Das Quartal

- Die Inflationsdebatte
- Die Notenbankdebatte
- Kapitalmarktzinsen
- Währungen
- China
- ESG
- **Alternativen zu Fixed Income**

Alternativen zu Fixed Income:

Quizz: Wer erkennt diese 2 Finanzprodukte

Finanzprodukt 1:

- Höhere Zinsen als im Investment Grade und sogar höher als bei Junk Bonds
- Flexible Coupons, kein Problem bei steigenden Zinsen
- Zunehmende Beliebtheit, Institutionelle Anleger kommen in Scharen
- Kaum Bankrotte
- Freundliche Rating Agenturen
- Hoher Rang in der Kollokation in der letzten Grossen Finanzkrise, hohe Subordinierung
- Grosse Resilienz während der letzten Grossen Finanzkrise
- Hohe Recoveries in der letzten Grossen Finanzkrise

Das Quartal

- Die Inflationsdebatte
- Die Notenbankdebatte
- Kapitalmarktzinsen
- Währungen
- China
- ESG
- **Alternativen zu Fixed Income**

Alternativen zu Fixed Income:

Quizz: Wer erkennt diese 2 Finanzprodukte

Finanzprodukt 2:

- Illiquid
- Finanzierung für LBOS: Ein Teil des Geldes wird für Dividenden an die Eigenkapital-Geber verwendet
- Miesere Bilanzen der Schuldner, tiefere Ratings
- Hochgejazzte Eigenkapitalbewertungen bei den Schuldnern wegen Tiefzinsumfeld: Faktisch tiefere Kapitalisierung
- Kaum vertragliche Rechte für den Anleger
- Legaler Beschiss in den Verträgen bei anrechenbaren EBITDA in den Covenants
- Mangelndes Pfandrecht auf Vermögen des Schuldners
- Oftmals einzige Finanzierung des Schuldners, keine Subordinierte Schulden
- Miesere Recoveries im Falle des Bankrotts
- Keine Transparenz
- Hohe TER

Alternativen zu Fixed Income:

Beide Produkte sind das selbe:
Leveraged Loans

Leveraged Loans (auch als CLOs verpackt) versprechen das beste aller Welten:

Hohe Zinsen, flexible Coupons in Zeiten der steigenden Renditen, starke Nachfrage, kaum Bankrotte, Höherbewertungen durch Rating Agenturen und einen hohen Grad von Resilienz:

"It's been a bumper year for collateralized loan obligations, or packaged and securitized collections of leveraged loans. Citing data from LCD, The Wall Street Journal reports that issuers have sold $59 billion in CLOs year-to-date, the highest since at least 2005. The looming threat of rising inflation bolsters the appeal of floating-rate leveraged loans. (..) "The default environment has been very benign and will be because the capital markets are open to companies that may be struggling a little bit". Improving corporate health has helped underpin that feeding frenzy, as upgrades across the S&P/LSTA Leveraged Loan Index exceeded downgrades by a ratio of 2.1 times over the three months through April, the best such showing since the spring of 2012. (..) the credit markets appear to have weathered last year's tumult with relative aplomb."
Almost Daily Grant's 5/2021

Und sie werden als «besonders gut geschützt wegen Erstrangigkeit verkauft:

„SSL sind gegenüber steigenden Leitzinsen bei einer sich erholenden und wachsenden Wirtschaft weitgehend immun. Kühlt die Wirtschaft ab, nehmen in der Regel Kreditausfälle zu. Dank der Erstrangigkeit sind SSL-Investoren vor Zahlungsausfällen und Kapitalverlusten deutlich besser geschützt als andere Kreditgeber."
Aus einer Verkaufsbroschüre 4/2021

