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Fish in a Barrel

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The San Antonio Aquarium was the site last week of an unusual heist. A horn shark was swiped from a petting pool by two men and a woman posing as employees of a marine salt supplier. They made off with the foot-and-a half long fish in a baby stroller.

Police recovered the shark, named Miss Helen, thanks to a surveillance video of the shark-nappers truck. That led them to the home of one of the thieves, who quickly confessed. “It was wrong to just take him like that,” said the suspect, whose collection held other sea creatures. “But, at that point in time, it was something I just had to do.”

We sympathize. Collecting valuable assets, particularly in the leveraged loan market, takes true commitment in the face of long odds. Not only has quality suffered in the face of weaker structures, but volume has tailed off, so to speak, in August.

The good news is that loan repricings, at least for the moment, are off sharply as well. According to S&P LCD, issuers seeking to simply lower their borrower spreads via amendment has shrunk to near zero over the past couple months.

This is in large part due to all-in spreads widening, as three-month Libor (currently 2.35%) has climbed 1% over the past twelve months. That takes a lot of incentive away from drive-by resets. It’s also likely that most of the opportunistic repricings have been already tucked away by issuers.

That’s left a decent new deal pipeline, especially for a late summer market. LCD records a forward institutional loan calendar of about $33.6 billion, down from a high of over $70 billion earlier in the year, but not a bad pre-Labor Day number.

Whatever loans hit the market, there’s plenty of cash waiting to be deployed. All expectations point to a banner year so far for CLO formation. 2018 has already tallied almost $80 billion in new vehicles, per Thomson Reuters. That’s up smartly from $58 billion through the same period last year.

Institutional money also continues to flow in. About $12 billion of cash into retail funds so far this year has accounted for a chunk of liquid loan demand. It’s also kept secondary prices up and primary issues reasonably filled.

For the buy-side, it’s been a Goldilocks market – not too hot, not too cold. Even the Fed has cooperated by keeping rate hike expectations on the front burner, without ratcheting things up to threaten the recovery.

And on the middle market front the story feels the same. Our own pipeline is full, if not at a high watermark. Sponsors for issuers in the traditional midcap range continue to seek one-stop relationship credit providers who can hold large tickets. That helps avoid the syndication route, which today has more potential for unwanted flex.

We’re not sure about sharks, but loans are still proving to be irresistible for experienced collectors.