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## Current state of the debt markets

December 13, 2018

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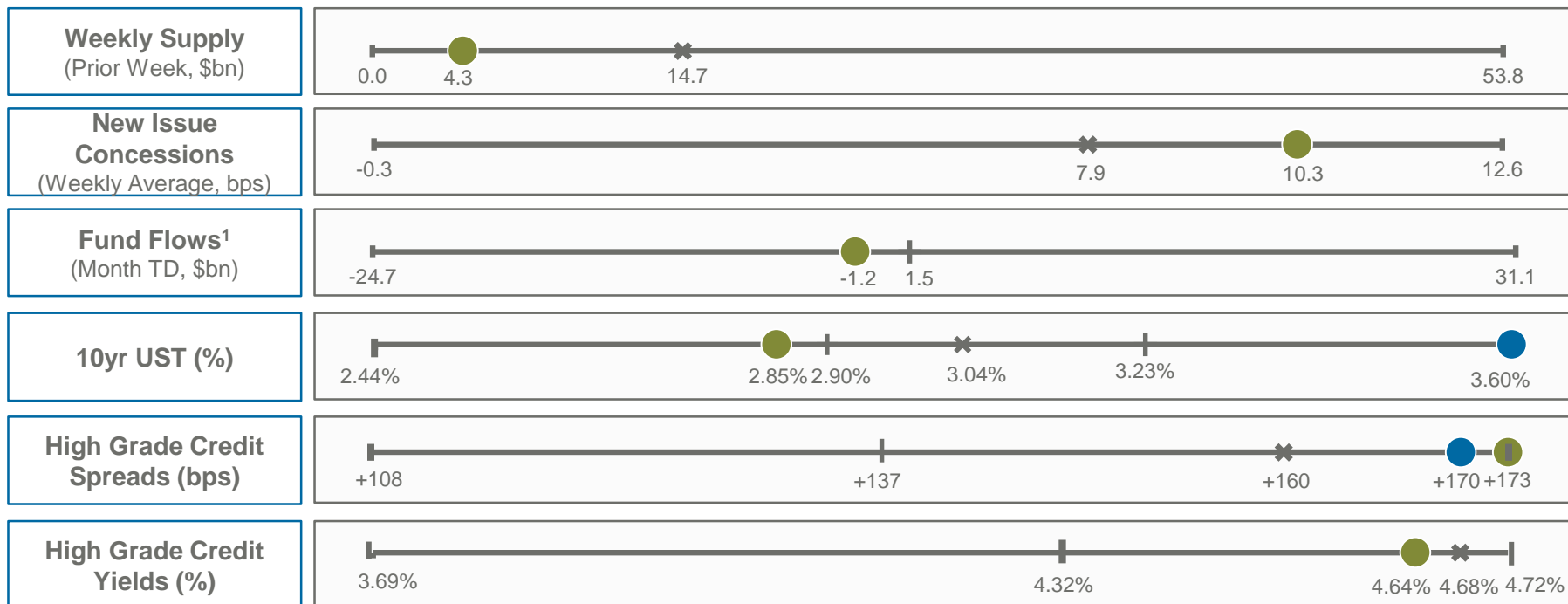
# Agenda

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# State of the markets – sentiment scale

- | Min / Median / Max (2018)
- 2019 Year end forecast
- Current
- ✕ Last 4-week average

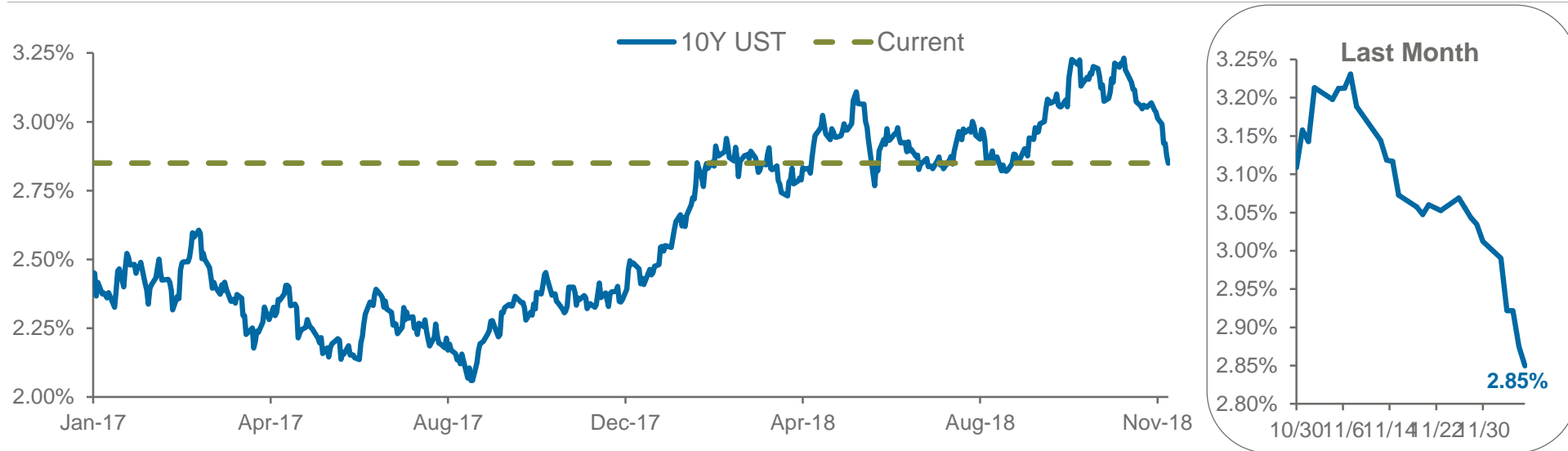


<sup>1</sup>IG ex Short Term, Total Flows

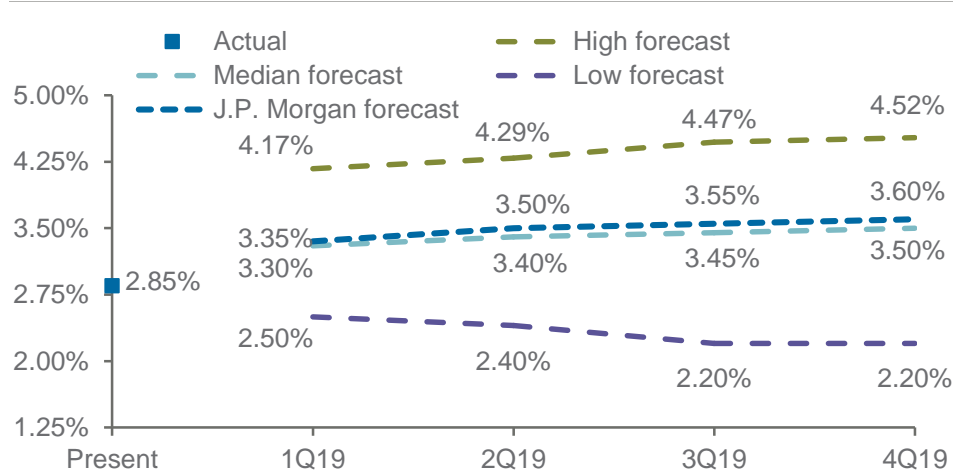
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# Current interest rate environment

## Historical 10-year U.S. Treasury yield

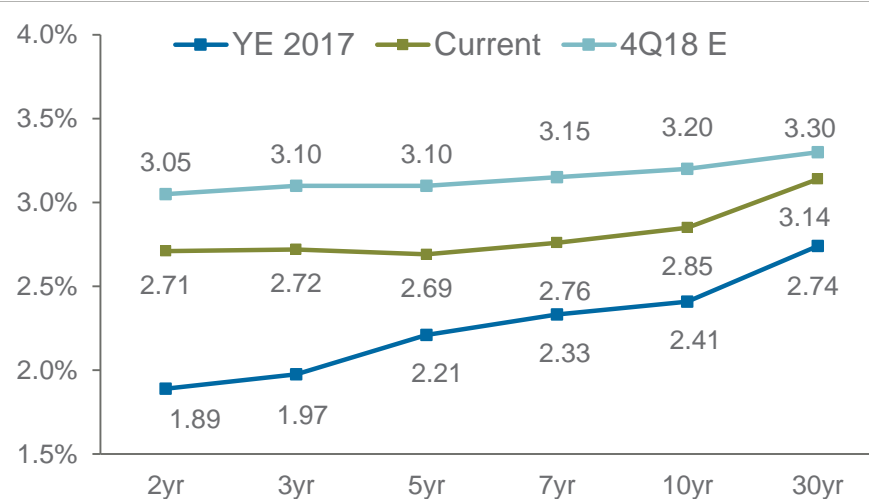


## Range of 10-year U.S. Treasury yield forecasts



Source: J.P. Morgan, Bloomberg as of 12/10/18

## J.P. Morgan expects a flatter yield curve by YE 2018

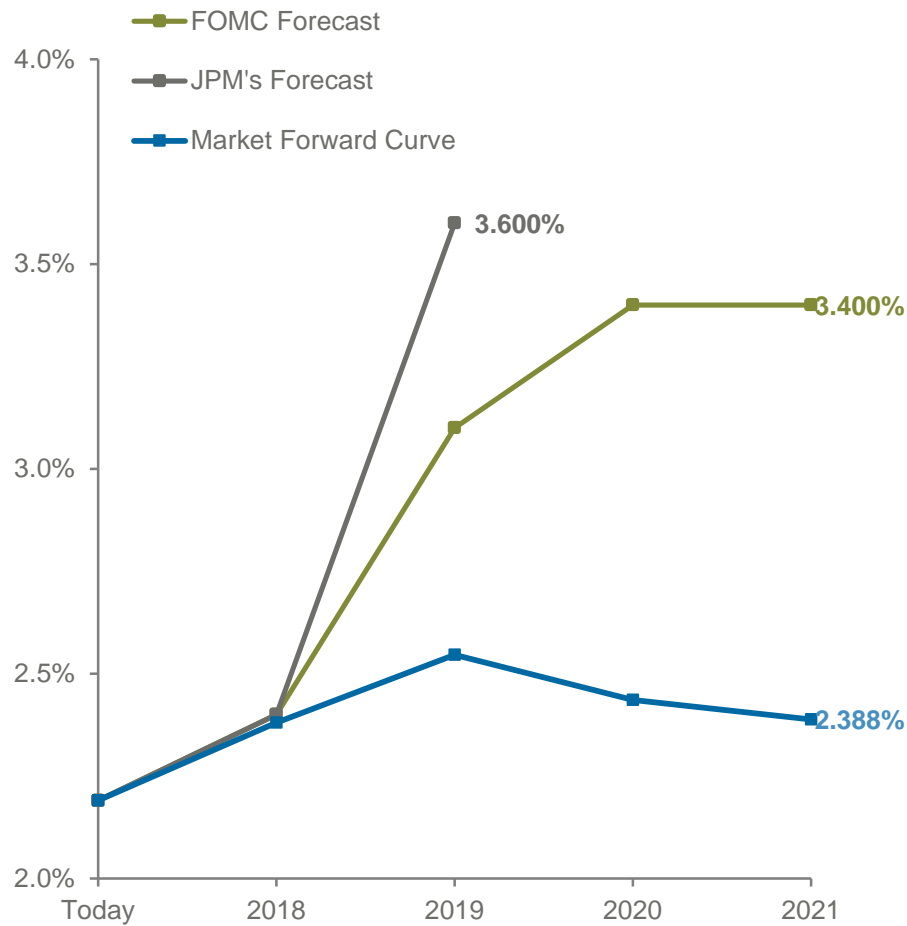


Source: J.P. Morgan as of 12/10/18

# Current interest rate environment

## Fed rate forecast compared to market participants

### FOMC dots vs. market expectations



Source: FOMC year-end Fed Funds Rate projections, 9/26/18. Market forward curve, 12/10/18. JPM forecasts: 1 more hike in 2018 and 4 in 2019

