains strong, supported by high floating-rate coupons, which help insulate loans from duration risk.
- The three-year discount margin on the S&P UBS Leveraged Loan Index tightened by 23 basis points during the quarter to end the year at 475 basis points. Year-end yield stood at 8.8 percent.
- At the end of December, about 62 percent of loans traded above par, near the year’s highest level. This marks the largest share above par since 2018, suggesting that borrowers will prioritize repricing to lower costs.
- The fourth quarter saw roughly \$98 billion of new money (non-repricing) issuance, the lowest quarter in 2024. This compares to \$278 billion of repricing activity, the highest quarter of 2024.

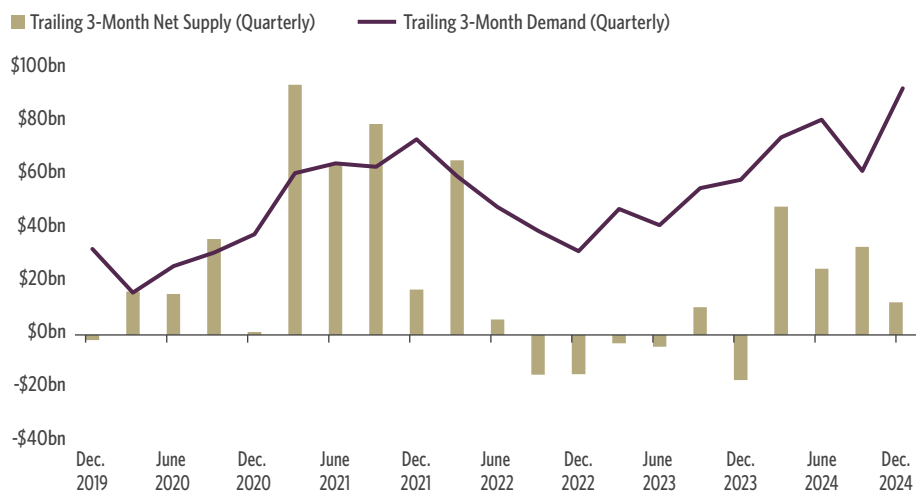
## Investment Themes

- A strong technical backdrop will continue given the lack of new supply available to satisfy the steady demand for loans.
- With fewer rate cuts expected in 2025, we anticipate continued demand from fund inflows and baseline support from coupon reinvestment. Additionally, CLOs, the loan market’s largest investors, had record issuance during the fourth quarter of 2024 at \$48.9 billion.
- All-in yields for the loan market remain attractive and offer investors the opportunity to capture attractive yields even as the Fed cuts rates.
- We remain cautious over the tail risk in the loan market given how elevated rates may weigh on issuers’ interest costs. Eventually, rate cuts will become a tailwind to debt servicing. Until that time, credit selection will be paramount as we identify attractive opportunities within the loan market.

*By Christopher Keywork and Maria Giraldo*

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### We Expect Demand for Leveraged Loans to Remain High in 2025



Source: Guggenheim Investments, BofA Global Research, EPFR, LCD. Data as of 12.31.2024.

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**Investing involves risk, including the possible loss of principal.** In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations (“CLOs”), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

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