CR TRENDLINES TOPICAL REPORT:

More Lender-Friendly Flex in March Pushed BSL Spreads Wider and Terms Tighter

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In March, BSL average bids stabilized on average, bolstered by a modest advance in Software names from their February lows. All told, the average bid of the JP Morgan BSL Index ticked up 0.14 point to 94.95 on March 20 from 95.09 on Feb. 28. Still, the average Index bid is down 1.60 points YTD and stands at the lower end of the post-Covid-19 range of 92.01-98.95, reflecting investor caution across risky assets.

In the new-issue market, conditions weakened further in March. Three stats illustrate the point:

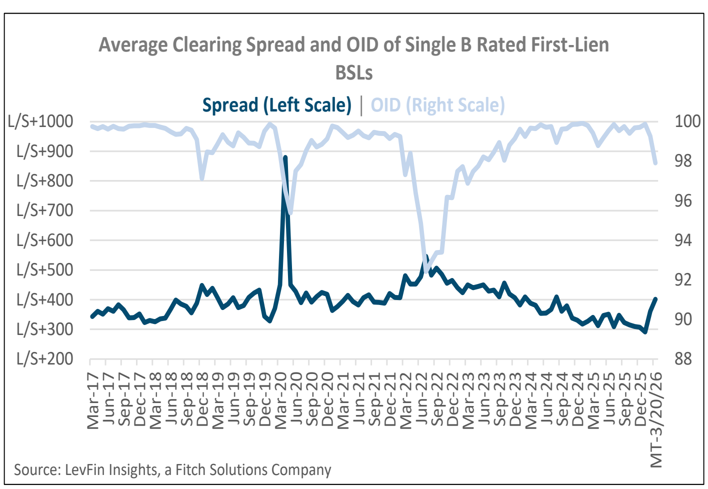
- The average single B clearing spread gapped out to a 29-month high of S+470 (S+401/97.9) MTD.
- Repricing volume dried up completely MTD; April 2025 was the last month with no such activity.
- Upward flexes are running slightly ahead of downward flexes MTD—the last time the flex ratio was upside-down was March 2023.

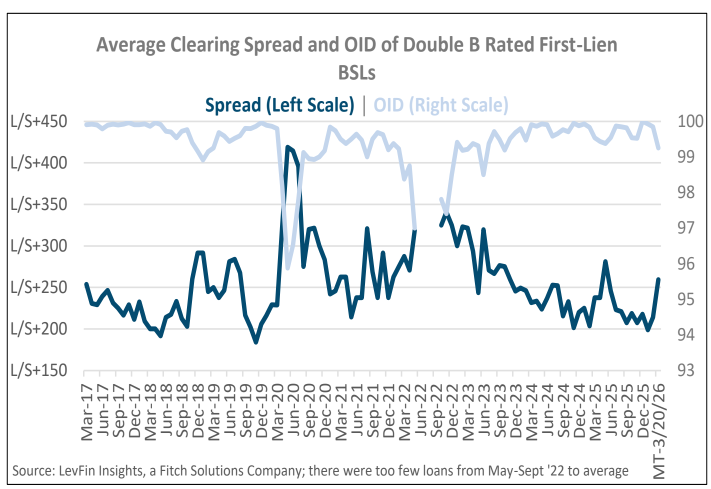
Tough conditions in the BSL primary reflect macro factors and the outlook, rather than current technical conditions. The combination of soaring repayments, robust CLO issuance and slowing new-issue supply, in fact, pushed the market's supply/demand equation deeply into the black at plus $27.6bn MTD:

- **Supply:** $8.5bn from (1) $7.6bn of net new supply net of associated repayments and (2) $0.9bn of BWICs.
- **Demand:** Visible capital formation totaled $36.1bn, comprising (1) $10.9bn of BSL CLO issuance, (2) $22.7bn of loan repayments not associated with new loans, (3) $1.4bn of OWICs and per LSEG Risk Intelligence, (4) $2.7bn of mutual-fund/ETF inflows excluding CLO ETFs.