Dementsprechend gross ist die Nachfrage

"The Whales Return: Many of the biggest whales in collateralized loan obligations are returning to the $900 billion market after spending much of last year on the sidelines, a shift that could make one of Wall Street's biggest credit machines run even hotter. Japan's Norinchukin Bank, formerly the biggest buyer in the CLO market, has begun looking at deals again, according to people familiar. Wells Fargo, absent for much of 2020, is back. Fidelity Investments has already upped its holdings in pursuit of higher yields. And Bank of America, previously just an occasional buyer in the market, has purchased billions of dollars of the bonds and plans to add more.
Bloomberg 4/2021

«Private Debt boomt: Das stabile, attraktive Risiko-Rendite-Profil von Private Debt hat dazu geführt, dass sich das verwaltete Vermögen innerhalb eines Jahrzehnts verdreifacht hat, wobei der Alternative Credit Council (ACC) prognostiziert, dass der Sektor bis 2020 eine Billion Dollar erreichen wird.»
SS&C Advent 4/2021

Alternativen zu Fixed Income:

Leveraged Loans

…doch gemach: Unter der Oberfläche sieht die Sache nicht so sauber aus:

- LBOs spielen eine immer grössere Rolle: Das Geld wird wieder für Ausschüttungen verwendet, die Kapitalisierung der Underlying-Firmen wird schwächer, die Durchschnittsqualität des Private Debt sinkt laufend!

"With spreads tight and capital markets welcoming, dealmakers look to prime the pump, as acquisition financing accounted for a hearty 24% of loan volume in the first quarter according to Bloomberg, after all but drying up last year."
Almost Daily Grant's 5/2021

«Europe's PE patrons are piling debt onto the books of their companies to support dividend payouts, a move which could threaten these firms' prospects when fiscal and monetary stimulus starts to wind down. Just under 13 billion euros ($16 billion) of leveraged loan deals linked to dividend recapitalizations took place by early June -- the highest level in 14 years -- according to S&P Global Market Intelligence's Leveraged Commentary & Data unit. That's only 4 billion euros shy of the total for the same period in 2007."
Bloomberg 6/2021

"That resurgence is manna for the private equity industry, which now enjoys a green light to help itself to debt-financed payouts. Those so-called dividend recapitalizations reached $20 billion domestically in the first quarter, the busiest such period since the end of 2016."
Almost Daily Grant's 5/2021

"It's the latest sign of leveraged mania hitting bondholders: Companies across Europe are piling on debt at the fastest pace in years to enrich their private-equity owners. The controversial practice known as dividend recaps is growing as investors gorge on every credit risk while sponsors extract income as they await the economic rebound. ."
Bloomberg 5/2021

"Income-starved investors are happy to take what they can get. "If people want to put capital to work, they're just buying anything with a bit of yield, regardless of what the proceeds are for," Mark Benbow, fund manager at Aegon Asset Management, observed to Bloomberg Friday. "It's easier to keep adding debt when business multiples are so high that the market still thinks there is plenty of equity below the bonds."
Almost Daily Grant's 5/2021

- Das Underlying sieht heutzutage viel schlechter aus als in den guten Jahren

"Increasingly top-heavy capital structures could exacerbate that trend, as the average debt cushion below first-lien, cov-lite loans fell to 15.5% last year, less than half its average prior to 2009. S&P finds that loans rated single-B-minus or lower comprised 32% of the total market as of the end of April, compared to 26% at year-end 2019."
Almost Daily Grant's 5/2021

Alternativen zu Fixed Income:

Leveraged Loans

- Im Gegensatz zur grossen Finanzkrise, welche die Lev Loans gut bewältigt haben wird der Anleger bei den Verträgen seit Jahren systematisch übervorteilt: Stichwort «Covenant Light»: Der Recovery bei Bankrotten dürfte tiefer sein als nach der Grossen Finanzkrise

"Yet the proliferation of covenant-light deal structures, featuring limited legal protections for lenders, could spell trouble when the cyclical tides turn anew. Thus, Moody's calculates that recovery rates on first-lien term loans that fell into bankruptcy between March and November last year stood at just 55%, far below the 77% average recovery across 1988 to 2019."
Almost Daily Grant's 5/2021