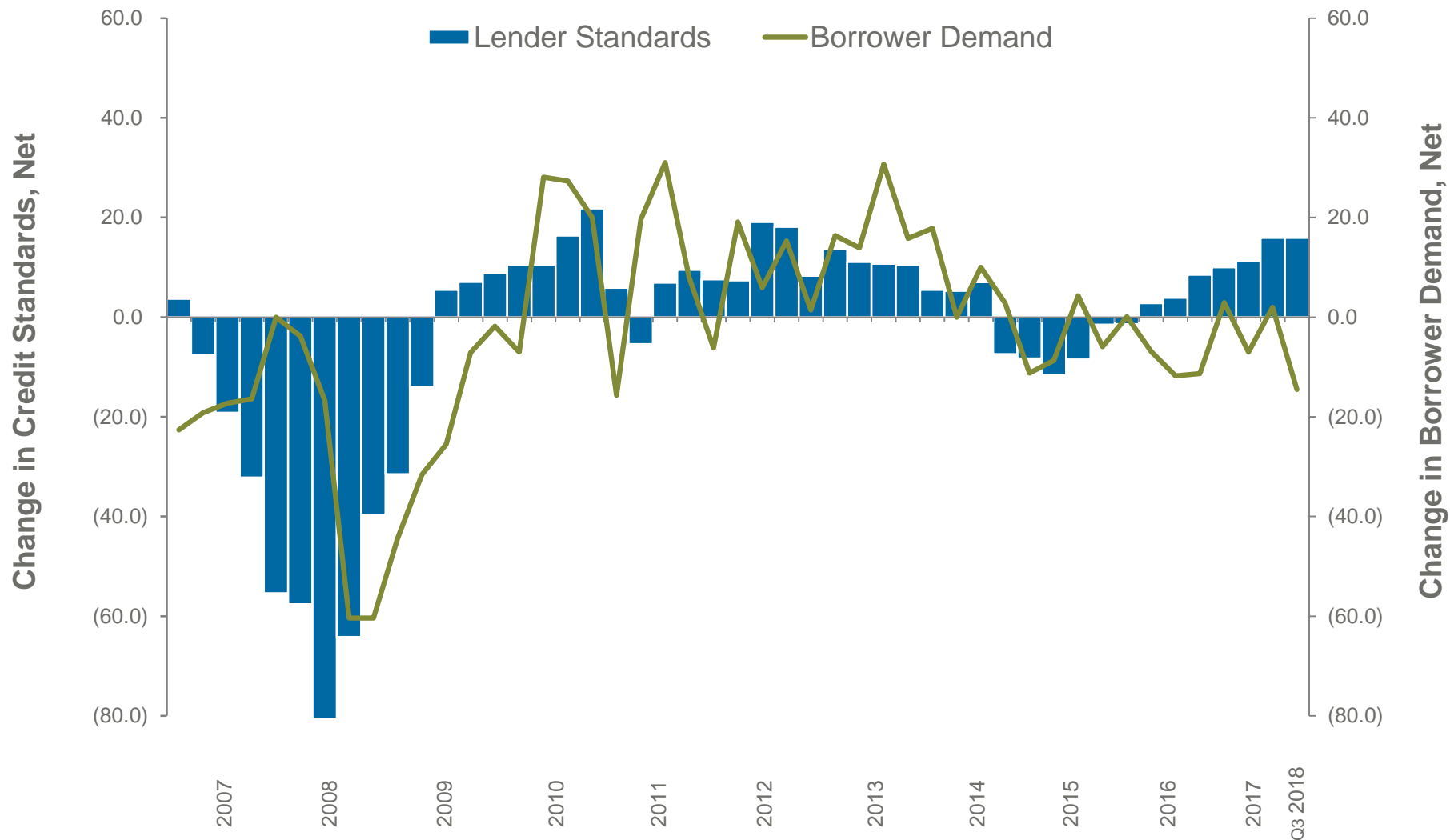
### Number of Fed hikes implied by OIS rates\*



\*Implied number of hikes out to end of year 2019  
Source: J.P. Morgan

# Current state of the debt markets

## Federal Reserve Board survey

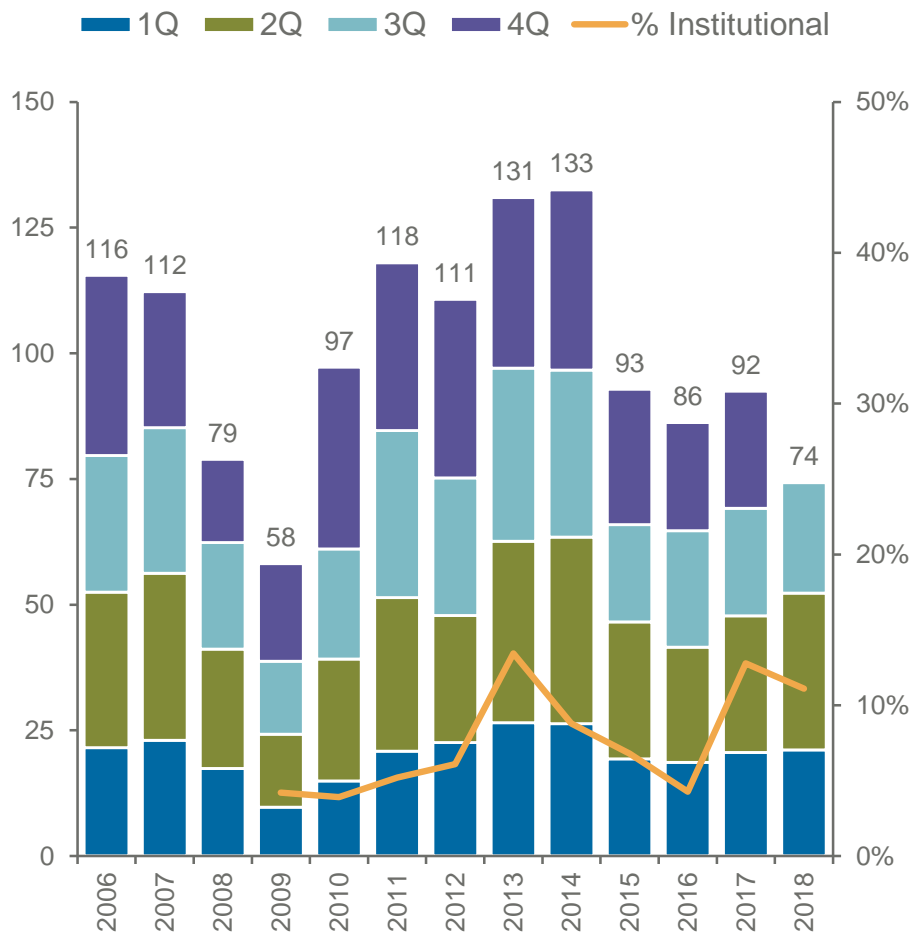


source: The Federal Reserve Board's "Senior Loan Officer Opinion Survey on Bank Lending Practices", November 13, 2018

# Current state of the debt markets

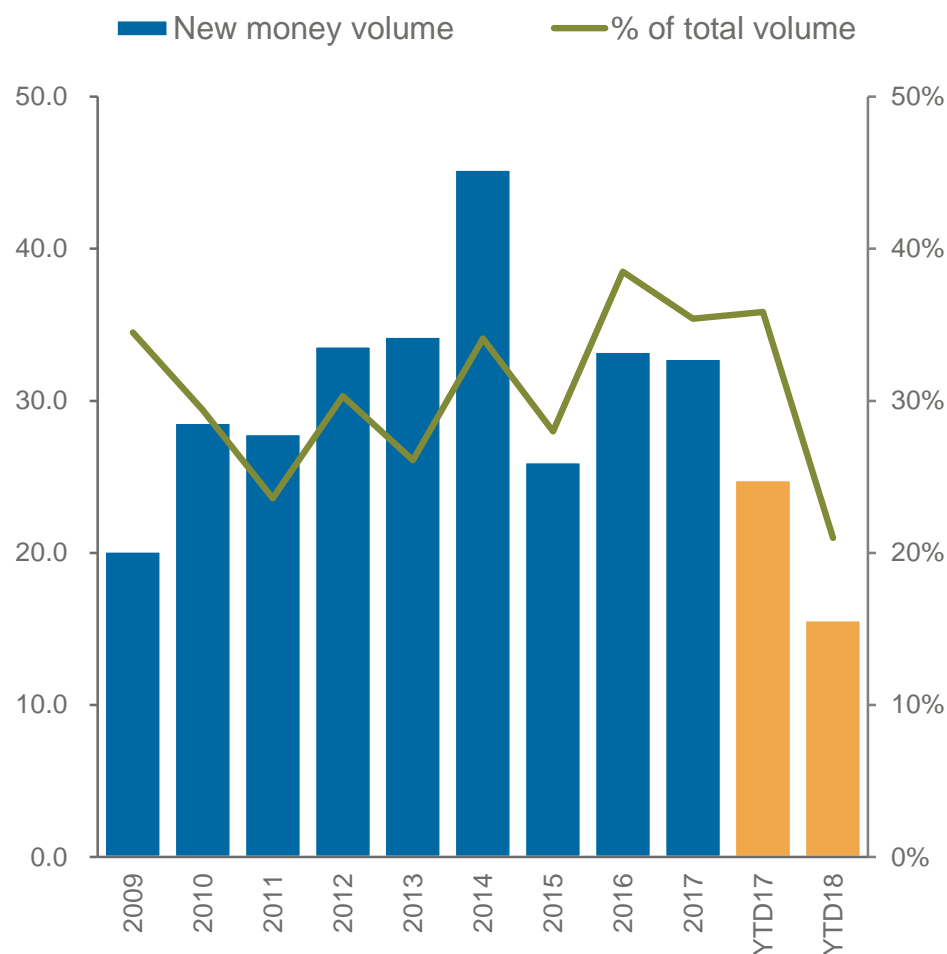
Refinancing activity spikes as borrowers capitalize on favorable market conditions