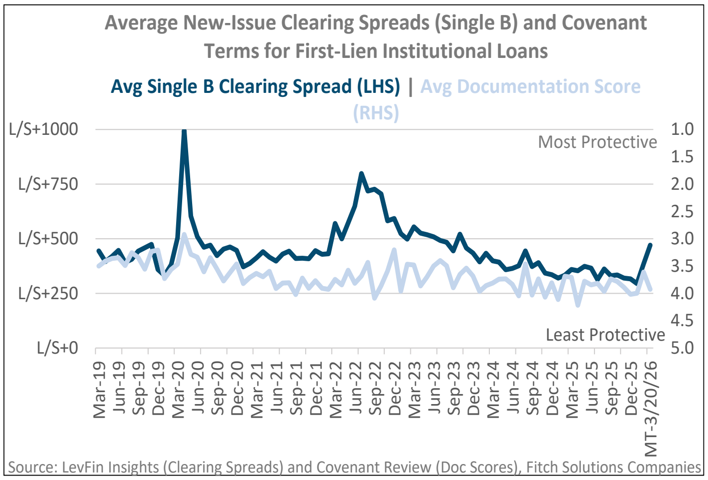
With investors taking a risk-off posture, flex activity turned sharply in favor of lenders in March, boosting clearing spreads. Covenant terms, meanwhile, remained at the more protective end of the multiyear range:

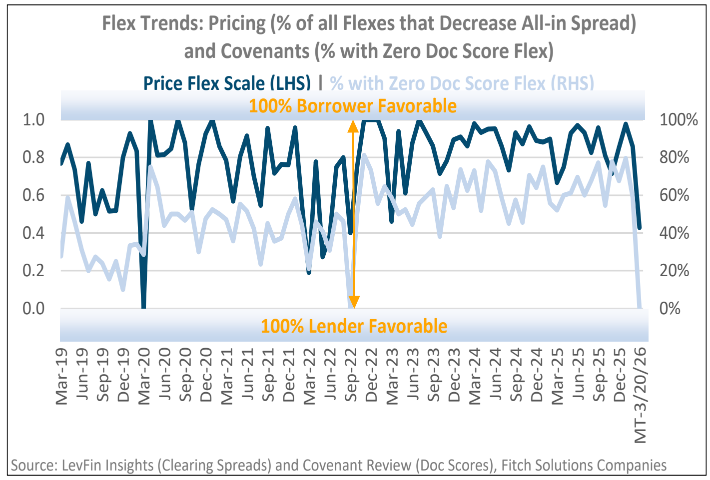
- **Price flex:** MTD, the flex score stands at three cuts to four increases, or 0.75:1. That's a turnabout from February when the flex ratio was 2.0:1, or 12 cuts to six increases. As noted above, MTD average Single B new-issue clearing spreads increased to a 29-month high of S+471 (S+401/97.9) from S+385 (S+361/99.3) in February. In addition:
    - B3/B-: The average all-in spread rose to a 19-month high of S+502 (S+443/98.3) MTD from S+379 (S+355/99.3) in February.
    - Double B: The average all-in spread to expanded to S+284 (S+259/99.3) MTD from S+219 (S+214/99.8) in February.