"We already know that a significant majority of the loans in CLOs have weak covenants that offer investors only minimal legal protection; in industry parlance, they are "cov lite." The holders of leveraged loans will thus be fortunate to get pennies on the dollar as companies default—nothing close to the 70 cents that has been standard in the past."
Frank Partnoy 6/2020

"As the everything bubble continues to swell, aggressive capital structures proliferate. For instance, Covenant Review finds that 42 loan deals with leverage ratios exceeding seven turns of Ebitda came to market this year through mid-June, compared to 20 over the same period in 2019 and just 11 last year. Rapidly retreating debt covenants, or fine-print legal protections for lenders, accompany those extra dollops of debt. So-called covenant-lite structures featured in 85.2% of total loans outstanding in May, per S&P's LCD unit, up from about 66% five years ago and just 17% in 2007. More qualitative metrics tell the same story, as rival rating agency Moody's reported last month that its proprietary Loan Covenant Quality Indicator (an aggregated, two-quarter rolling average based on the firm's assessment of individual issues) deteriorated to easily the weakest level on record as of year-end. Those loosey-goosey terms can, of course, come back to haunt creditors when things go wrong"
Almost Daily Grant's 6/2020

- Man kann es nicht genug betonen: Die Leveraged Loans rentieren besser als Investment Grade Bonds aber sie sind nicht nur illiquider, sie haben auch eine deutlich tiefere Bonität

"The European Central Bank is considering taking measures to ensure banks don't expose themselves to excessive risk in the booming leveraged loan market, according to supervisory board chair Andrea Enria. Given the "very low credit quality" of such loans to highly indebted companies, the market is vulnerable to shocks such as "sudden asset repricing," Enria told members of European Parliament on July 1."
Bloomberg 7/2021

- Und was ESG betrifft: Es ist wohl nur ein Gimmick bei CLOs

"The confidential nature of loans, which are contracts not securities, makes it hard to track ESG performance. Only 10% of loans have publicly available data, according to Deutsche Bank analysis. That makes it difficult to get the standardized scoring and monitoring that would be needed to compare transactions. "When it comes to ESG, it is easier to talk the talk than walk the walk," said Citi's Wang. "There is not yet a true collateral ESG U.S. CLO."
Bloomberg 4/2021

Alternativen zu Fixed Income:

Leveraged Loans

Fazit: Leveraged Loans sehen prima vista als unschlagbar attraktive Asset Class da: Wir stellen uns: sind Leveraged Loans nicht vielleicht Schönwetterprodukte?

- *Wissen die Investoren, dass die für Leveraged Loan gut verlaufene Grosse Finankrise kaum ein Benchmark für die nächste Krise ist? Ein grosser Vorteil war in der Grossen Finanzkrise die Erstrangigkeit der Leveraged Loans; viele Schuldner haben heute aber nur noch Loans draussen, da spielt die Erstrangigkeit keine Rolle mehr, warum wird Private Debt trotzdem als «Erstrangig» verkauft?*

- *Wissen die Investoren überhaupt was sie kaufen? Kennen sie die Emittenten? Verstehen sie das Geschäft? Wieviel von den Deals sind blosse Dividend-Recaps? Wissen die Investoren, dass sie mit dem Kauf die Bilanz verschlechtern?*

- *Wissen die Investoren, dass sie höhere Rendite v.a. wegen Illiquidität bekommen? Ist ihnen klar, dass in Zeiten von Stress KEINE Preise erhältlich sind?*

- *Wissen die Investoren, dass die Durchschnitt-Qualität der Emittenten laufend fällt?*

- *Wissen die Investoren, dass sie rechtlich kaum eine Chance haben, da kaum mehr Covenants da sind um sie zu schützen?*

- *Wissen die Investoren, dass die Firmen grosse Teile der Aktiva aus dem Kollokationsplan rausnehmen können?*

- *Wissen die Investoren, dass bei den verbleibenden Convenants EBITDA-Add Ons geläufig sind, dass also die Profitabilität vorgegaukelt wird?*