### Non-sponsored quarterly loan issuance (\$bn)



Source: Thomson Reuters

### New money loan volume (\$bn)



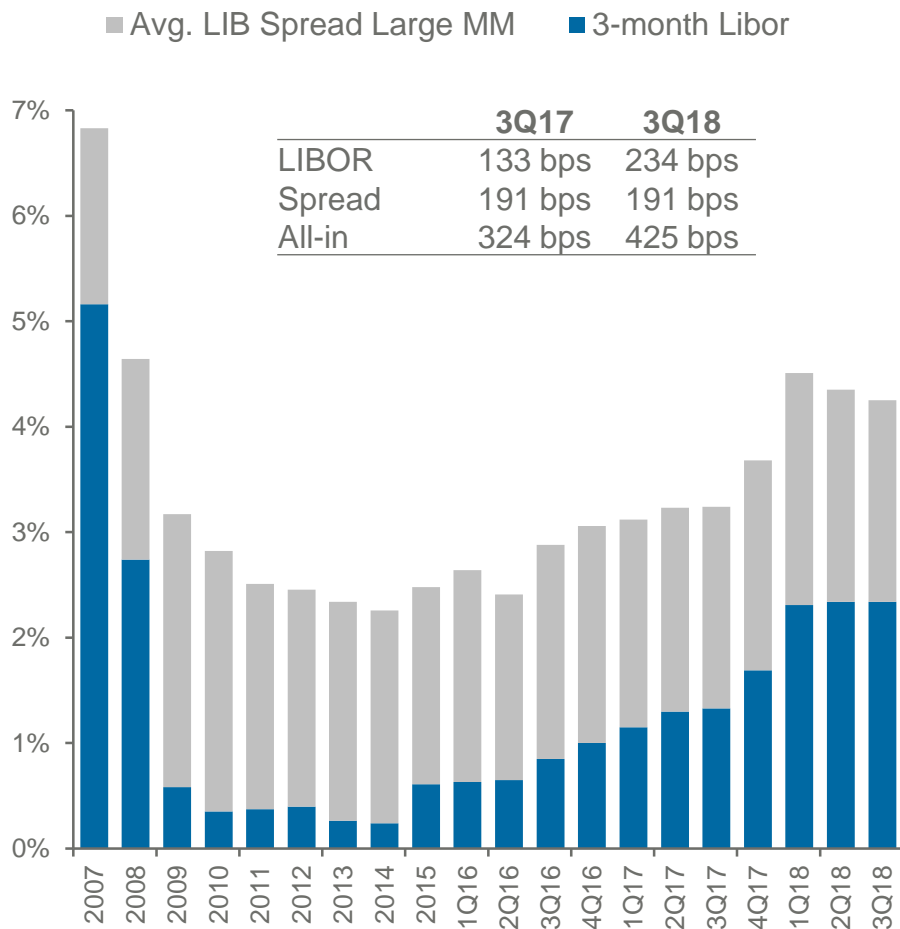
Source: Thomson Reuters



## Current state of the debt markets

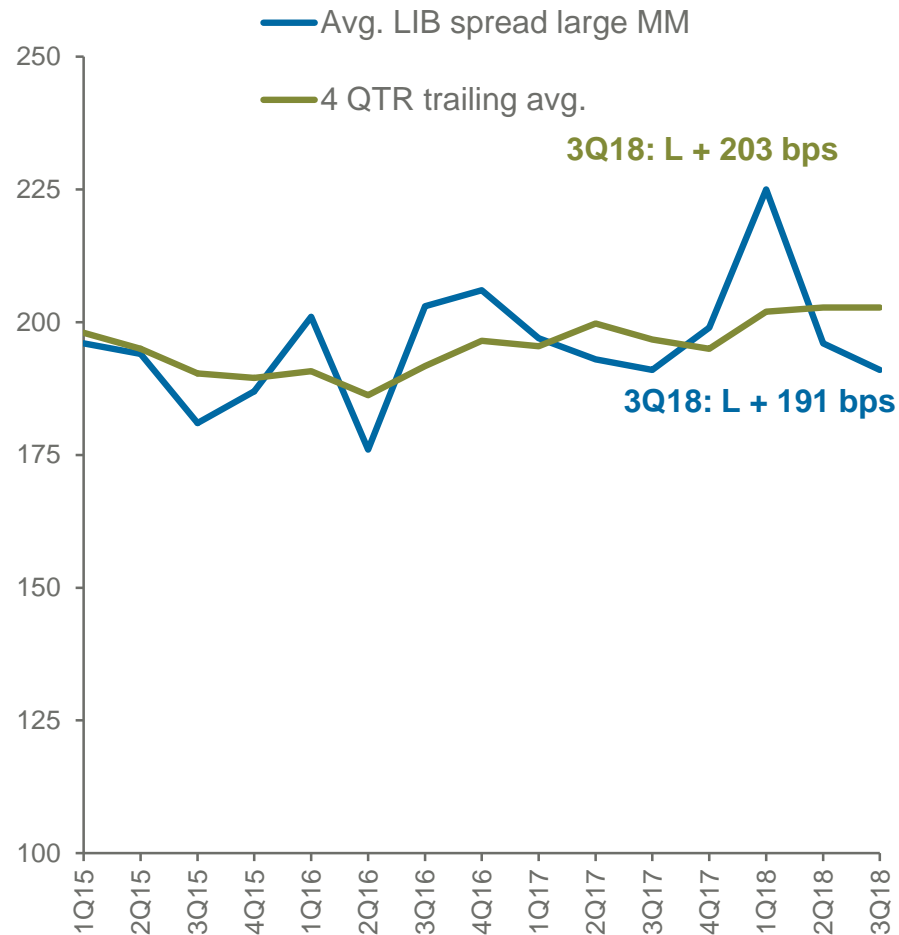
Borrowing costs for MM companies have increased due to rising rates, but spreads remain borrower-friendly

### All-in borrowing costs (L + spread)



Source: Thomson Reuters

### Average LIBOR spread (Large MM borrowers)

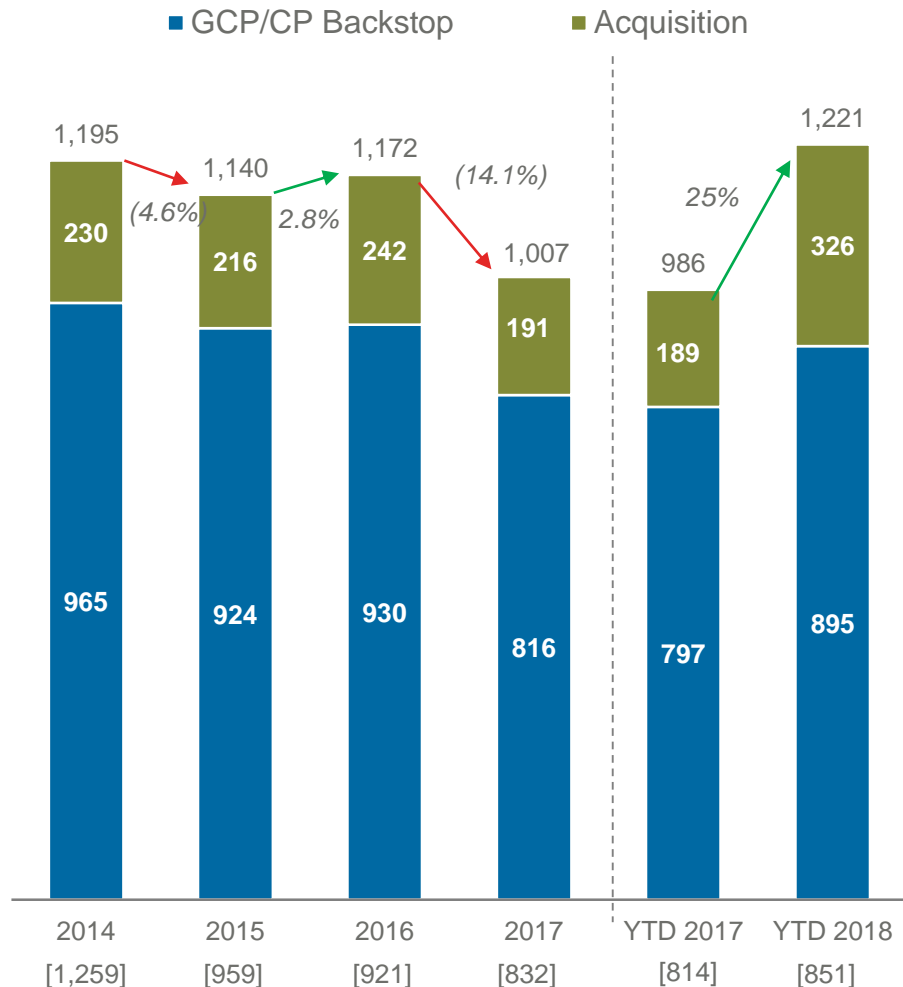


Source: Thomson Reuters

## Current state of the debt markets

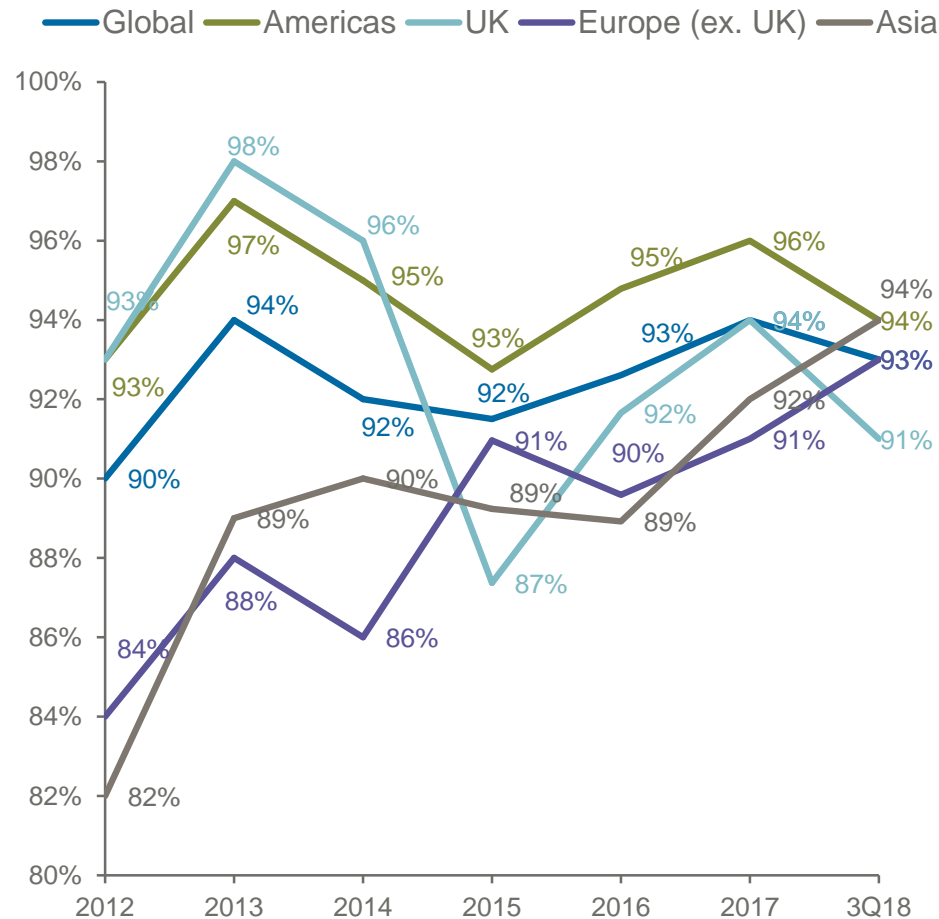
Investment grade loan market remain active

