Loans à la Mode

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Following our story last week on skyrocketing costs of natural vanilla flavoring, fans of confectionary innovation alerted us to another development on the sweets front.

A Swiss company is launching “ruby chocolate” to appeal to millennial appetites as well as to open foreign markets less known for chocoholics. While not available to consumers until 2018, the reddish varietal is reported to be a “tension between berry-fruitiness and luscious smoothness.” It also apparently has no added berries or fruit.

We’ll leave it to future readers to pass judgement on this new treat. In the meantime we’re relegated to passing along bittersweet news from the leveraged loan front.

With less than two weeks to go before the end of the third quarter, loan activity in the broader markets has continued to favor issuers. S&P LCD reports that dividend activity of almost $7 billion represented the second highest month this year, after January.

As we’ve noted previously repricings had slowed in the third quarter after a blistering pace earlier in the year. It seems as if these refinancings are picking up again as six month call-premiums roll off from loans originated in the first quarter. So far September has seen more than half the level of repricings ($14.3 billion) from August’s total of almost $27 billion (per LCD).

Covenant-lite continues to predominate the share of large cap loans. Just under 73% of all institutional volume is cov-lite. That compares to 58% two years ago, and only 35% of middle market loans. This latter figure represents mostly larger mid cap transactions that have been distributed to institutional investors by big banks.

Based on supply/demand technicals, the amount of institutional cash available for broadly syndicated loans outweighs the volume of transactions coming to market. LCD data shows about $12 billion in cash coming from new CLO formation in August, with barely a trickle from mutual funds. That swamped the $2 billion of loans in the pipe.

Year-to-date, $92 billion of institutional demand ($72 billion of CLOs and $20 billion of fund inflows) has outweighed $43 billion of new-issue. One result, as our *Chart of the Week* highlights, is pricing this year has largely flexed in favor of the issuer.

In the traditional middle market, new deals continue to launch apace. LCD reports that September’s issuance weighed in around $2 billion – better than last year’s level. Thomson Reuters LPC echoed that trend. Sponsored M&A-related syndicated middle market loans totaled $22.6 billion – best performance since 2007’s $36 billion.

While we suspect structural and pricing trends will keep the possession arrow tilted to the issuer, loans managers should have a broader credit set to choose from. Just as fans of milk, dark, and white chocolate might observe, having one more flavor choice can’t be a bad thing.