- *Wissen die Investoren, dass es bei Leveraged Loans viel schwieriger ist an Finanzdaten zu kommen, das es ein Spezialistenmarkt ist, und die guten Spezialisten hohe Fees verlangen? Wieviel der Rendite nehmen die Arrangeure, Manager und Verkäufer raus?*

- *Wissen die Investoren, dass der Markt extrem mit Aktien korreliert? Dass er im Stressfall keinen Cushion bietet?*

- *Wissen die Investoren, dass wir wieder so weit sind, dass Leveraged Loans gesprochen werden um Tranchierte Produkte zu füttern (wie vor der Finankrise mit den CDO)*

Alternativen zu Fixed Income:

CLO

13 Jahre nach der grossen Finanzkrise hat ein Finanzvehikel ein Comeback gefunden, das man lange als nicht mehr vermittelbar ansah, die Tranchierung von gepoolten Risiken à la CDO, dieses mal in der Form eines CLO, mit dem Underlying der Leveraged Loans

Die Nachfrage nach CLO boomt

Flexible Zinsen in Zeiten der steigenden Renditen, starke Nachfrage, kaum Bankrotte, Höherbewertungen durch Rating Agenturen und einen hohen Grad von Resilienz:

"It's been a bumper year for collateralized loan obligations, or packaged and securitized collections of leveraged loans. Citing data from LCD, The Wall Street Journal reports that issuers have sold $59 billion in CLOs year-to-date, the highest since at least 2005. The looming threat of rising inflation bolsters the appeal of floating-rate leveraged loans. (..) "The default environment has been very benign and will be because the capital markets are open to companies that may be struggling a little bit". Improving corporate health has helped underpin that feeding frenzy, as upgrades across the S&P/LSTA Leveraged Loan Index exceeded downgrades by a ratio of 2.1 times over the three months through April, the best such showing since the spring of 2012. (..) the credit markets appear to have weathered last year's tumult with relative aplomb."

Almost Daily Grant's 5/2021

Nicht zuletzt: Die Renditen sind absolut attraktiv und die Strukturen attraktiver

«CLOs can pay more than two percentage points more in yield than equivalently rated corporate bonds. They were re-engineered last decade to offer more protection, including bigger equity cushions and more limitations on risk taking and other investor protections."

…und die Kirsche auf der Torte: CLOs drängen in die **ESG**-Welt

"Investors are dragging collateralized loan obligations into the sustainable finance revolution. Citigroup Inc. says 20%-40% of U.S. CLO managers will incorporate environmental, social and governance factors into new issue CLOs in the next two years, propelled by growing demand from buyers and President Joe Biden's climate agenda. That's up from 11% last year and just 3% in 2019, according to estimates from Citi analysts led by Maggie Wang. CLOs are the biggest buyers of leveraged loans -- a key source of financing for private equity buyouts -- which they repackage as floating-rate securities. (..) (..) U.S. CLOs are joining an ESG trend led by Europe. About 44% of outstanding European CLOs -- 177 separate deals – include ESG criteria, according to Daniel Kakonge, founder of Review Port, which analyzes CLOs and loans."

Bloomberg 4/2021

Alternativen zu Fixed Income:

CLO

Dementsprechend gross ist die Nachfrage

“The Whales Return: Many of the biggest whales in collateralized loan obligations are returning to the $900 billion market after spending much of last year on the sidelines, a shift that could make one of Wall Street’s biggest credit machines run even hotter. Japan’s Norinchukin Bank, formerly the biggest buyer in the CLO market, has begun looking at deals again, according to people familiar. Wells Fargo, absent for much of 2020, is back. Fidelity Investments has already upped its holdings in pursuit of higher yields. And Bank of America, previously just an occasional buyer in the market, has purchased billions of dollars of the bonds and plans to add more.
Bloomberg 4/2021

