

## Loan Market Outlook

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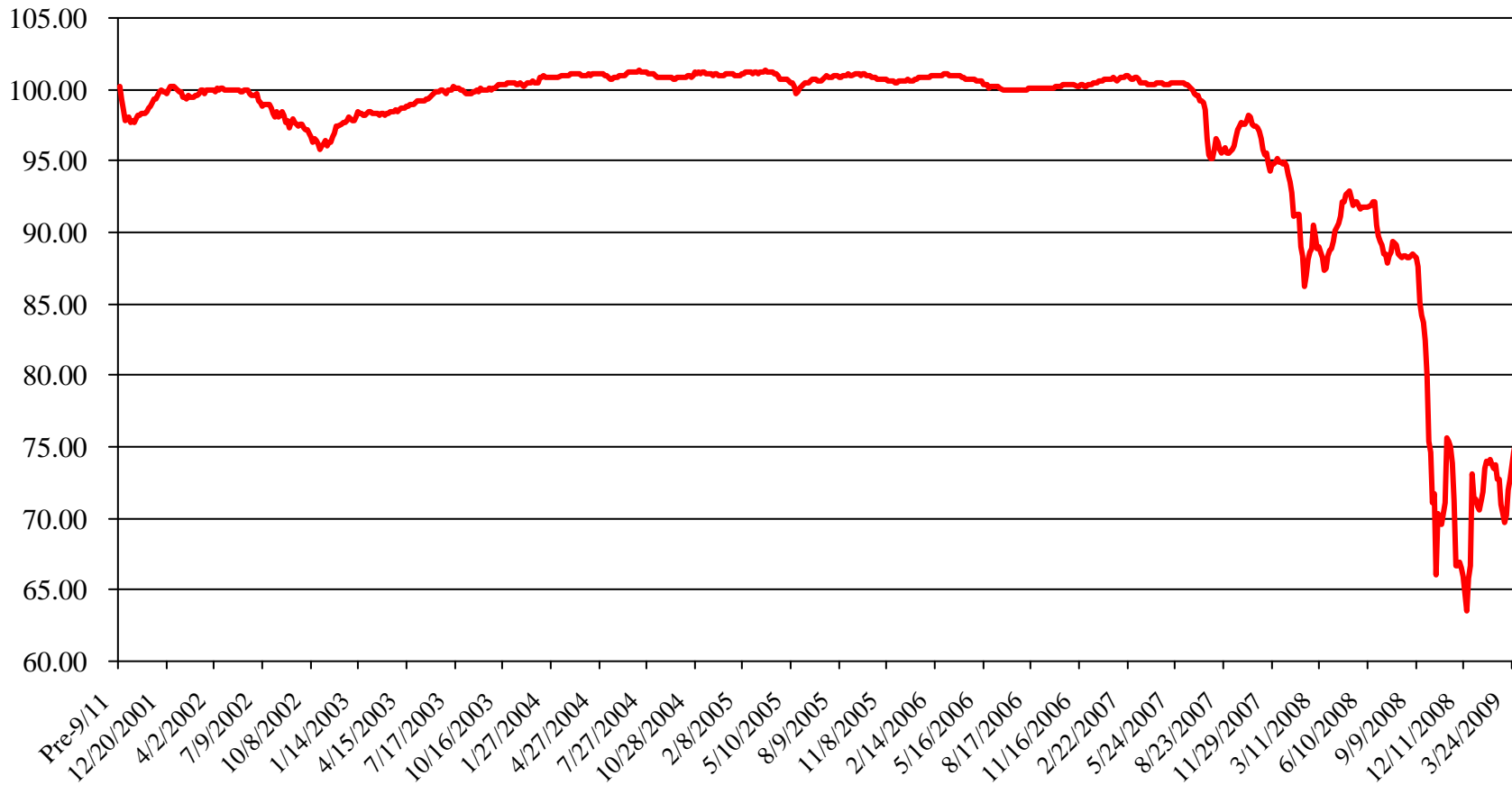
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## Big picture themes

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- **'08: Macro damnation**
- **'09: Micro redemption (so far)**