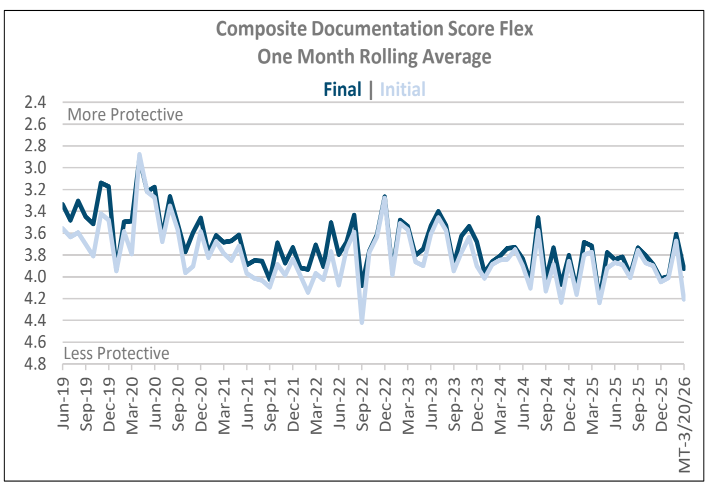


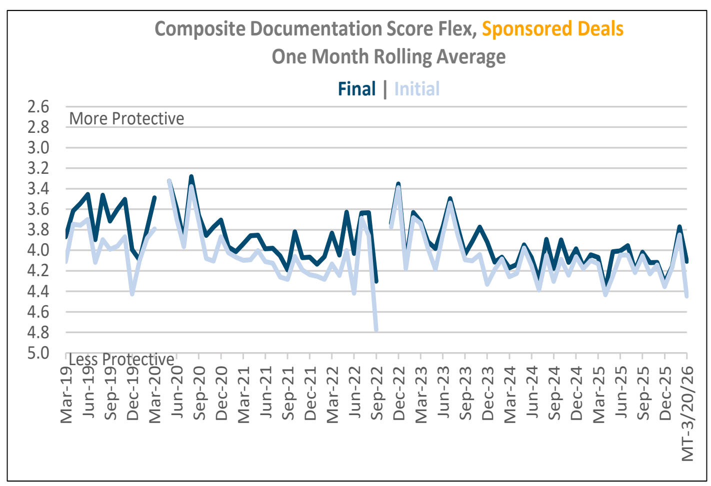
- **Covenant flex:** In the MTD, *Covenant Review* has produced final Documentation Scores for just four loans, three of which are PE-backed. None of the four cleared without a flex to at least one of the terms tracked in *Covenant Review*'s Documentation Score model, compared with 59% in February. Adjusted for loans that are in market, the pro forma average Documentation Score MTD is 3.64 all/3.78 PE-backed on *Covenant Review*'s scale of 1 (most protective) to 5. That is at the more conservative end of the recent range and little changed from February's mark of 3.61 all/3.77 PE-driven.





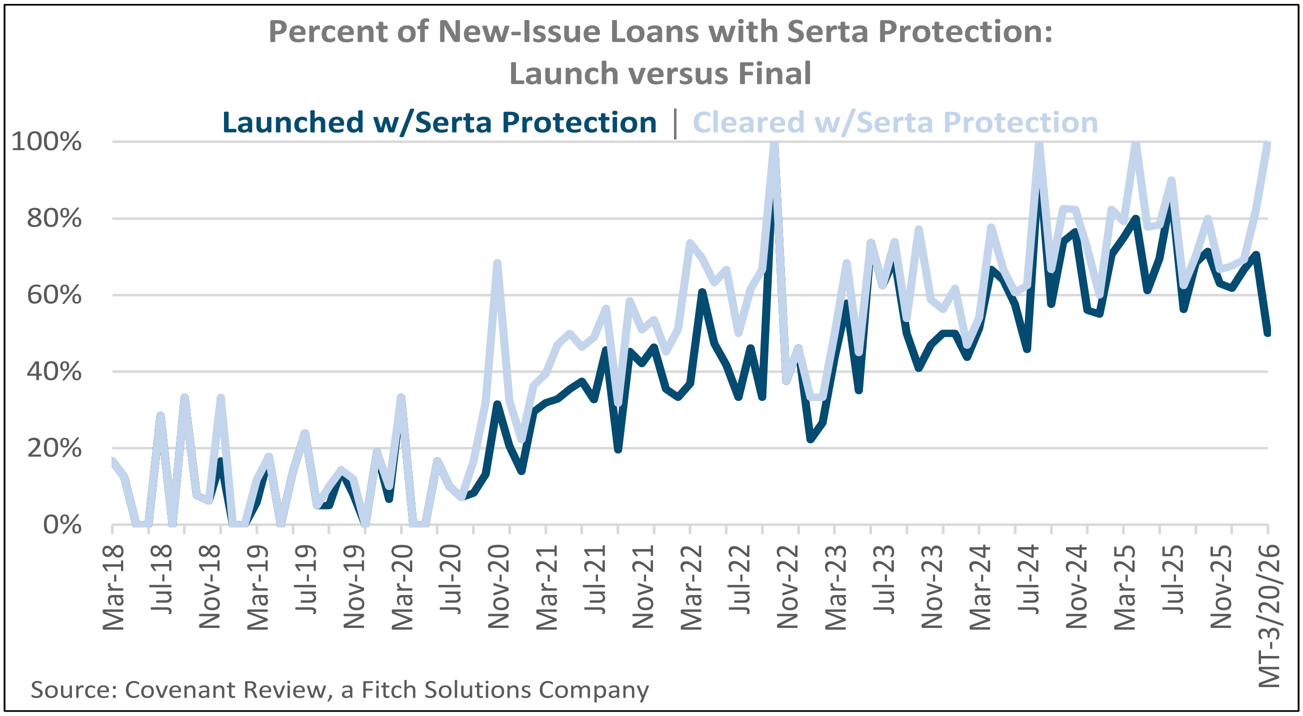
With more loans flexing terms, the average degree that Documentation Scores moved between launch and close climbed to 0.28 all/0.34 PE-backed MTD from 0.06/0.08 in February. If the month ended now, March's figure would be the highest flex average since September 2022. **Arclin**'s $1.4bn M&A drove the outsized moved MTD. The chemicals company sweetened its pricing to S+450/92 from talk of S+425-450/98 and significantly tightened terms, moving its Documentation Score to 3.8 from 4.5. LFI runs down the changes—which include adding Serta/Chewy/J. Crew protections, dropping the high-water mark concept and capping EBITDA adjustments at 25%—here.