### High grade loan volume exceeds \$1.2 trillion YTD



Source: Dealogic (12/10/18)  
 Note: [ ] = # of deals

### Lender hit rates remain elevated

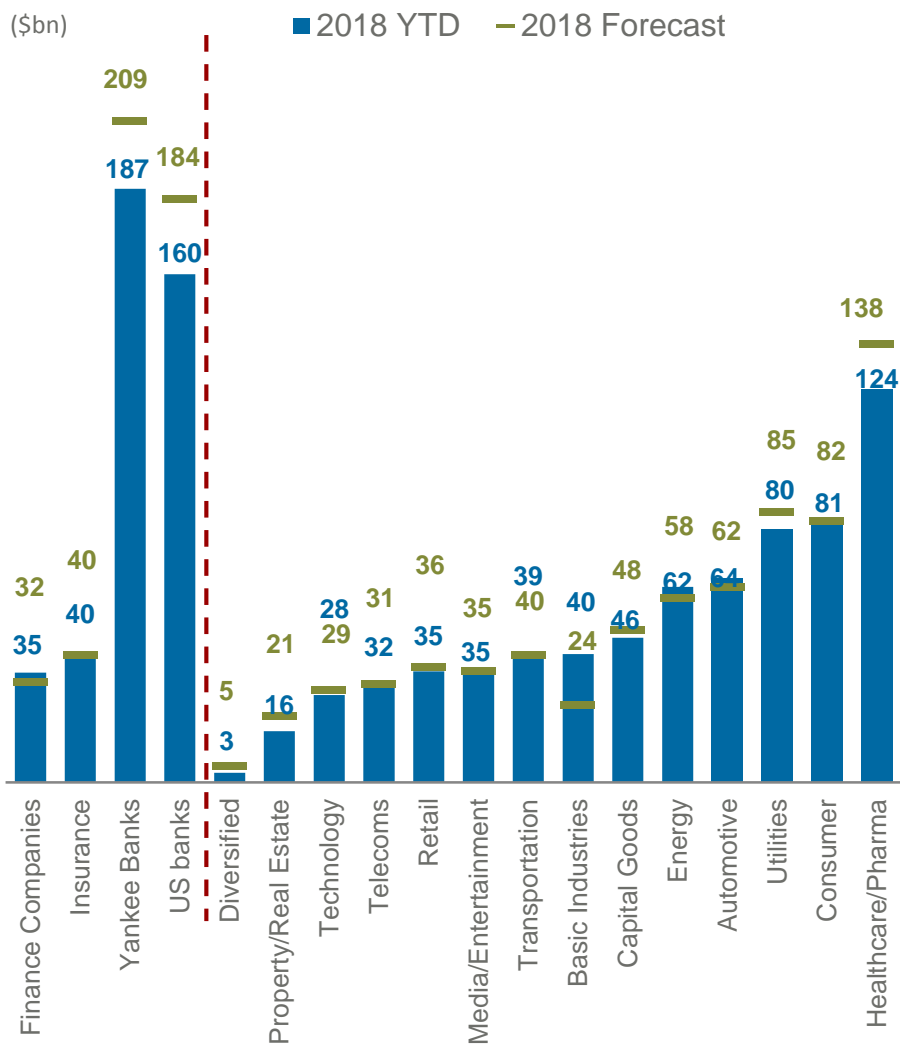


Source: J.P. Morgan investment grade loan transactions

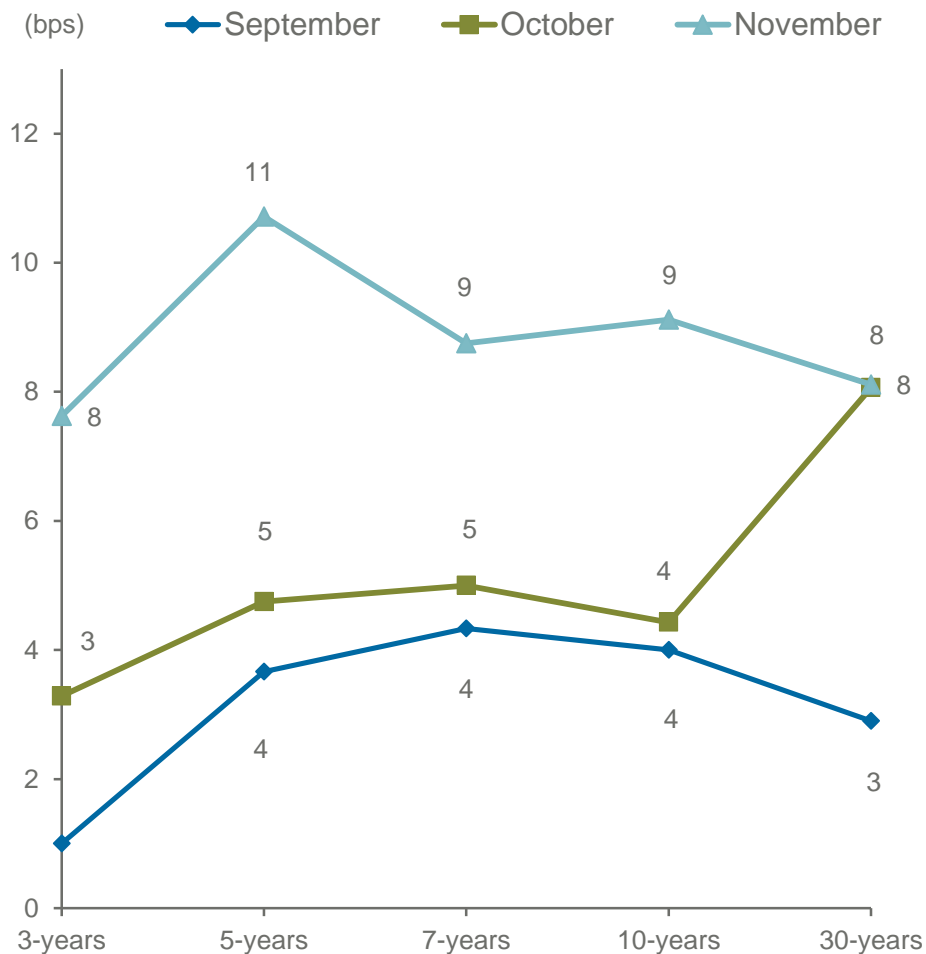
# Current state of the debt markets

High grade supply rebounded post-Thanksgiving

## 2018 YTD supply vs. YE forecasted supply by sector



## New issue concessions have increased

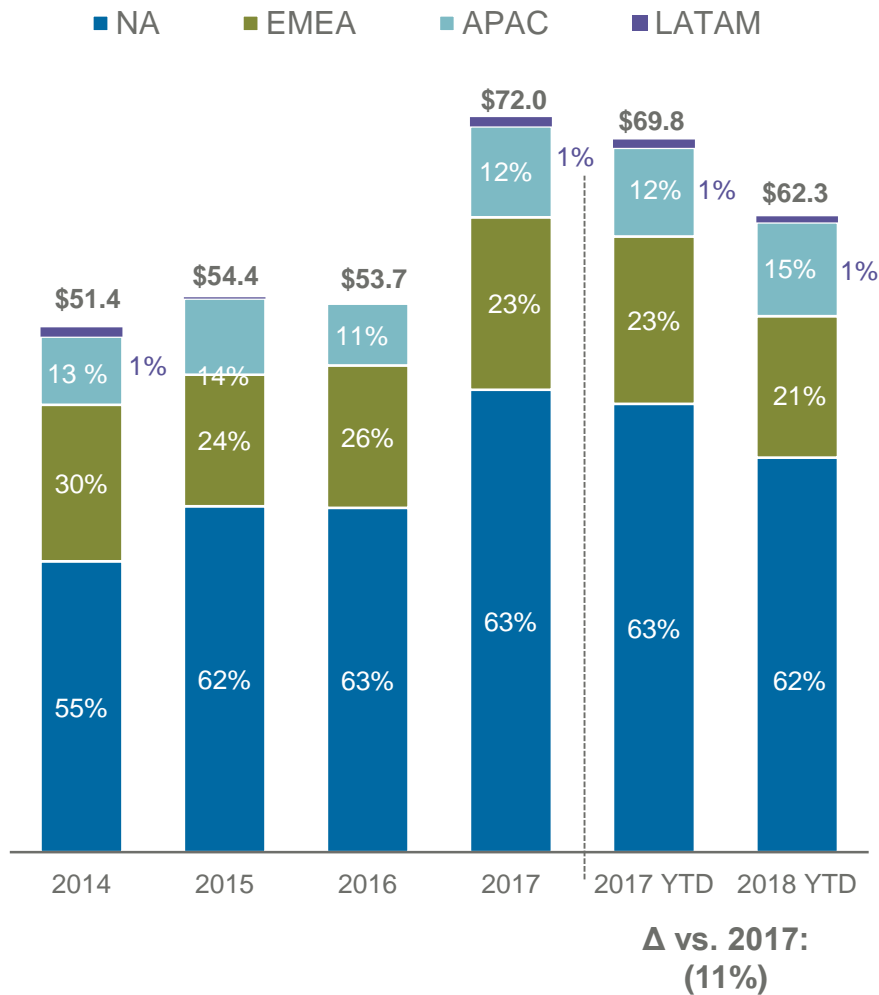


Sources: Securities Data Corporation, J.P. Morgan Credit Research, Informa Business Intelligence, Dealogic as of 11/30/18, J.P. Morgan as of 11/30/18  
 Note: Excludes hybrid capital and cross-over issuance; includes MTNs, 144A and Yankees with minimum maturity of 13 months