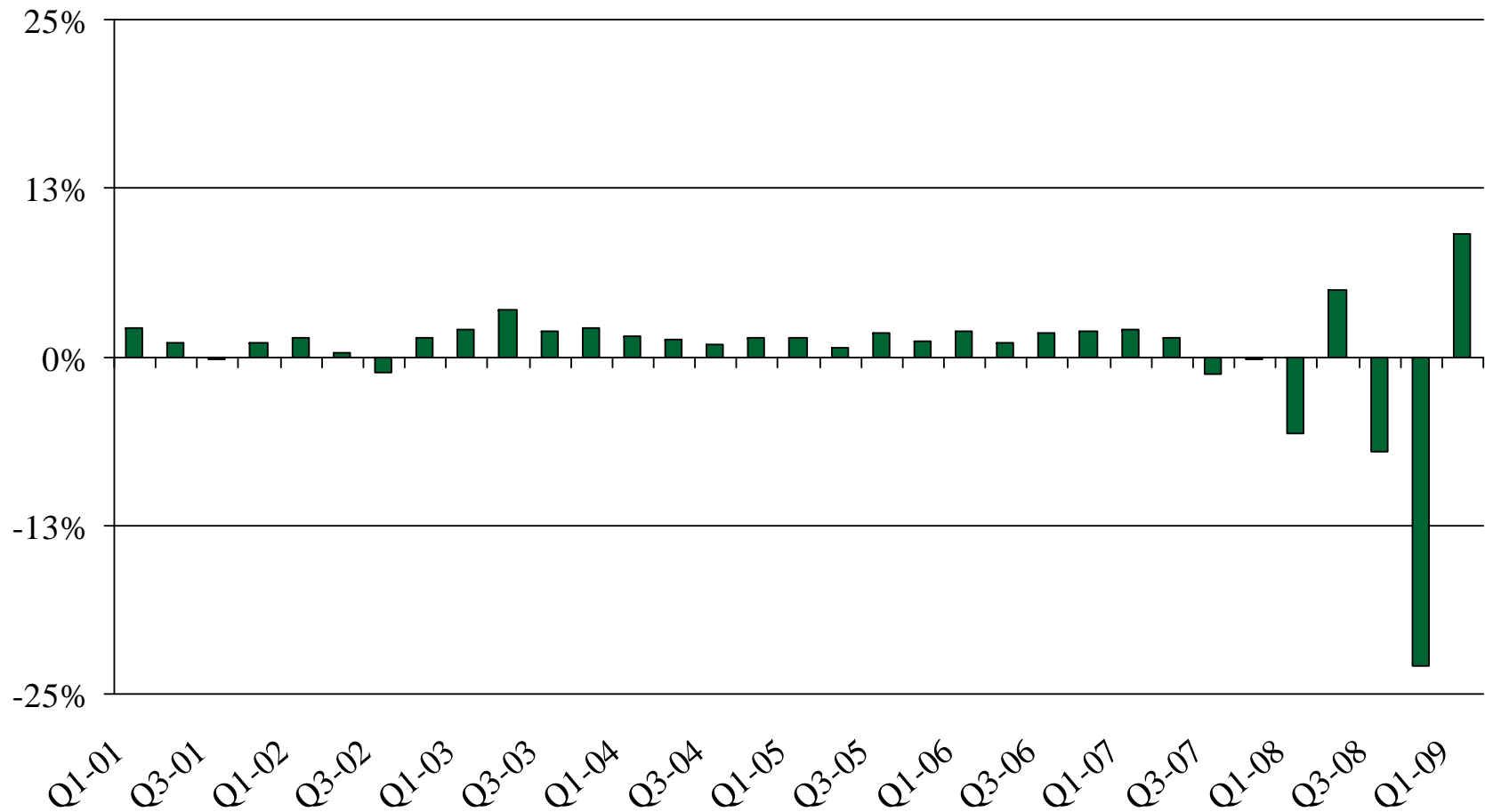
# LCD Flow Name Composite



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# S&P/LSTA Index Returns by Quarter

