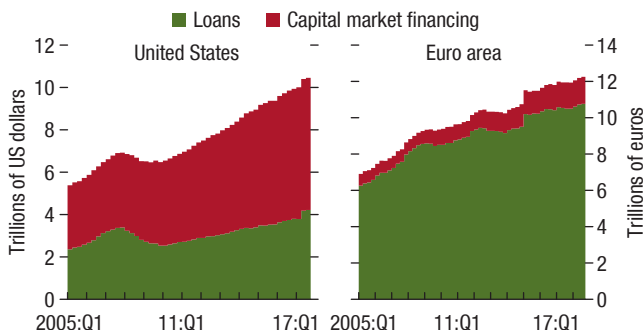


Figure 1.8. The Key Features of the Current Corporate Credit Cycle

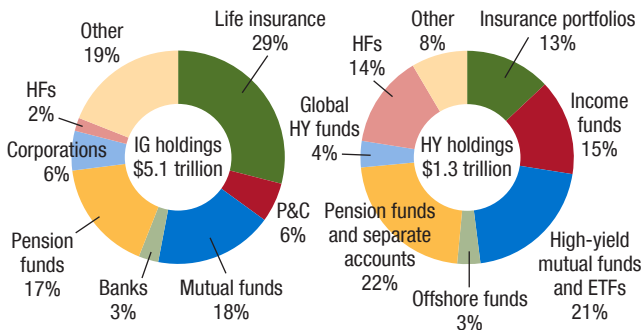
Nonfinancial business sector reliance on capital-market financing has increased.

1. Nonfinancial Business Financing: Loans and Debt Securities



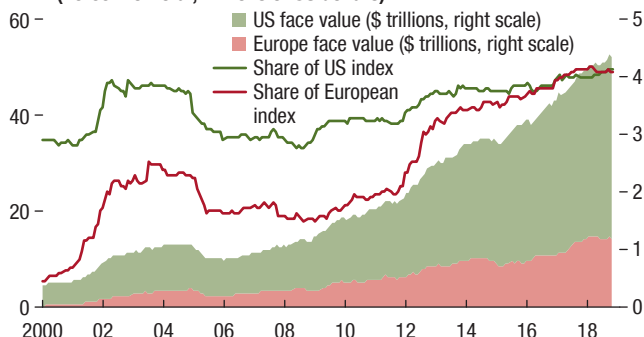
Investment funds and foreign investors account for a large share of corporate bond holdings.

2. Indicative Holdings of US Corporate Bonds



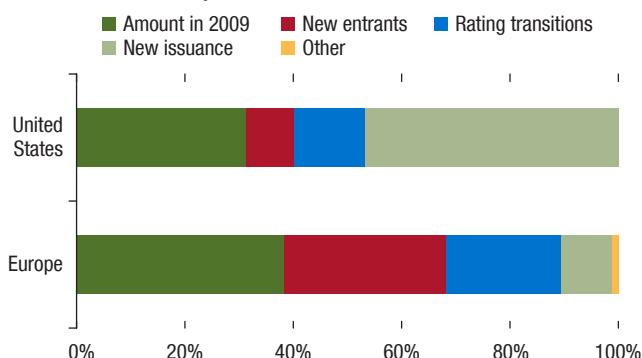
The outstanding stock of BBB-rated corporate bonds has more than quadrupled since the crisis ...

3. BBB-Rated Bonds in Investment Grade Indices (Percent of total; trillions of US dollars)



... driven by new issuance, rating changes, and new entrants.

4. Evolution of BBB Corporate Bond Universe from 2009 to 2018



BBB issuers' debt-service capacity has improved but indebtedness has risen.

5. US Credit Fundamentals of BBBs: 2018 versus 2007 (Percent/ratio/basis points/number/percentile rank)

Credit Fundamentals	Level		Percentile Signal	
	2007	2018	2007	2018
Size (as a percentage of IG outstanding)	34.6	49.3	●	●
Gross Leverage (times)	2.4	3.0	●	●
Net Leverage (times)	2.1	2.6	●	●
Share of Companies with > 4x Leverage (percent)	16	23	●	●
Interest Coverage (times)*	7.3	7.9	●	●
EBITDA Margin (percent)*	19	21	●	●
Gross Margin (percent)*	35	40	●	●
Spread (basis points)	198	121	●	●

* = Icons are reversed

The loan market has doubled in size, but investor protections and credit quality have deteriorated.

6. US Leveraged Loan Characteristics: 2018 versus 2007

US Leveraged Loan Market Characteristics	Level		Percentile Signal	
	2007	2018	2007	2018
Outstanding Leveraged Loans (\$ billions)	554	1,147	●	●
US Issuance (percent of global issuance)	66.9	75.8	●	●
Covenant Quality Index	2.6	4.1	●	●
Covenant-Lite Share (percent of new issuance)	29.2	84.7	●	●
B-Rated (percent of new issuance)	22.6	58.0	●	●
Total Debt/EBITDA (times)	4.9	5.3	●	●
First Lien Debt/EBITDA (times)	3.5	4.3	●	●
Other Debt/EBITDA (times)	1.4	1.0	●	●
Deals with EBITDA Add-Backs (percent of new issuance)	8.4	27.1	●	●

Sources: Autonomous Research; Bank of America Merrill Lynch; Barclays; Bloomberg Finance L.P.; CEF Connect; EPFR Global; European Central Bank; Federal Reserve; Hedge Fund Research; ICE Bond Indices; Lipper; Moody's; SNL Financial; S&P LCD; and IMF staff estimates.

Note: In panel 2, "other" includes endowments, foundations, sovereign wealth funds, offshore funds, households, and bonds held by foreign entities. Panel 5 refers to nonfinancial issuers, with the exception of size (which includes financials). The sample is based on percentile ranks of quarterly data from 1997:Q1 through 2018:Q4. In panel 6, a higher score in the covenant quality index represents weaker covenant protection. EBITDA = earnings before interest, taxes, depreciation, and amortization; ETF = exchange-traded funds; HF = hedge funds; HY = high yield; IG = investment grade; P&C = property and casualty.