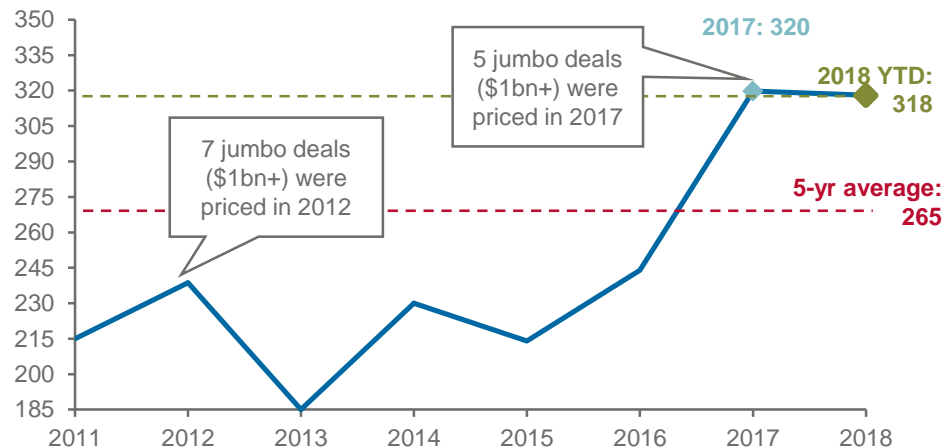
# Current state of the debt markets

Debt private placement market remains active with a strong pipeline until year end

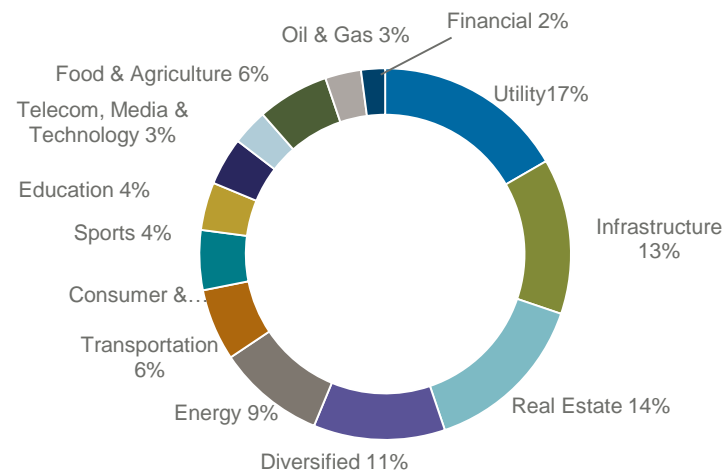
## 2017 volume exceeded \$70 billion for the first time



## Average transaction size (\$mm)



## Issuance by Sector (2018)

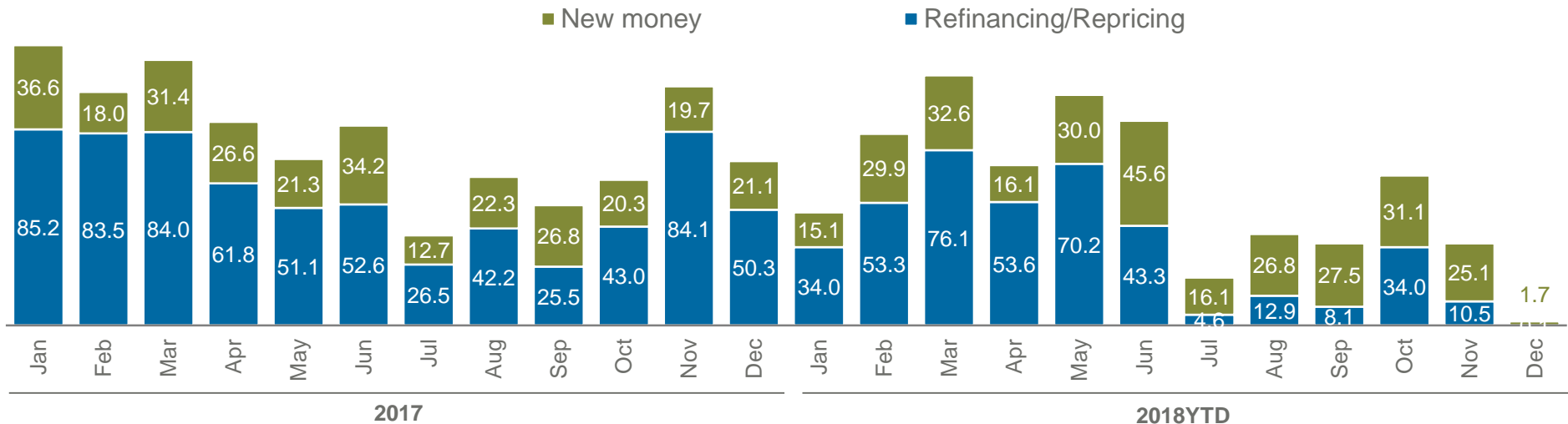


Source: All available trade publications as of 12/10/2018; Note: Historical data is based on Thomson Financial official league table publications and excludes direct transactions. Numbers may not add up due to rounding .

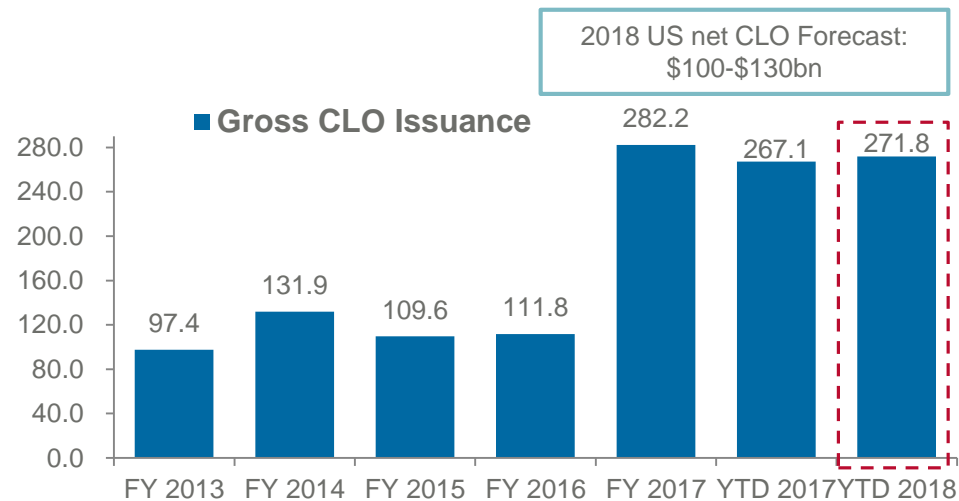
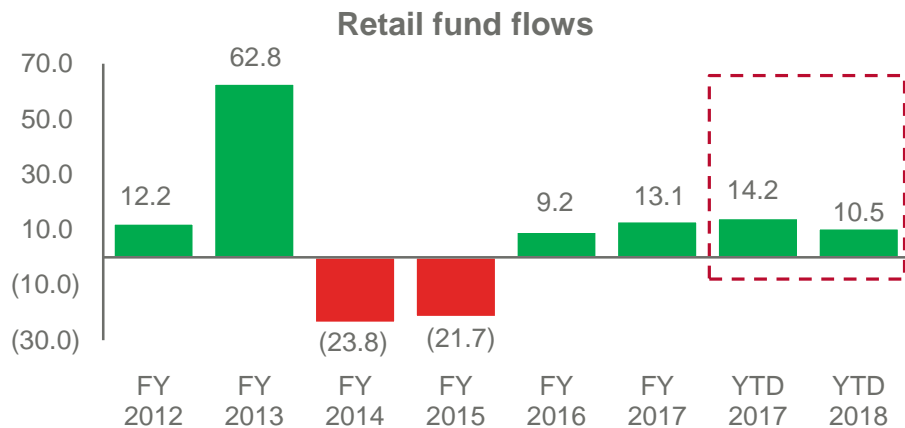
# Current state of the debt markets

## Recent trends in the leveraged loan market

### Monthly leveraged loan new issuance (\$bn)



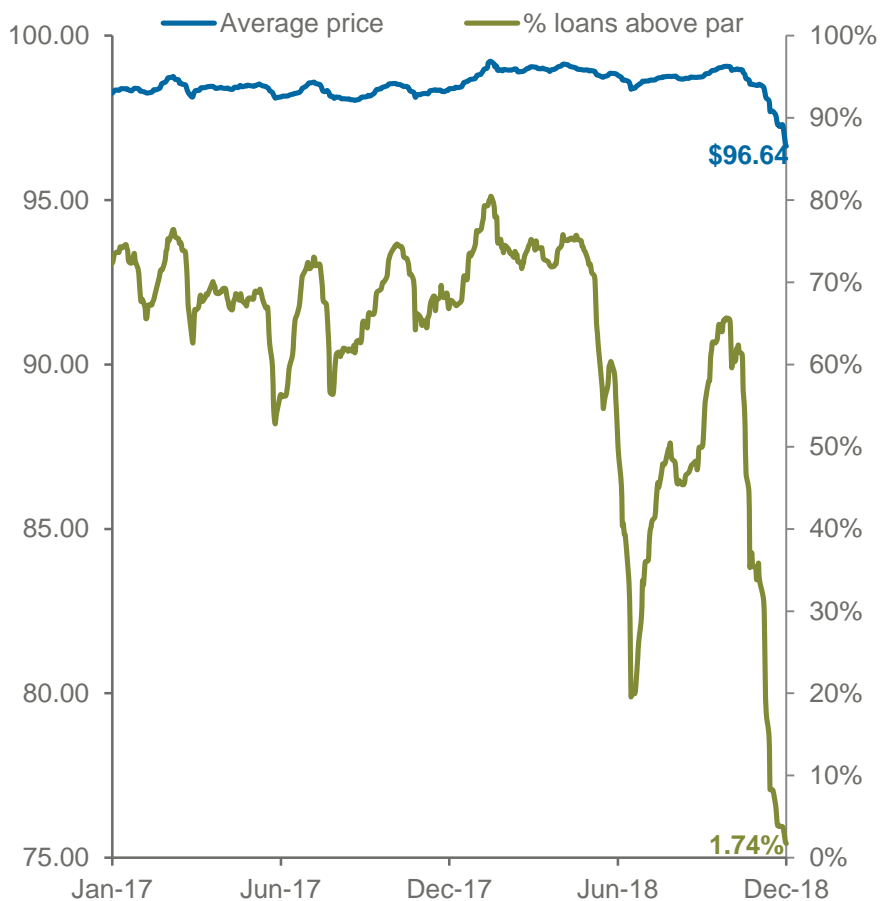
### Leveraged loan demand remains robust (\$bn)