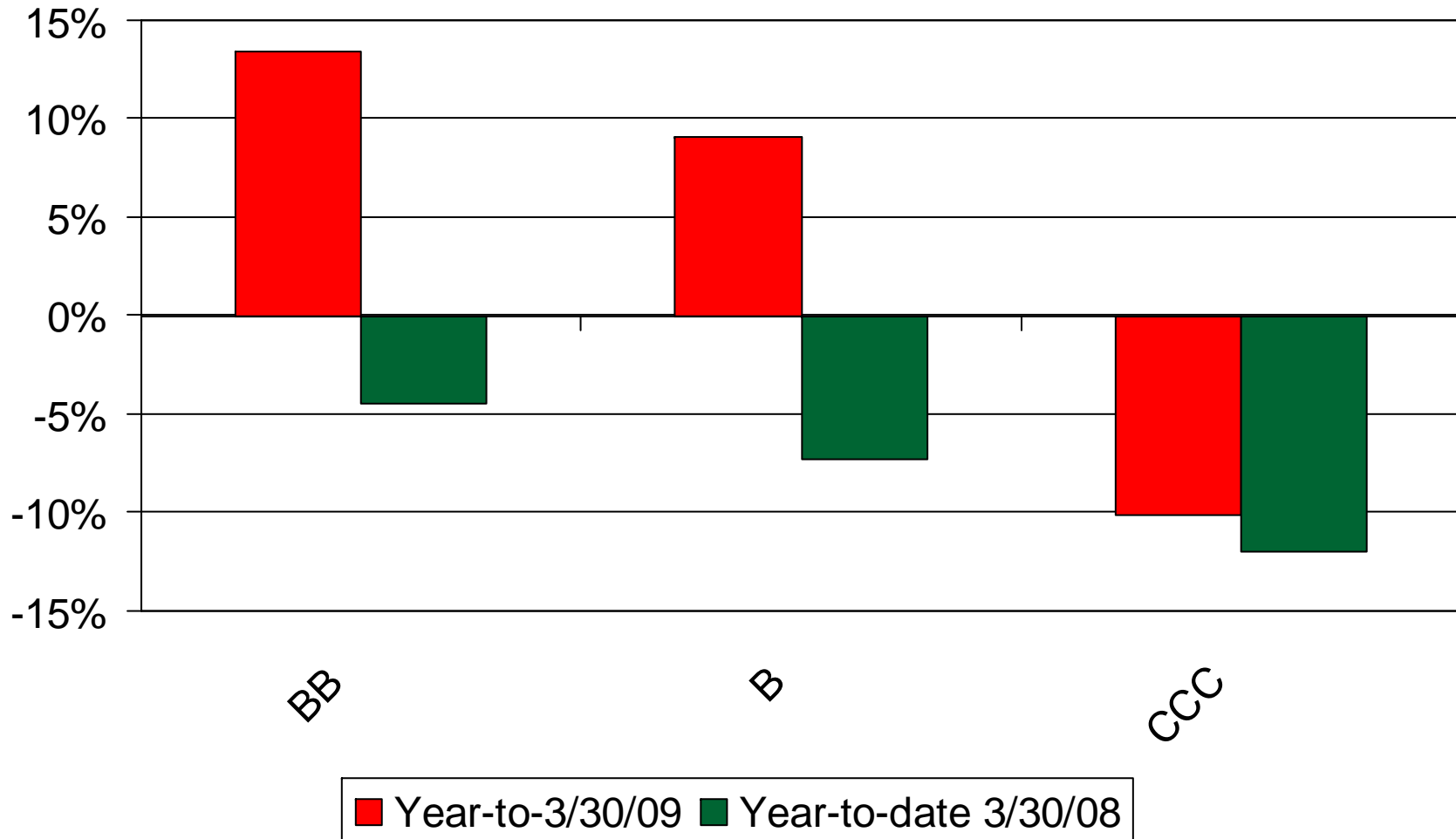


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## Performance of the S&P/LSTA index by rating, YTD 2/18/09



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## Technical factors

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- Forced sales down
- Repayments up (AllTel)
- Little primary volume
- Contracting asset pool
- Problem remains: Raising new money
- Potential CLO EOD issue

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## One too many false starts

