TEAM INSIGHTS
Q1 2025

FULL DISCRETION TEAM

Loomis on Loans

Strong Start to 2025 for the Leveraged Loan Market

The quarter started strongly but deteriorated as investor sentiment soured on tariffs and consumer confidence weakened. Dispersion in pricing was driven by names exposed to those types of sectors and not necessarily by rating quality. Still, the quarter saw positive performance as the one point drop in average loan price was outweighed by coupon income. Overall, BB-rated loans saw less of a price decline than B-rated loans.

By the end of the quarter, only 10% of the loan market remained priced over par, down from 60% at the beginning of the year. Still, 49% of the market remained priced between 99 and par, which demonstrates the generally lower volatility of the asset class and buyers' continued desire for exposure to the loan market. Again, price dispersion was driven by sectors that could be facing more pressure due to tariffs and consumer sentiment. For example, building materials, consumer discretionary and chemicals saw greater declines.

The pace of repricing and refinancing activity slowed in the quarter as lending conditions have been tempered, in our view. Nonetheless, merger and acquisition-led transactions, mainly in the lower-quality end of the loan market, were $52B for the quarter and those deals priced at coupons a bit higher than we saw at the end of 2024.

The default rate by issuer fell to 1.23% but remained above 4% when adjusted to include distressed exchanges.

Retail loan fund flows turned negative as the quarter ended, though were marginally positive on a cumulative basis during the quarter. Collateralized loan obligation (CLO) formation was strong at $48.6B for the period, nearly matching the level seen during the first quarter of 2024.

Adding Risk with a Cautious Approach

Fundamental credit quality remained stable through the end of the quarter, though earnings growth is decelerating in some sectors. Companies have continued to find ways to cut expenses and preserve margin and cash flow.

We agree with the market's concern that default rates could increase, but they have remained relatively low due to limited near-term maturities, overall strong fundamentals and strong balance sheets, along with a stretch of healthy financial conditions. That said, there is a modest subset of the asset class at the lowest end of the quality spectrum that is still trading at a discount and will need sustained economic support and healthy financial markets to manage through their specific issues. We do not expect this cohort to have a sizeable effect on total return for the asset class given our base case assumptions.

MORNINGSTAR LSTA INDEX	Q1 2025 RETURN (%)	1 YEAR RETURN (%)	PRICE	YTD PRICE CHANGE	NOMINAL SPREAD
US Leveraged Loan Index	0.48	6.86	96.78	-1.00	330.82
US BB Ratings Loan Index	0.93	7.03	99.43	-0.69	250.01
US B Ratings Loan Index	0.35	7.31	97.44	-1.10	356.64

Our view towards risk assets is increasingly cautious in the short term due to expected near-term volatility and market uncertainty with the recent (and ever-evolving) tariff announcements that will keep the Federal Reserve (Fed) from cutting interest rates until there are tangible signs of economic weakness. Throughout the last year, we have been discerning when adding risk as spreads ratcheted tighter and compensation for stepping down in quality had been squeezed.

Loomis Sayles's Macro Team currently shows increasing odds of a downturn as the highest probability macro scenario. This base case calls for widening of credit spreads, stalled growth driven by tariffs and tariff retaliation and a notable consumer pull-back. In that environment, we would expect the leveraged loan asset class to see further pricing pressure but not outside historical norms relative to other risk assets.

Meet the Team

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About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

28	Investment Professionals
23+	Years of Industry Experience (Portfolio Management Team)
$79.1	Team Assets Under Management (Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

Source: Loomis Sayles, as of 3/31/2025
Average years of expertise reflected at portfolio management level

Important Disclosure:

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Commodity, interest and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Market conditions are extremely fluid and change frequently.
Any investment that has the possibility for profits also has the possibility of losses, including loss of principal. There is no guarantee that any investment objective will be realized, or that the strategy will be able to generate any positive or excess returns.

Past performance is no guarantee of future results.