# Current state of the debt markets

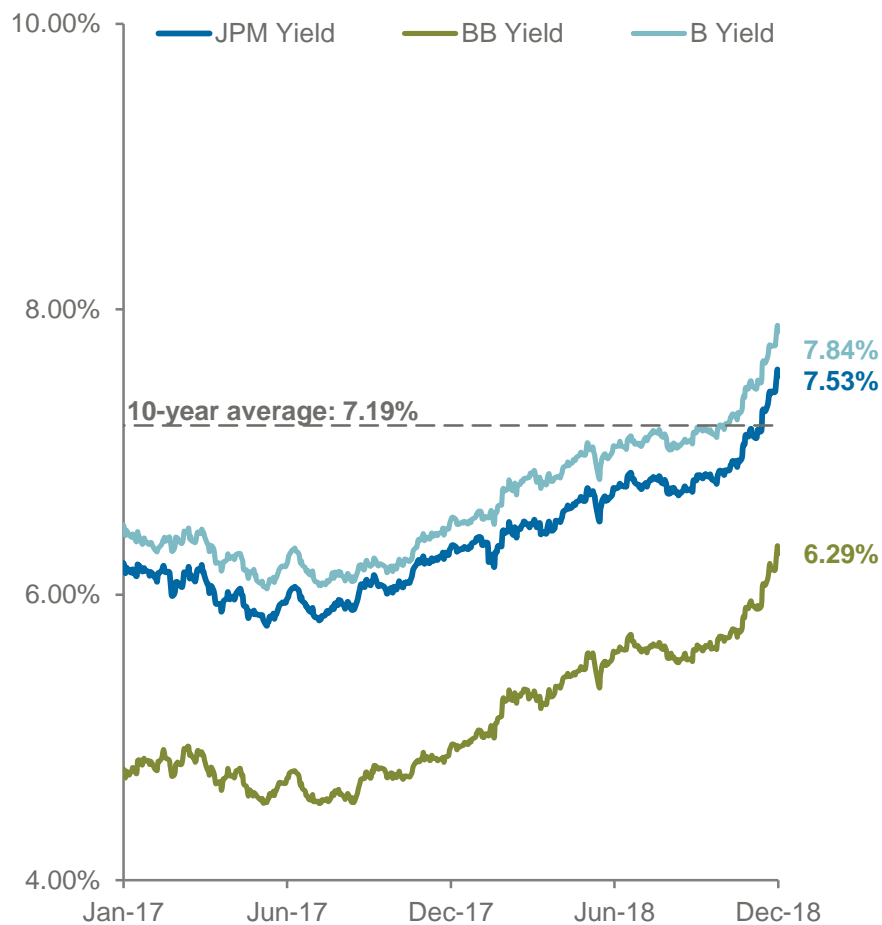
## Recent trends in the leveraged loan market

### JPM Leveraged Loan Index trading prices



Source: JPMLLI (as of 12/07/18)

### JPM Leveraged Loan Index yields (3yr)

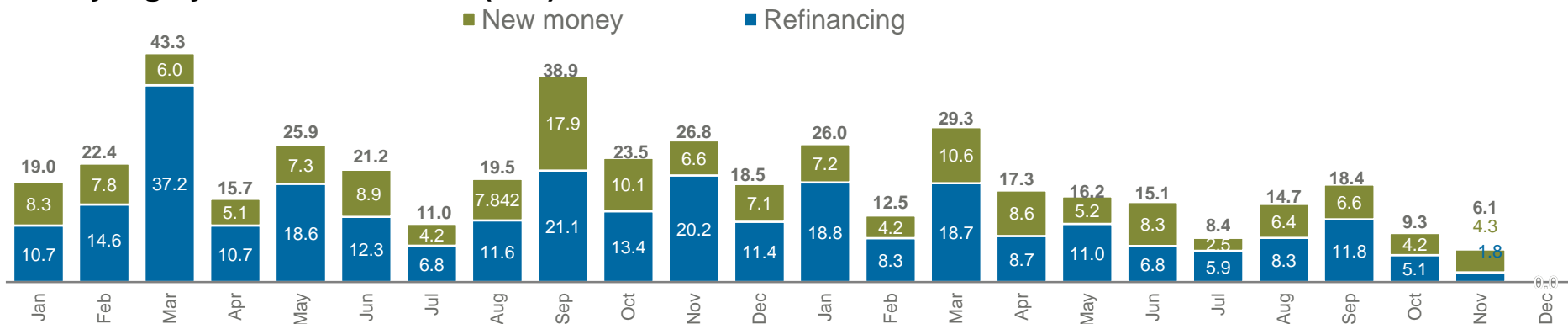


Source: JPMLLI (as of 12/07/18)

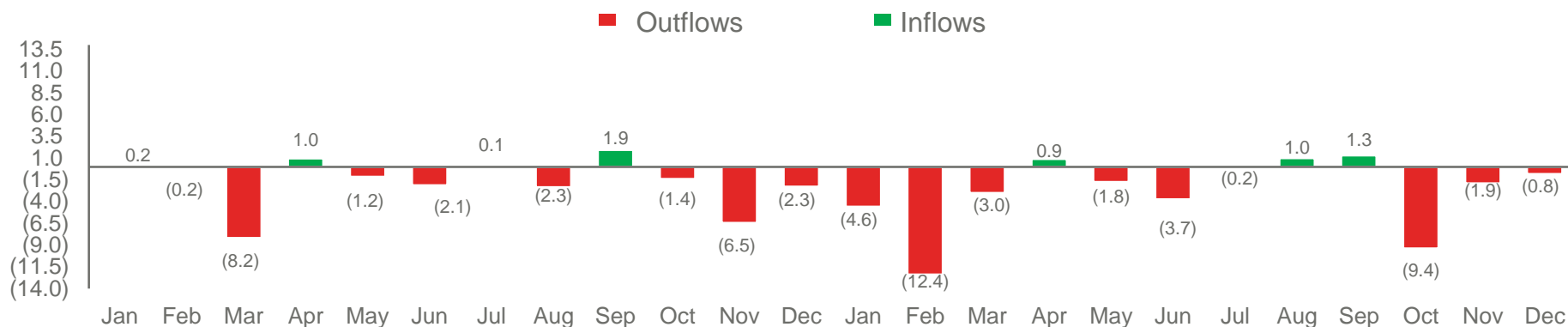
# Current state of the debt markets

## Recent trends in the high yield market

### Monthly high yield new issuance (\$bn)



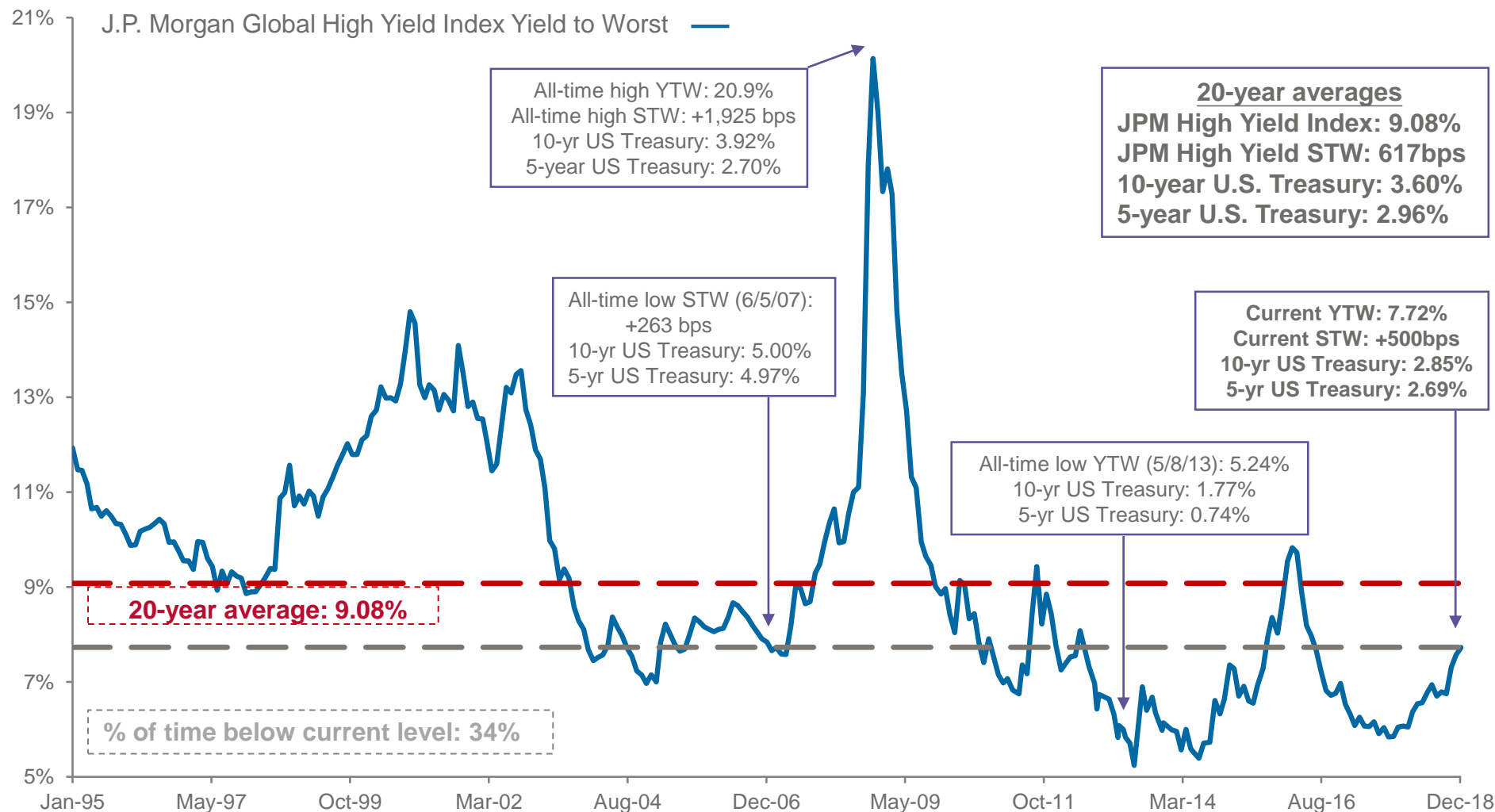
### HY fund flows (\$bn)



Source: Lipper (as of week ending 12/05/18)

# Current state of the debt markets

Despite the recent volatility in the high yield market, yields remain below historical averages



Source: J.P. Morgan High Yield Research



# Agenda

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# J.P. Morgan 2019 debt market outlook