Serta blocker: more frequent in March

In the MTD, two of the four loans in *Covenant Review*'s sample set added Serta protections during syndication. As a result, each of the loans MTD cleared with a Serta blocker, the most since April 2025 and up from 82% in February.



Other notable MTD flex stats: Blockers

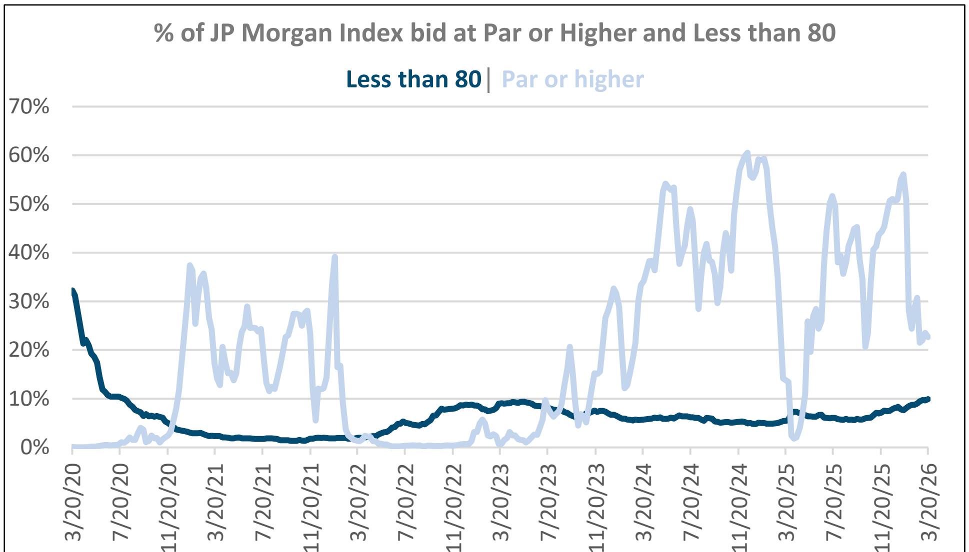
This table summarizes the share of BSLs that have flexed to include key blockers and the percent that cleared with these provision MTD and for the past three month running.