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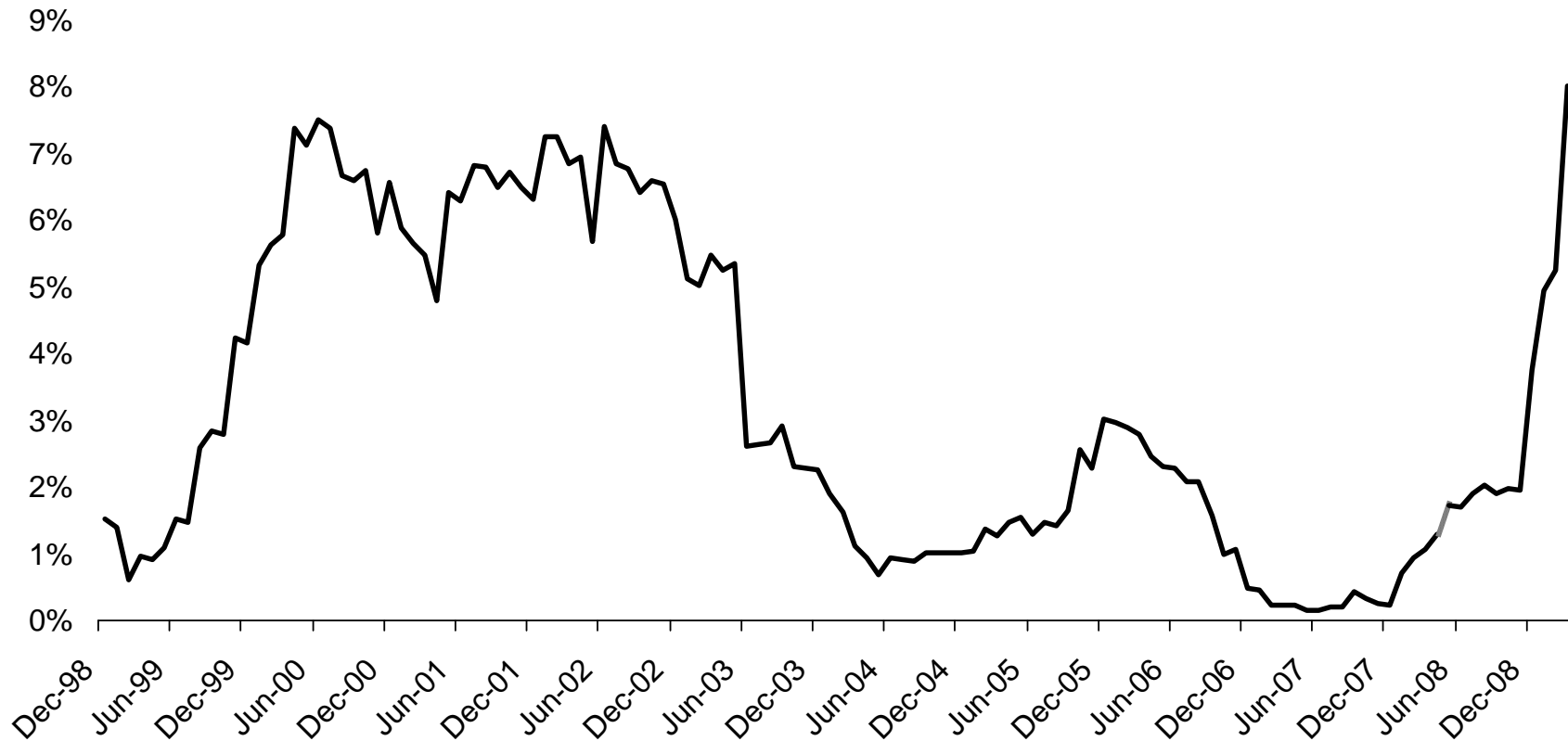
### Three prior bear-market rallies

- 3.27% – July 31 to October 11 2007 (dislocation money juiced by TRS programs)
- 7.63% – February 7 to May 6 2008 (enthusiasm over Bear Stearns' rescue)
- 14.4% – 66.05 on October 16 2008 to November 4 2008 (BWIC volume, AllTel)