J.P. Morgan anticipates 5 rate hikes and an inverted yield curve by YE 2019

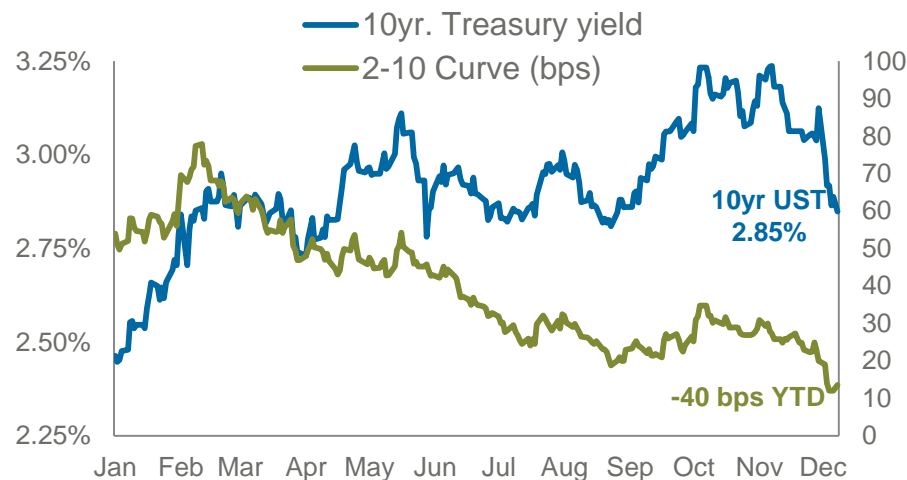
## Current observations

- The U.S. economy is in the late innings of the current expansion, but not yet at the end of the cycle
- JPM expects that the economic backdrop will keep the Fed on their once-a-quarter hiking pattern, leaving the funds rate at 3.25 – 3.50% at the end of next year
- The market, however, is pricing in a more dovish YE19 rate of ~2.75%
- As the front end widens faster than the intermediate/long end, the 2-10 curve continues to compress

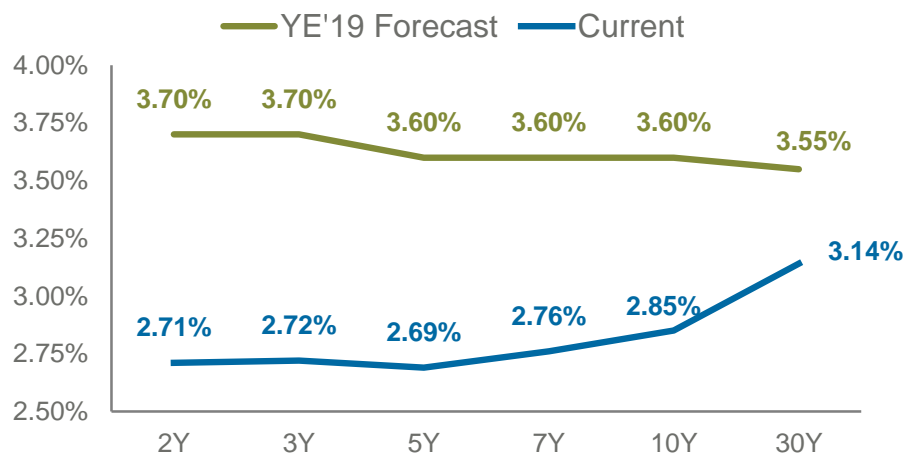
## Key economic indicator forecasts

	Current	1Q19	2Q19	3Q19	4Q19
Real GDP	3.50%	2.2%	2.00%	1.70%	<b>1.50%</b>
Core PCE prices	1.60%	2.30%	2.40%	2.30%	<b>2.20%</b>
Fed Funds	2.20%	2.65%	2.90%	3.15%	<b>3.40%</b>
3m LIBOR	2.77%	2.95%	3.20%	3.45%	<b>3.70%</b>
WTI (\$/bbl)	\$52.61	\$75.83	\$76.33	\$73.30	<b>\$80.67</b>
2Y UST	2.71%	3.25%	3.45%	3.60%	<b>3.70%</b>
5Y UST	2.69%	3.30%	3.45%	3.55%	<b>3.60%</b>
10Y UST	2.85%	3.35%	3.50%	3.55%	<b>3.60%</b>
30Y UST	3.14%	3.45%	3.55%	3.55%	<b>3.55%</b>

## Recent 10Y UST vs. 2-10 curve



## JPM expects the yield curve to be inverted by 2H19

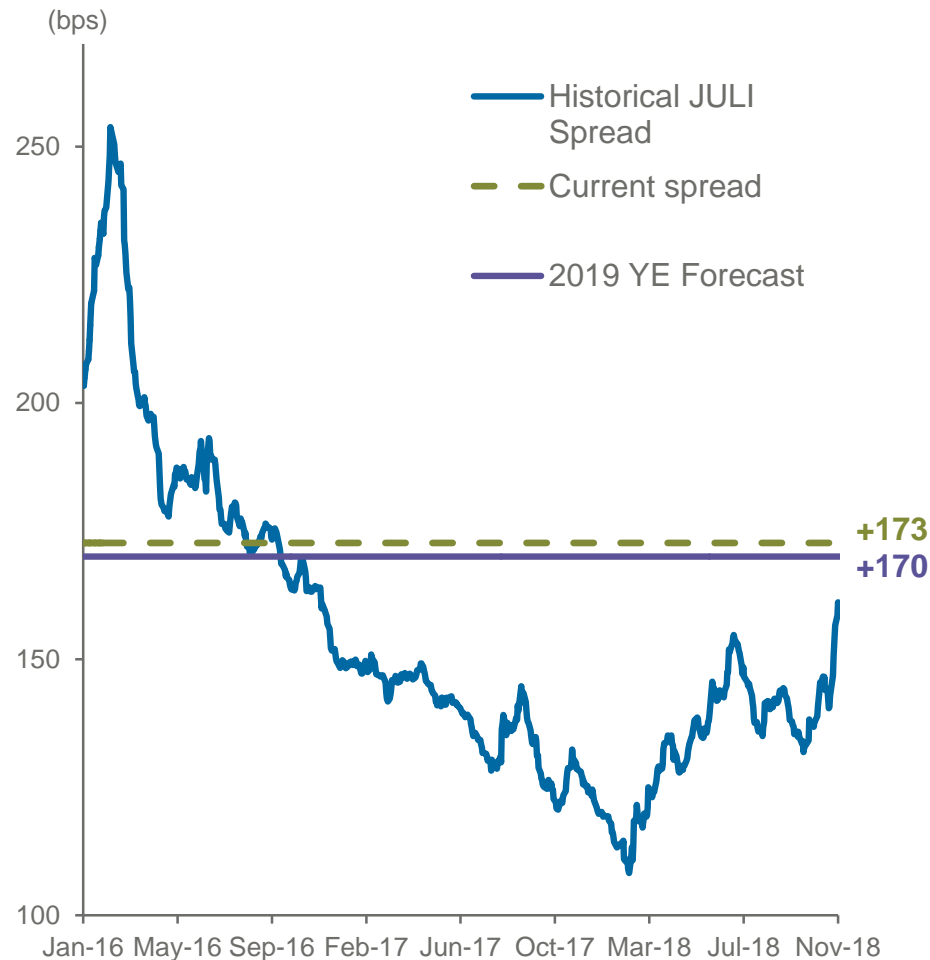


Source: J.P. Morgan 12/10/18

# J.P. Morgan 2019 debt market outlook

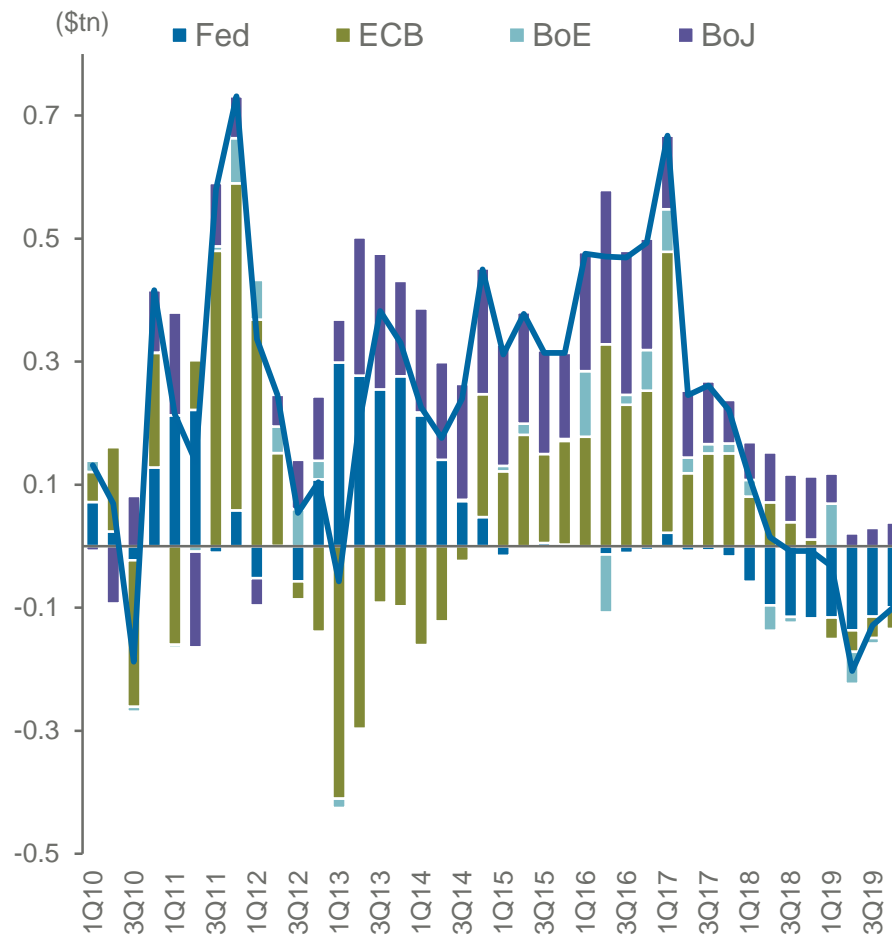
High grade credit spreads are forecast to widen in 2019

## J.P. Morgan research expects the JULI to reach 170bps



Source: J.P. Morgan DataQuery as of 12/10//2018  
 JULI: J.P. Morgan's High Grade Credit Index