% of BSL Flexed and Cleared with Key Covenant Points	All Deals				Sponsored Deals			
	# Added by Flex MTD	% Cleared MTD	# Added by flex L3M	% Cleared L3M	# Added by Flex MTD	% Cleared MTD	# Added by Flex L3M	% Cleared L3M
J Crew Blocker	1	100%	4	82%	1	100%	3	78%
Chewy Blocker (full)	0	25%	1	17%	0	0%	1	13%
Chewy Blocker (full & partial)	1	100%	4	85%	1	100%	3	84%
Envision Blocker	1	100%	4	88%	1	100%	3	84%
Serta Blocker	2	100%	5	75%	1	100%	3	69%
Private Buyback Blocker	0	0%	0	57%	0	0%	0	51%

Source: Covenant Review, A Fitch Solutions Service

Outlook: K-Shaped Secondary; Tough Sledding in the Primary

It is a confusing time in the markets, to be sure. Not for nothing have secondary BSL levels remained closed to recent lows as we detail above, while new-issue spreads stand at multiyear highs. Still, with demand from CLO warehouses solid and prospect for new-issue supply in the near term dimming, levels for CLO-friendly loans remain robust. That's resulted in something of a K-shaped secondary. In March so far, the share of loan bid at par or higher inched up to 22.7% from a YTD low of 21.5% on Feb. 27. At the same time, the share of loan bid at 80 or lower—the market's traditional distressed threshold—rose to a post-Covid Cessation high of 9.9% from 9.5%. Notably, between 2020-2025, when more than 8% of Index loans were in distressed territory, the average share of the Index that was bid at par or higher was just 3%.



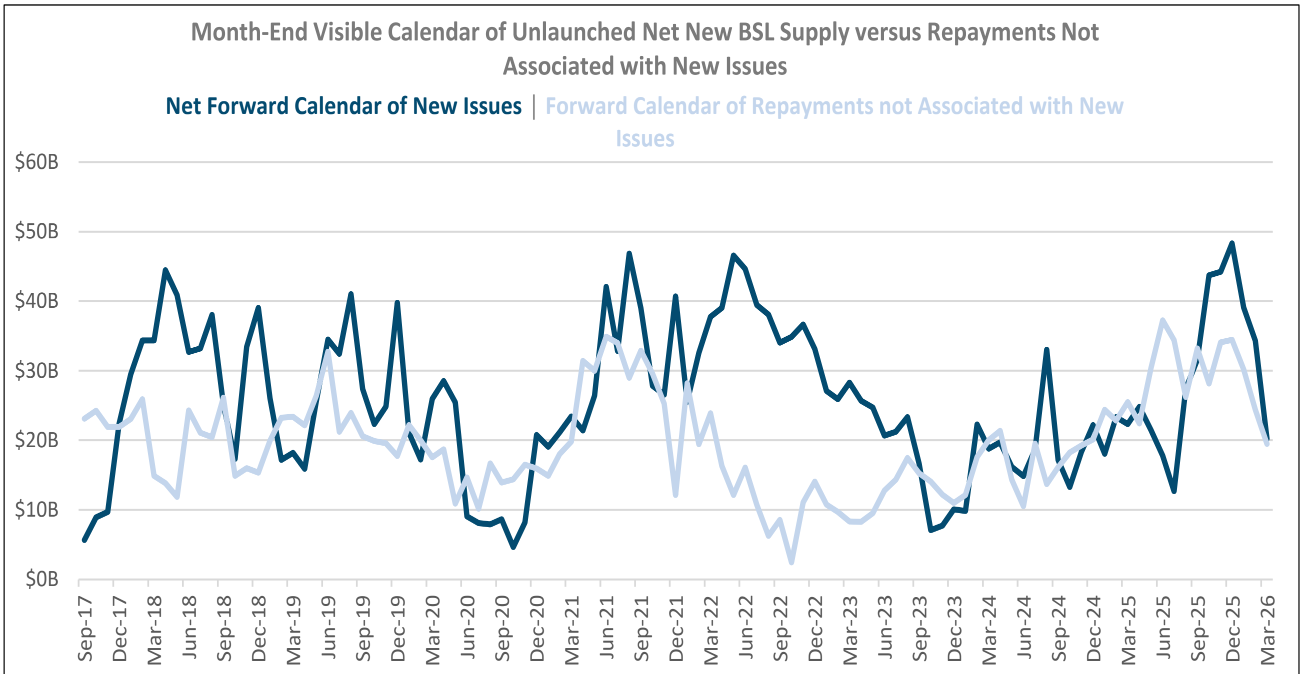
Source: JP Morgan Leveraged Loan Index

In the primary, too, players say, demand is bifurcated. For loans that check all the boxes—strong ratings, defensive sectors, protective terms—demand from ramping CLOs remains robust. For loans outside the CLO wheelhouse, however, the landscape is forbidding. The spread curve, as a result, has become considerably steepr. Indeed, since bottoming out at recent lows in January, the average all-in clearing spread is up 83bps for BB loans, less than half the increase for single B loans of 176bps. And within the single B category, B3/B- loan clearing spreads are up 186bps on average, compared with 167bps for B1/B+ and B2/B loans.

