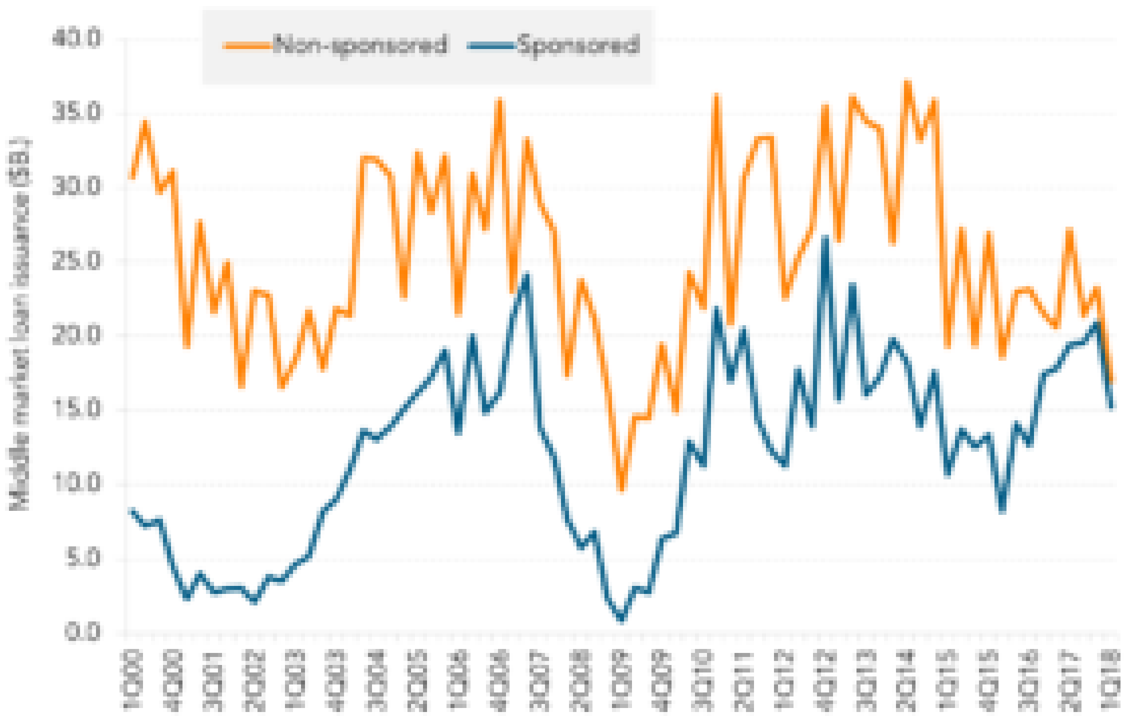
Middle market loan issuance falls off in 1Q18 to US$32.2bn

LSEG | April 9, 2018



After heating up in 4Q17 to US$44.1bn, middle market lending flopped in 1Q18. Syndicated middle market issuance of US$32.2bn fell 27% and 16% from 4Q17 and 1Q17 levels, respectively. A light flow of new money activity was felt in both the sponsored and non-sponsored market segments. In the sponsored market, only US$3.6bn in LBO deals were syndicated, down 53% quarter over quarter. Lenders that were busy indicate most of their flow was from carry over deals from 4Q17 or upsizings and incremental add-ons from existing issuers. Sponsored lenders are optimistic that their 2Q18 pipelines will have a heavier proportion of M&A as 1Q18 saw a lot of repricing activity. But conditions remain very competitive and winning mandates has never been harder. “There are a lot of suspect deals out there and the high quality deals are over-levered, underpriced and have overly aggressive documents,” said a direct lender. In the non-sponsored market, issuers remain sidelined as M&A multiples are way too aggressive and refinancings have slowed since spread compression is no longer a prominent theme in that market. In fact, non-sponsored issuers are likely seeing their cost of funds increase with each month as Libor has aggressively risen to 2.3% from only 1.7% in 4Q17. Many bankers expected that non-sponsored issuers may tap additional financings to support incremental capex following Trump’s new tax plan, but that pickup has not yet materialized. However, it is still early in the year and lenders are still optimistic we could see a pick up over the intermediate term.

Contact: Fran Beyers
frances.beyers@thomsonreuters.com