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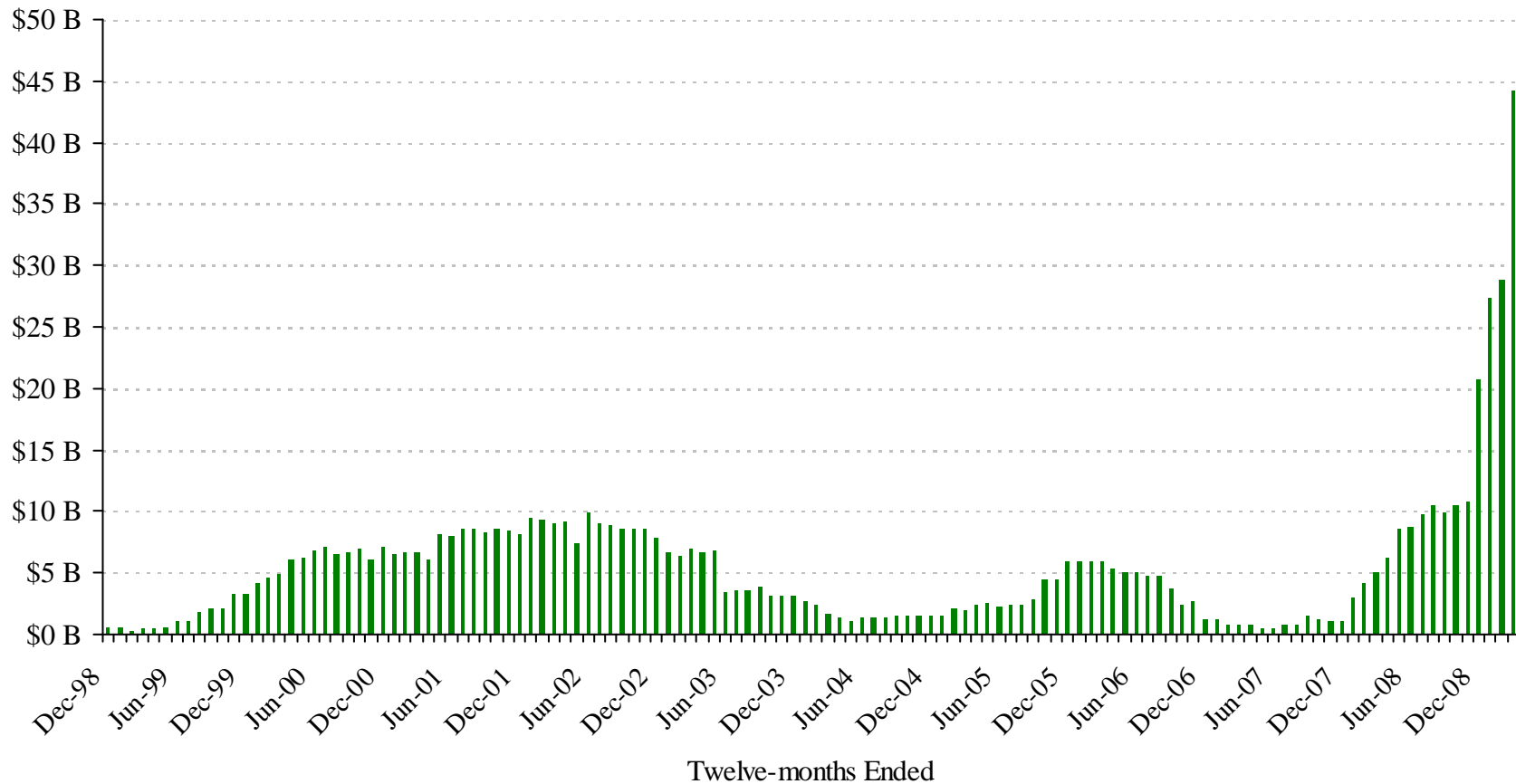
# Lagging Twelve-Month Default Rate by Principal Amount



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# Lagging Twelve-Month Default Amount