«Insurers have quickly amassed a third of all domestic CLO holdings, topping banks and hedge funds, according to data compiled by the Federal Reserve. By the end of 2019, they owned $158 billion of CLO securities, almost double what they had in 2016, according to Barclays figures.”
Bloomberg 7/2020

Immer wenn die Nachfrage grosser ist als das Angebot werfen die Investoren ihre Investment Guidelines über Bord

“*The return of big players is an important step in the resurgence of the CLO market, which had been in the doldrums for much of last year. Investor demand for these securities translates to more money flowing into leveraged loans, the raw material that is packaged into CLOs. That inflow can help private equity firms finance more -- and potentially riskier -- leveraged buyouts. It helps business owners borrow to extract dividends from their companies. It can also fuel the kind of excess in corporate lending that regulators have been warning about for years. But CLOs came out of the pandemic without the mass downgrades that investors had feared, a performance that has helped fuel a resurgence in demand for them and their relatively high yields. (..) Pimco is adding on risk, shifting from the shorter-dated AAA bonds that accounted for most of its purchases in 2019 to 2020 to buying securities with a range of ratings, according to one of the people. (..) Strong CLO issuance has translated to greater sales of leveraged loans. Companies priced more than $145 billion of leveraged loans in the first three months of 2021, counting new loans and refinancings, the highest quarterly level since at least 2013*.”
Bloomberg 4/2021

Auch hier: Die verschlechterte Qualität des Underlying –der Leverage Loans- dürfte sich im Stressfall auch auf die CLO-Preise auswirken, im Speziellen auf die Recovery Rates

«But while the structure has gotten safer, the quality of assets that go into CLOs has deteriorated. Leverage ratios have increased, covenant quality has weakened, and exaggerated earnings have proliferated. Loans historically recovered about 70 to 80 cents on the dollar, but many analysts recommend investors reduce that to 50-60 cents when modeling CLO returns now. Even if the investments don’t suffer principal losses, insurers could get walloped by ratings downgrades on CLOs. Firms would either have to set aside more capital to meet regulatory requirements, or to unload the securities at depressed prices.»
Bloomberg 7/2020

Alternativen zu Fixed Income:

CLO

Und wieder sind es die Banken, die eine besondere Rolle spielen: Schon wieder mussten im 2020 die Finanzmärkte bailed-out warden, die CLOs konnten bereits nicht mehr gehandelt werden

2020 erschreckte Frank Parnoy die Finanzgemeinde mit einem bearishen Case zu CLOs. Aber die Karawane zog kurz darauf munter weiter:

"«The financial crisis of 2008 was about home mortgages. Hundreds of billions of dollars in loans to home buyers were repackaged into securities called collateralized debt obligations, known as CDOs.
(..) The reforms were well intentioned, but, as we'll see, they haven't kept the banks from falling back into old, bad habits. (..) The Bank for International Settlements, which helps central banks pursue financial stability, has estimated the overall size of the CDO market in 2007 at $640 billion; it estimated the overall size of the CLO market in 2018 at $750 billion. More than $130 billion worth of CLOs have been created since then. (..) The Bank for International Settlements estimates that, across the globe, banks held at least $250 billion worth of CLOs at the end of 2018. (..) the Financial Stability Board estimated that, for the 30 "global systemically important banks," the average exposure to leveraged loans and CLOs was roughly 60 percent of capital on hand. (..) Defenders of CLOs say they aren't, in fact, a gamble—on the contrary, they are as sure a thing as you can hope for. (..) As of this writing, no AAA rated layer of a CLO has ever lost principal. (..) The main reason CLOs have been so safe is the same reason CDOs seemed safe before 2008. Back then, the underlying loans were risky too, and everyone knew that some of them would default. But it seemed unlikely that many of them would default at the same time. (..) For CLOs, the rating agencies determine the grades of the various layers by assessing both the risks of the leveraged loans and their default correlation. (..) The rating agencies award high ratings to those layers that seem sufficiently diversified across industry and geography (..) The prices of AAA-rated CLO layers tumbled in March, before the Federal Reserve announced that its additional $2.3 trillion of lending would include loans to CLOs. (..) As the banks begin to feel the pain of these defaults, the public will learn that they were hardly the only institutions to bet big on CLOs. The insurance giant AIG—which had massive investments in CDOs in 2008—is now exposed to more than $9 billion in CLOs. U.S. life-insurance companies as a group in 2018 had an estimated one-fifth of their capital tied up in these same instruments. (..) CLOs because they are the most troubling assets held by the banks. But they are also emblematic of other complex and artificial products that banks have stashed on—and off—their balance sheets. (..) The details will include a dizzying array of transactions that will recall not only the housing crisis, but the Enron scandal of the early 2000s. (..) The big banks use similar structures, called "variable interest entities"—companies established largely to hold off-the-books positions. Wells Fargo has more than $1 trillion of VIE assets, about which we currently know very little (..) It is a distasteful fact that the present situation is so dire in part because the banks fell right back into bad behavior after the last crash—taking too many risks, hiding debt in complex instruments and off-balance-sheet entities, and generally exploiting loopholes in laws intended to rein in their greed. Sparing them for a second time this century will be that much harder.
Frank Partnoy 6/2020