Looking ahead, players are bearish on new-issue supply. By all accounts, M&A-driven volume is likely to fall as the current bout of stress widens the valuation gap and keeps potential buyers on the sidelines. The numbers are already apparent in LFI's forward calendar:

- **Supply:** *LFI*'s net forward calendar of deals yet to be launched net of concurrent repayments stands at $24.5bn on March 20, down from $34.3bn at the end of February and a recent high of $48.3bn at year-end.
- **Repayments:** *LFI*'s pipeline of visible repayments not associated with new loans, meanwhile, fell less precipitously to $24.5bn on March 20 from $24.4bn on Feb. 28.

The delta, then, between visible supply and repayments in the offing now stands at $5.0bn down from $9.9bn on Feb. 28. What's more, if the month ended now, it would be the lowest month-end reading since September 2025.

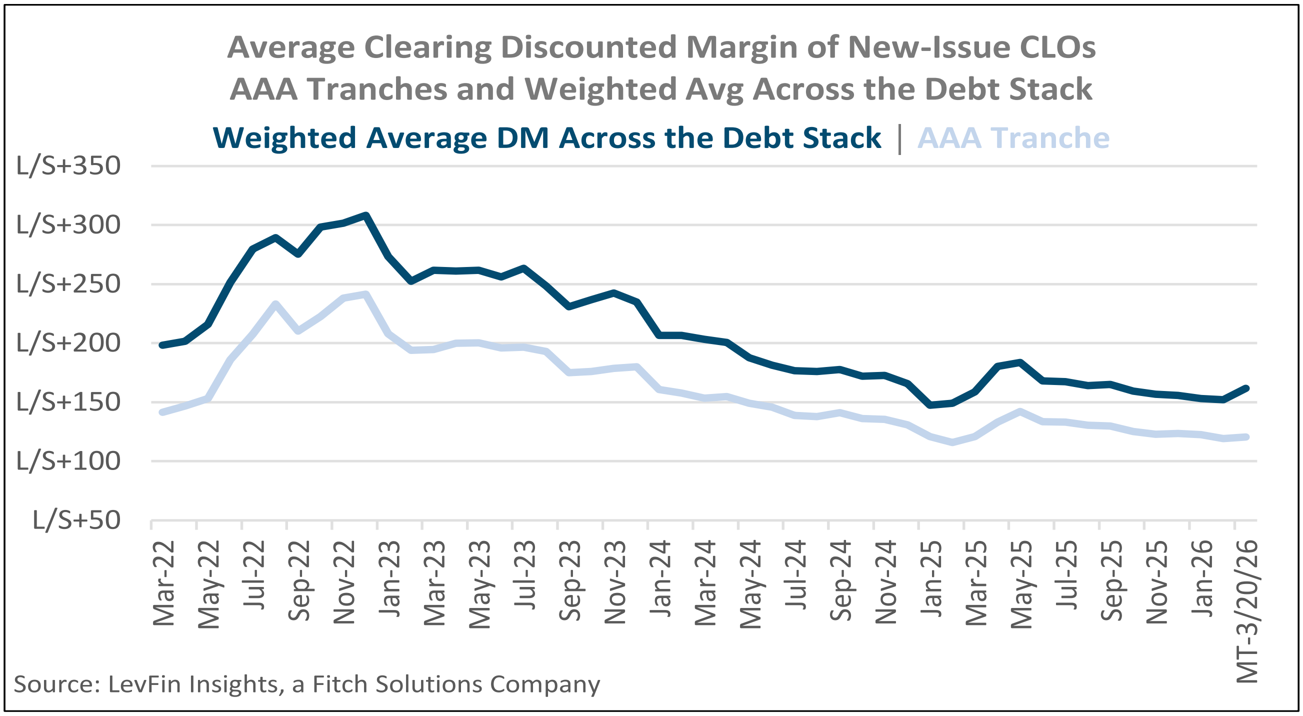


Source: LevFin Insights, a Fitch Solutions Company

The other major source of supply—BWICs—was subdued MTD at $0.9bn, compared with $2.1bn in February and January's record tally of $5.7bn. The decline is understandable in light of falling secondary levels, which have obviously made calling CLOs a less compelling proposition for equity investors.

On the other side of the technical ledger, the scorecard remains mixed. Loan mutual-funds/ETFs flows sank to minus $2.6bn, per LSEG. That's the largest monthly outflow since April and compares with outflows of $1.9bn in February. Players expect redemptions to continue as long as investor sentiment is sour and the bad press around private credit—and its knock-on effects on BSL—is front and center.

As for CLOs, issuance totaled $10.2bn MTD and is on pace to exceed February's full-month total of $12.1bn. Managers think volume is more likely to fall than rise from here. As LFI reported here: "Activity may slow soon, as the new-issue BSL pipeline now stands at just 12 deals, its lowest point YTD, per KopenTech. The pipeline peaked at 40 new-issue BSL CLOs in early February." That reflects challenging arbitrage. With clearing spreads for mezzaine