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## Default predictions

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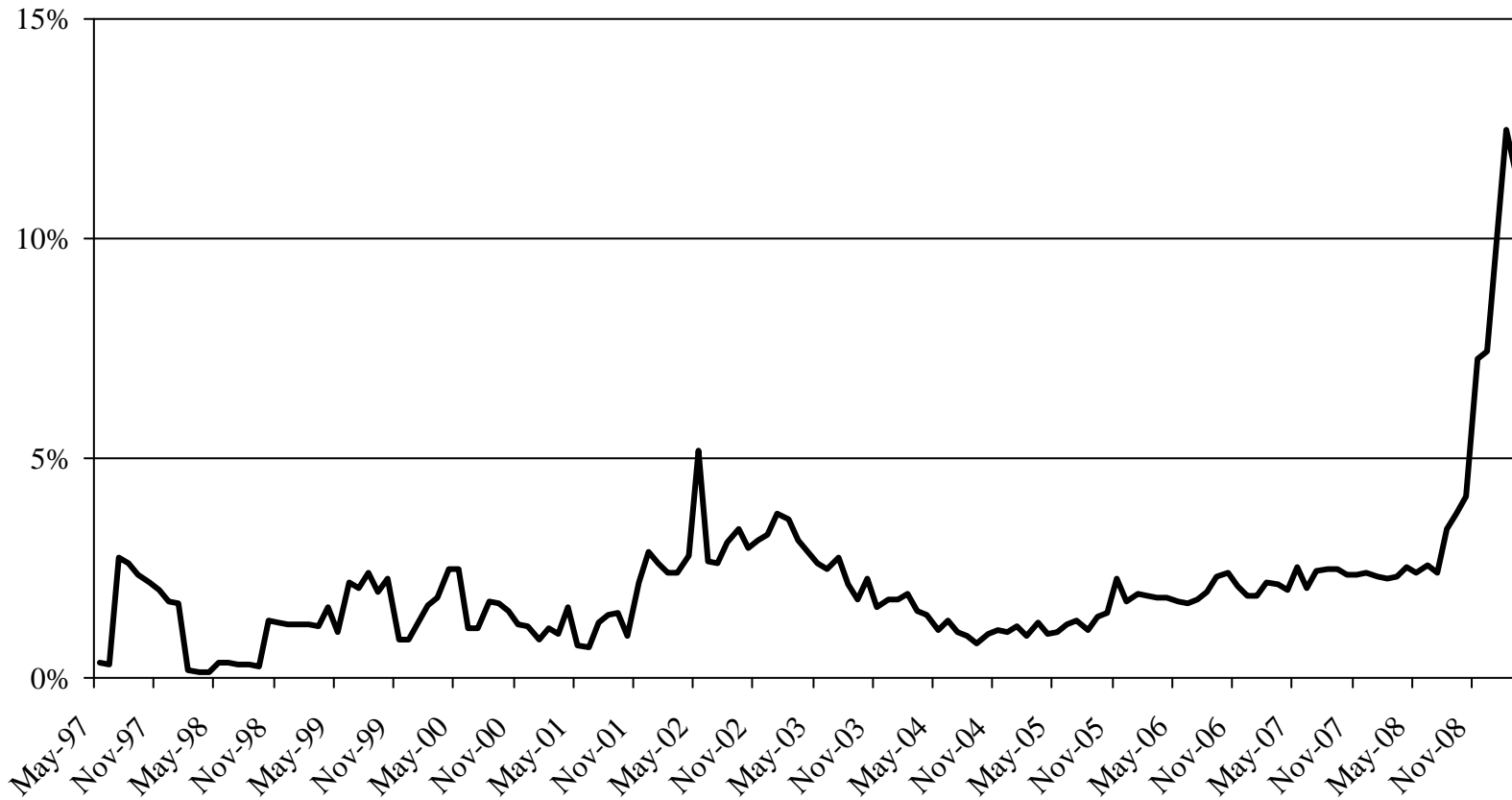
- S&P Global Fixed Income Research: 13.9%
- Altman: 13.6% (consensus forecast)
- Ratings Mix: 13-15%
- Buyside survey: 13-15%

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# CCC Share of the loan market