Alternativen zu Fixed Income:

CLO

- Auch sonst nimmt die Gefahr einer Katastrophe zu, die Nachfrage/Angebot-Mechanik verführt wieder zu Laissez-Faire bei den Banken

"Goldman Sachs and JPMorgan are ditching safeguards on the credit lines they extend to managers of collateralized loan obligations, as they seek to defend their market share in the lucrative business of arranging CLO deals. (..) CLO issuance has been on a record pace to start the year, and is one of the biggest driving forces behind a resurgence in speculative lending that's fueling a boom in highly leveraged acquisitions by private equity firms this year. While providing warehouses is generally considered at best a break-even business for most banks, lenders that supply the facilities almost always win CLO arranging mandates, which command significant fees. Both Goldman and JPMorgan have been struggling to fend off competitors in the space recently. Warehouses are generally structured so that CLO equity buyers -- most of whom commit capital prior to the debt being securitized -- or third-party investors take the risk on the first chunk of losses in the portfolio. Mark-to-market credit lines provide lenders another buffer when leveraged loan price declines exceed certain thresholds, as they did last year. The extra safeguard emerged in the aftermath of the 2008 financial crisis, in which banks were left with billions of dollars in losses after collateral managers couldn't offload debt they'd been warehousing and were forced to liquidate at steep discounts."

Bloomberg 6/2021

- Und was ESG betrifft: Es ist wohl nur ein Gimmick bei CLOs

"The confidential nature of loans, which are contracts not securities, makes it hard to track ESG performance. Only 10% of loans have publicly available data, according to Deutsche Bank analysis. That makes it difficult to get the standardized scoring and monitoring that would be needed to compare transactions. "When it comes to ESG, it is easier to talk the talk than walk the walk," said Citi's Wang. "There is not yet a true collateral ESG U.S. CLO."

Bloomberg 4/2021

CLOs sind strukturierte Produkte, die von sich behaupten Credit Risk sei das primäre Risiko. Das stimmt aber nur für die Equity-Tranche und in diese sind Pensionskassen und Versicherungen kaum investiert. Die höher gerateten Tranchen sind aber nicht vom Kreditrisiko abhängig, sondern vom Korrelationsrisiko.
Wissen dies die Investoren?
Wissen die Investoren von den in die Strukturen eingearbeiteten enormen Fees?
Ist es heute angebracht, die Komplexität bei den Investitionen zu erhöhen?
Wissen die Investoren über die Natur der Korrelationsverhältnisse in den Pools?
Wissen die Investoren, dass das Underlying nicht vergleichbar ist mit den CLOs der Grossen Finanzkrise?
Wissen die Investoren, dass im März 2020 der Markt für CLOs tot war, vor dem Bail Out der Notenbanken?