

Leverage Loans: Morningstar LSTA and Issuer Consensus Credit Index

June 2023

After 15 years of steady growth, the \$1.4trn Leveraged (and often “Cov-Lite”) Loan market is adjusting to higher interest rates.

The 100 constituents of the Morningstar LSTA index cover \$300bn of outstanding loans. After a drop in 2022, the 2023 total return (TR) of YTD 4.2% is above the long run average. The chart below plots cumulative changes in the LSTA TR index against issuer credit risk for broader¹ corporate (top) and financial (bottom) universes, since Jan-2021. The global corporate and financial credit indices are included for comparison.



In recent months, Leveraged Loan issuer credit has deteriorated faster than their broader credit indices, after both posted steady improvements in 2021 and 2022. Over the same period, the LSTA index has risen 10%, given up all those gains in Q3 2022, but has now exceeded its previous peak. The total return index is much more volatile than the issuer credit indices; the latter usually change slowly with fewer but significant turning points.

After a stellar performance over the past 12 months, the Leveraged Loan total return index is diverging from its respective credit indices. If consensus credit risk continues to deteriorate, it might prompt investors to review their portfolio choices.

¹ The Credit Benchmark Leveraged Loan universe covers more than 4000 issuers of Leveraged Loans, in multiple regions and industries, both public and private.

Credit Consensus Ratings and Analytics

Real-world risk views with unparalleled consensus coverage.

Credit Benchmark provides Credit Consensus Ratings and Analytics based on contributed risk views from 40+ of the world's leading financial institutions, almost half of which are GSIBs, domiciled in the US, Continental Europe, Switzerland, UK, Japan, Canada, Australia and South Africa.

For regulatory and business reasons, these financial institutions have each created their own regulated internal credit rating agency to assess the creditworthiness of tens of thousands of obligors. Credit Benchmark collects, aggregates and anonymises this information to provide an independent, real-world perspective of risk, delivered twice monthly to our partners.

Credit Benchmark fills an information gap left open by traditional credit risk content providers by offering a timely, comprehensive view of credit risk which proves complementary to issuer-paid rating agencies and third party model vendors. The first of its kind "credit consensus" data reflects the expertise of more than 20,000 credit analysts across the contributing group – a powerful example of the wisdom of crowds.

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Data Use Cases

- › Counterparty Risk Management
- › Credit Risk Management
- › Systematic Credit Trading
- › Securities Finance
- › Supply Chain Risk
- › Trade Credit Insurance
- › Capital Relief Trades (CRT / SRT)
- › Fund Financing
- › Regulation, RWA & Capital
- › Onboarding, KYC & Relationship Management
- › Point-in-Time (PIT) Impairments
- › Accounts Payable & Receivable
- › CCPs



75,000

Entities Covered



10 Million

Contributed Credit Risk Estimates Per Year
44 Million+ Estimates Collected Since Launch



2x

Twice Monthly Frequency



90%

Unrated by Major Credit Rating Agencies



1,200+

Credit Indices



160+

Countries



90+

Months of Data



40+

Contributing Banks, almost half of which are GSIBs



20,000+

Credit Analysts contributing expert risk views