## DM CB balance sheets expected to shrink in 2019



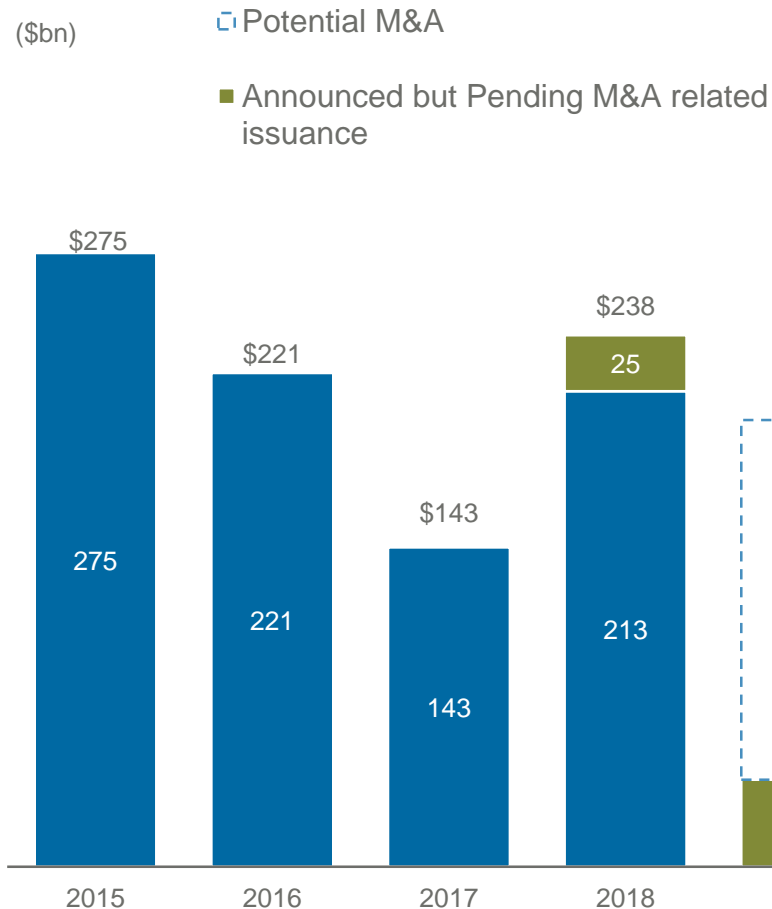
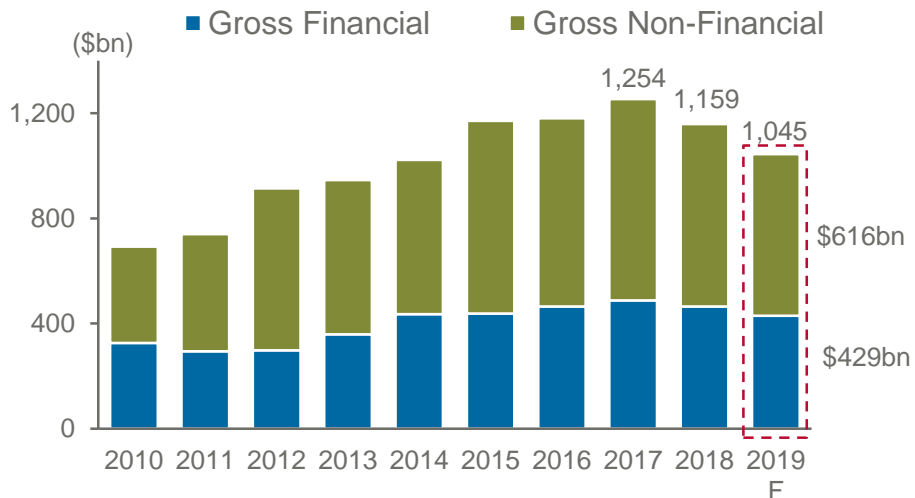
Source: J.P. Morgan Research

# J.P. Morgan 2019 debt market outlook

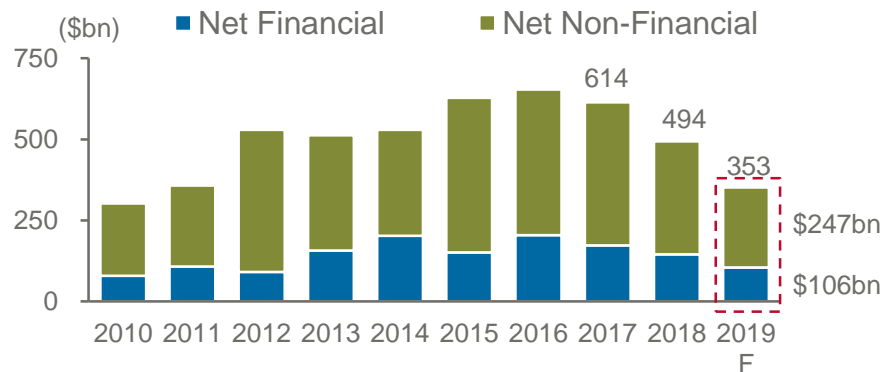
2019 high grade supply issue forecasted to decline year over year

**Gross issuance is forecasted at \$1,045bn for 2019...**

**M&A activity is expected to fall in 2019**



**... while net issuance is forecasted to decline 29% vs. 2018**

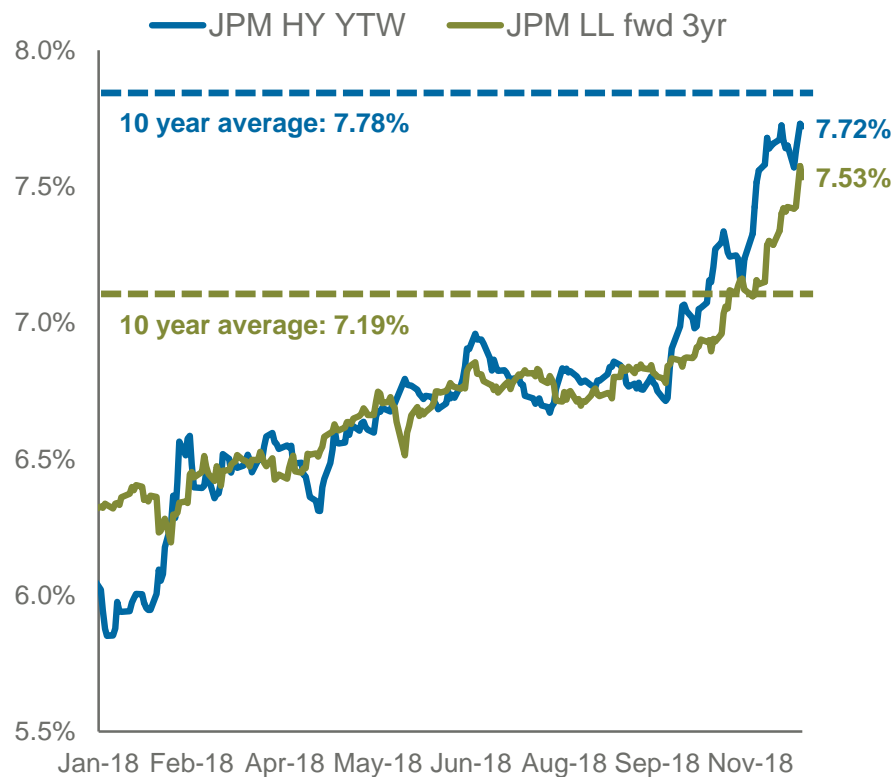


Source for all charts: Securities Data Corporation and J.P. Morgan Credit Research as of 11/22/18. Note: Excludes hybrid capital and cross-over issuance; includes MTNs, 144A and Yankees with minimum maturity of 13 months.

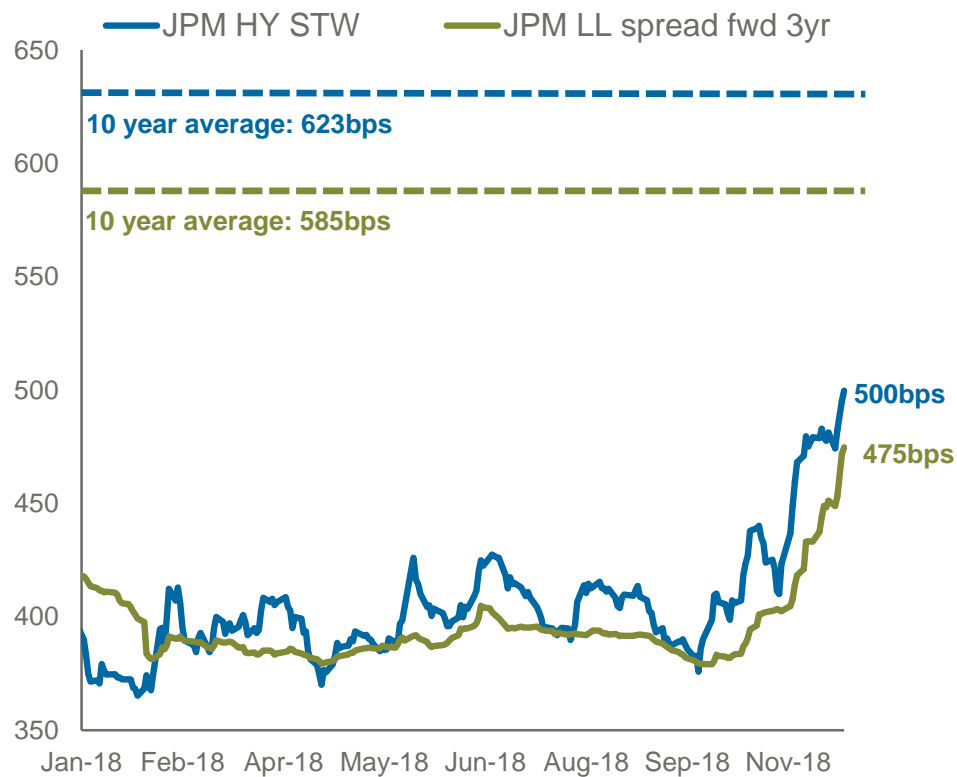
# J.P. Morgan 2019 debt market outlook

Yields and spreads in leveraged finance markets are beginning to widen on the back of equity volatility

## HY and LL Yields YTD



## HY and LL Spreads YTD



***In volatile market conditions, issuers should be prepared to take advantage of windows of opportunity when the market opens***

Source: J.P. Morgan as of 11/28/18

## J.P. Morgan 2019 debt market outlook

### Leveraged loan stats and forecasts

	2016	2017	2018 YTD	2019E
<b>Total Return</b>	9.78%	4.25%	3.72%	<b>6.00%</b>
<b>Gross Issuance (USD)</b>	\$488bn	\$982bn	\$695bn	<b>\$750bn</b>
<b>Net Issuance (USD)</b>	\$203bn	\$286bn	\$250bn	<b>\$275bn</b>

	2016	2017	Current	2019E
<b>Default Rates</b>	1.50%	1.84%	1.57%	<b>1.50%</b>
<b>Yield to 3yr</b>	6.23%	6.31%	7.42%	<b>7.75%</b>
<b>Spread to 3yr</b>	458bps	419bps	449bps	<b>390bps</b>

### High yield stats and forecasts

	2016	2017	2018 YTD	2019E
<b>Total Return</b>	18.27%	8.28%	-0.83%	<b>3.25%</b>
<b>Gross Issuance (USD)</b>	\$229bn	\$285bn	\$173bn	<b>\$200bn</b>
<b>Net Issuance (USD)</b>	\$85bn	\$97bn	\$64bn	<b>\$100bn</b>

	2016	2017	Current	2019E
<b>Default Rates</b>	4.28%	1.27%	1.84%	<b>1.50%</b>
<b>JPM Global HY YTW</b>	6.53%	6.07%	7.67%	<b>8.00%</b>
<b>JPM Global HY STW</b>	482bps	398bps	479bps	<b>450bps</b>

***J.P. Morgan's 2019 high yield and leveraged loan outlook is constructively neutral – we expect returns and issuance to be healthy and default rates to remain near post-crisis lows***