liabilities up about 50bps, average clearing levels for new 2yr/5yr vehicles widened to S+121 AAA/S+162 weighted average MTD from S+119/S+152 in February. That may understate the increase because some March prints reflect liabilities that were negotiated earlier in the year. That doesn't necessarily mean that CLO demand will completely evaporate of course in the month ahead. After all, there are roughly 250 warehouses open, and if secondary levels fall precipitously, it may create the opportunity for print-and-sprint activity. In fact, Elwood executed last week the first print-and-sprint transaction last week since April 2025 in the aftermath of the Tariff Tantrum.



Flex by provision

The table below presents the period from April 1 to June 20 for covenant flex for a wide range of key terms in *Covenant Review*'s scoring model.

Covenant Flex by Provision All Deals: 1/1/2026 to 3/20/2026	Launched with the Provision	Dropped	Added	Flexed Tighter + Dropped	Flexed Wider + Added	Average Change Tighter	Average Change Wider
Uncapped EBITDA adjustments	67.3%	5.4%	0.0%				
Asset Sales Sweep steps down to 0%	63.3%	5.3%	0.0%				
Inside Maturity Carve-out	65.0%	2.6%	0.0%				
Covenant Lite	86.7%	0.0%	0.0%				
Pass-through Investments Basket (J Crew Trapdoor)	3.3%	0.0%	0.0%				
Asset Sales Sweep step-down	65.0%	5.1%	0.0%				
Portability	8.3%	0.0%	0.0%				
Incurrence under F&C does not trigger MFN	35.0%	14.3%	0.0%				
MFN Sunset	91.7%	0.0%	1.8%				
Only majority consent for modifications to pro rata sharing	15.0%	22.2%	0.0%				
Only majority consent for subordination of loans	33.3%	25.0%	0.0%				
F&C Dollar Cap	98.3%	0.0%	0.0%	8.6%	0.0%	173.0%	0.0%
F&C Grower	91.4%	0.0%	0.0%	9.4%	0.0%	170.0%	0.0%
General Debt Cap	98.3%	0.0%	0.0%	18.6%	0.0%	150.7%	0.0%
Restricted Payments Cap	93.3%	1.8%	0.0%	12.5%	0.0%	76.5%	0.0%
Investments in Unrstr Subs Cap	93.1%	0.0%	0.0%	13.0%	3.7%	142.5%	0.2%
MFN Carve-out Cap	69.4%	0.0%	0.0%	8.0%	0.0%	62.5%	0.0%
Soft Call Premium	100.0%	0.0%	0.0%	0.0%	1.8%	0.0	2.0
Reinvestment Period	94.9%	0.0%	0.0%	1.8%	0.0%	12.0	0.0

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