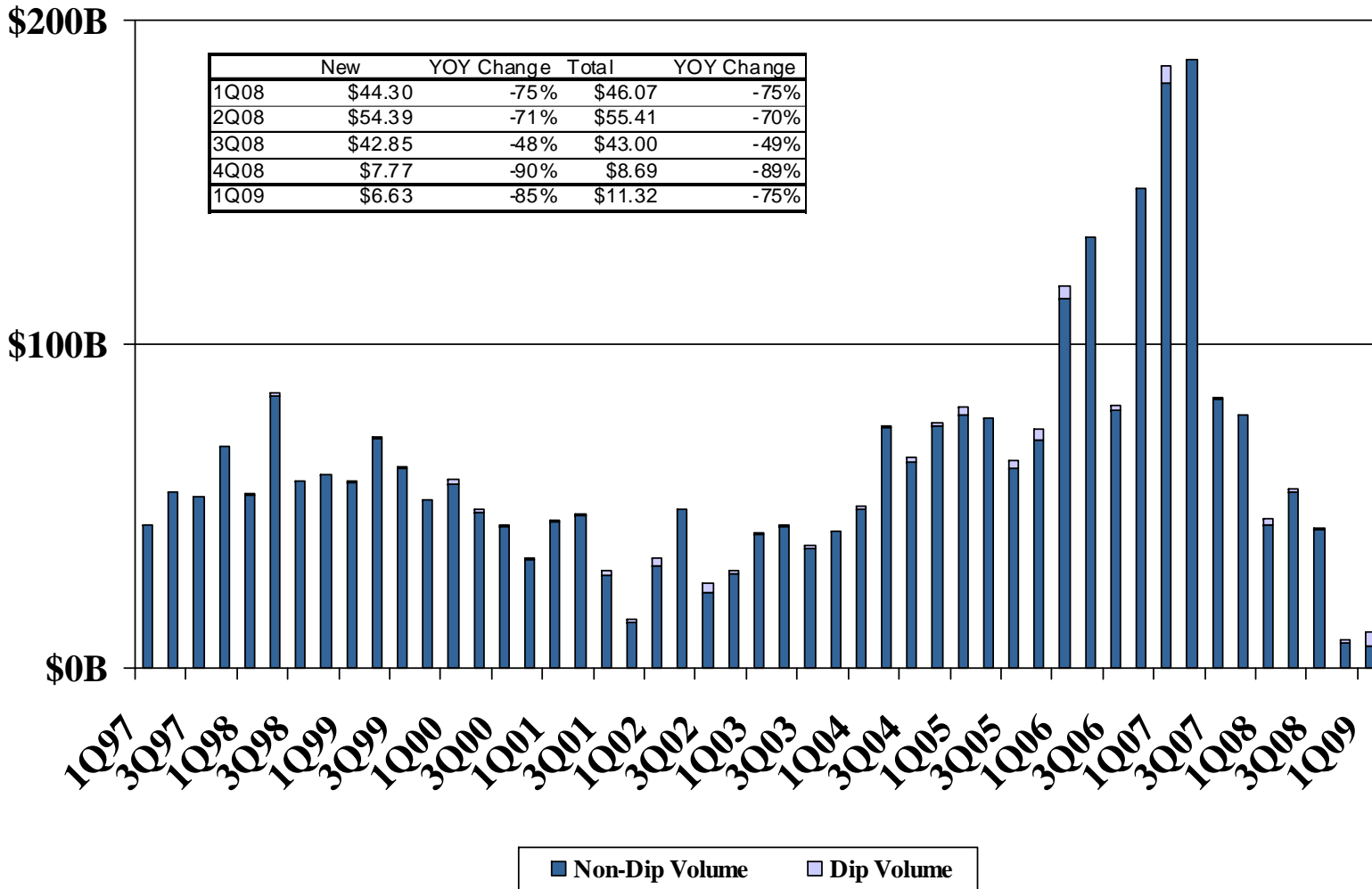
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# New-Money Volume (Excludes Rollups)



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## Best guess for '09 (shield your eyes)

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- New-issue action in ABL, DIP's
- Amendment surge continues
- Record default rates
- Recoveries inside historical averages:
- Lower purchase multiples/go-go structures/DIP scarcity

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