

Neuberger Berman Non-Investment Grade Credit Team

Update on the Bank Loan Market — Tuesday, March 21, 2023

Background

Headlines regarding Credit Suisse (“CS”) and U.S. regional banks, along with uncertainty surrounding potential secondary impacts, created a short-term general spike in volatility across asset classes.

However, on March 19, 2023, Swiss regulators approved the merger of UBS and Credit Suisse in an effort to ensure the stability of the bank’s customers. The government-brokered transaction will consist of UBS acquiring Credit Suisse for approximately CHF 3 billion in an all-stock transaction, with the Swiss National Bank (“SNB”) providing liquidity to UBS in support of the transaction. The Swiss government will also provide guarantees for potential losses of certain assets that UBS will acquire. Furthermore, the Bank of Canada, Bank of England, Bank of Japan, European Central Bank, Federal Reserve and the Swiss National Bank announced a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements.

Markets appear to be reassured by both the acquisition of CS by UBS and policymakers’ recent actions to provide liquidity to individual banks and the system more broadly.

Views on the Bank Loan Market

While the general market volatility stemming from recent news on Credit Suisse and regional U.S. banks has caused the bank loan market to incur daily swings in sentiment and pricing, year-to-date returns for senior floating rate loans¹ remain positive, and we believe the asset class will continue to provide durable income for investors.

Additionally, as a result of the recent heightened uncertainty of secondary impacts to the real economy from the banking situation, the Fed and other central banks could potentially pause or slow the pace of rate increases. We view this as a net positive for non-investment grade credit overall, and historically senior floating rate loans have performed well during past periods in which the policy rate is unchanged.

Regardless, loan issuer fundamentals (which are generally characterized by high interest coverage, mid-teens EBITDA growth and around-average leverage) are expected to be well-positioned to navigate the current environment.

Views on Impact to Issuer Liquidity

Based on the Non-Investment Grade Credit research team’s analysis, for a significant amount of issuers in the market, Credit Suisse provides a portion of the revolving credit facility (“RCF”) commitment. In most instances, CS’s overall proportion of the RCF commitment is modest. There are a limited number of issuers which both 1) use a significant portion of their RCF, and 2) Credit Suisse represents a notable portion of their RCF commitments.

We do not anticipate liquidity issues throughout the bank loan market as a result of exposure to Credit Suisse, particularly in light of UBS’s pending purchase of Credit Suisse.

1. As measured by the Morningstar LSTA U.S. Leveraged Loan Index, as of March 20, 2023.

Neuberger Berman Non-Investment Grade Credit Team

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. The firm, its employees and advisory accounts may hold positions of any companies discussed. Any views or opinions expressed may not reflect those of the firm as a whole. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. References to third-party sites are for informational purposes only and do not imply any endorsement, approval, investigation, verification or monitoring by Neuberger Berman of any content or information contained within or accessible from such sites.

Investing entails risks, including possible loss of principal. Investments in hedge funds and private equity are speculative and involve a higher degree of risk than more traditional investments. Investments in hedge funds and private equity are intended for sophisticated investors only. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit www.nb.com/disclosure-global-communications for the specific entities and jurisdictional limitations and restrictions.

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

Ref ID: 1393315