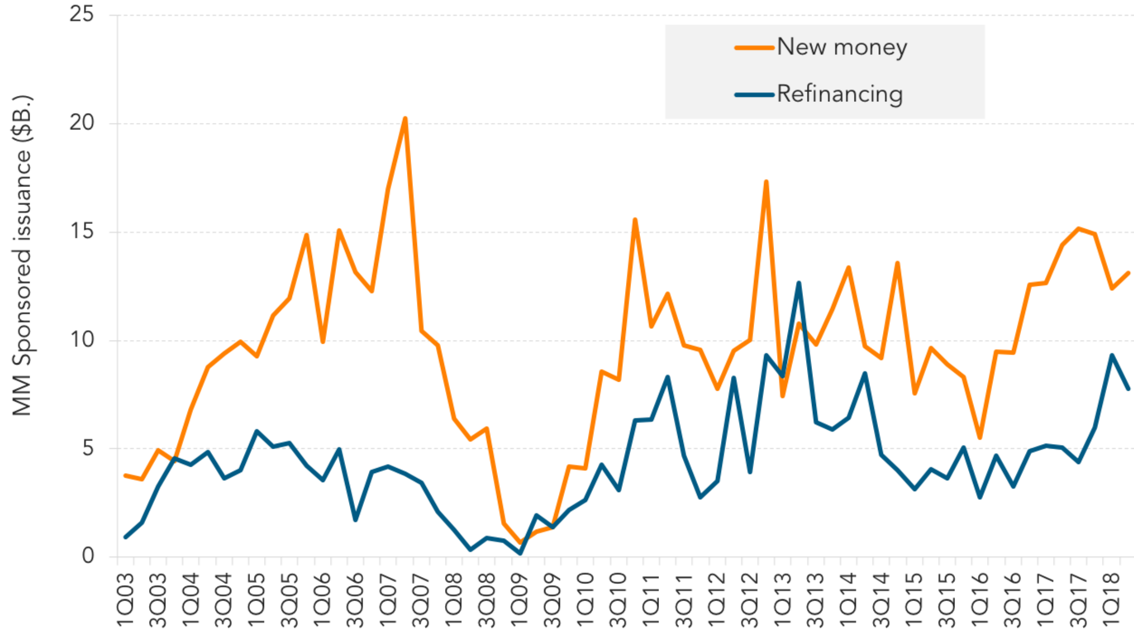
Middle market sponsored syndicated volume reached US$20.9B in 2Q18



Middle market sponsored syndicated loan activity was pretty solid in 2Q18 reaching US$20.9bn, similar to 1Q18 issuance of $21.7bn. However, refinancings and repricings drove close to 40% of activity in 1Q18 and 2Q18 which is much higher than the mid 20% area in 2017. Furthermore, compared to the leveraged loan market which is seeing ballooning supply with regards to M&A activity, sponsored new money issuance of US$13bn in 2Q18 was unimpressive and insufficient for middle market lenders. Sources indicate the middle market remains overheated in 2018 with many platforms struggling to deploy capital. “There has not been a tremendous amount of new money volume this year and there are a lot of players that can take down $100-$300M deals on their own,” said a direct lender. Syndicated LBO volume has only reached US$9.9bn in 1H18 and is seriously trailing 2017’s post credit crisis high of over US$28bn. The good news is that recent volatility in the leveraged loan market has the potential to benefit direct lenders who can provide certainty of execution at favorable terms. “The middle market is relationship oriented, not relative value oriented, so we are already getting more inbound calls from sponsors that are nervous about syndicating in the institutional loan market,” said a direct lender. The technical imbalance in the leveraged loan market is anticipated to continue throughout this summer and possibly even after Labor Day when some jumbo deals are scheduled to launch which means some sponsors signing up assets this summer will highly consider a direct lending execution.

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