Syndicated middle market sponsored volume tanked in 3Q18

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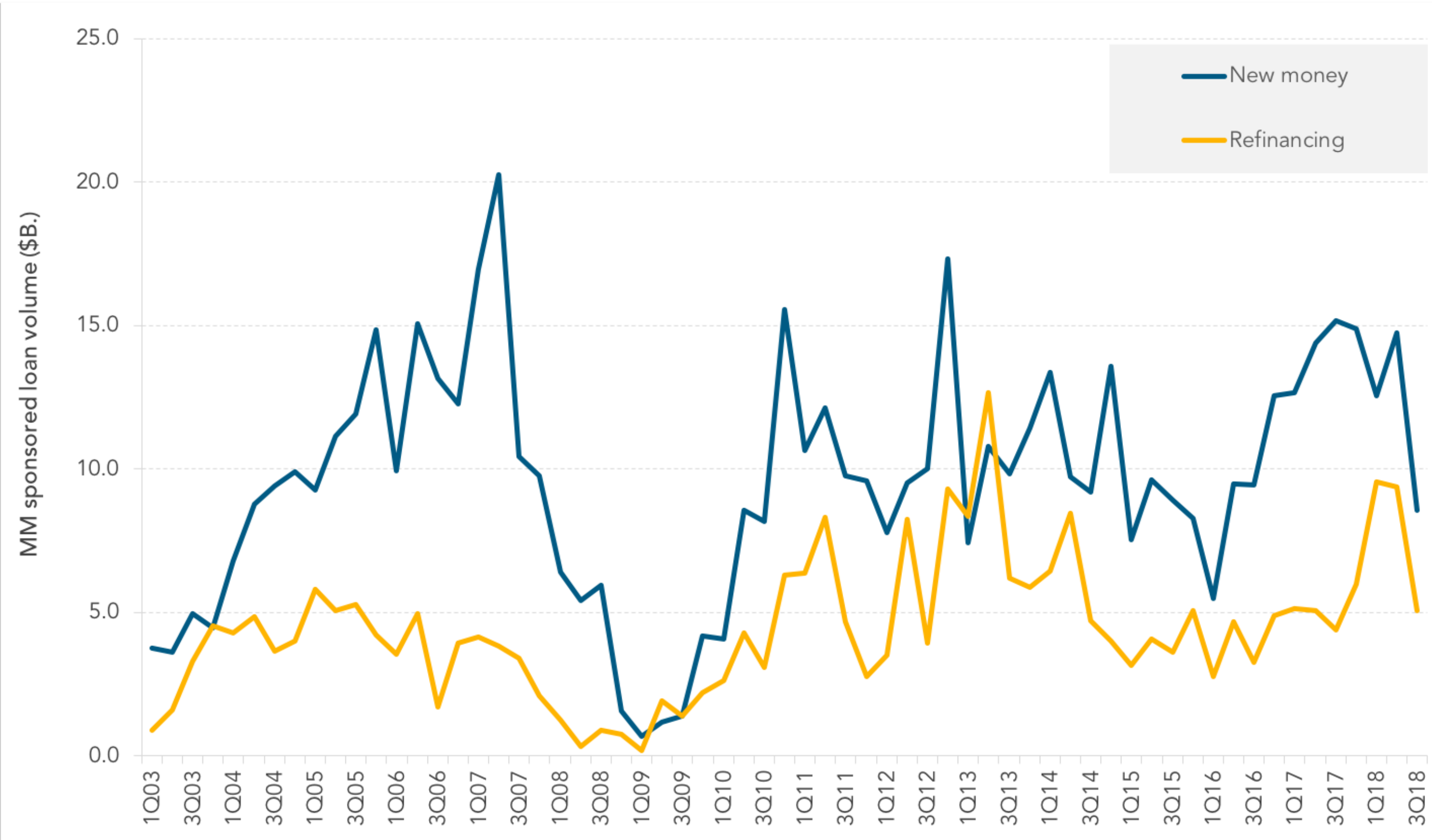

The summer of 2018 was not noteworthy for those middle market lenders that focus on sponsored deals. Syndicated issuance took a nose dive to just US$13.7bn in 3Q18, down 43% and 30% from 2Q18 and 3Q17 levels respectively. “We are only able to get crumbs in terms of allocations on the bigger middle market deals, there is too much liquidity out there and not enough volume,” said a BDC lender. Both new money lending and refinancings took a hit. Lower refinancings volumes is intuitive given both yields and spreads backed up in 3Q18 driven by some mild volatility up market earlier in the quarter. The average spread on MM sponsored first lien loans rose to 446bps in 3Q18 up from 428bps and 412bps in 2Q18 and 1Q18 respectively. This really deterred sponsors from executing their normal volume of repricings and opportunistic recaps. But M&A was also down as new money lending only reached US$8.6bn, a 42% drop quarter over quarter. Most lenders indicated meeting their lending goals was quite challenging in 3Q18 driven by loose terms, intense competition from lenders with huge hold sizes, aggressive borrower asks, and rising leverage levels. Lenders are not overly optimistic about their 4Q18 pipelines either. Few are saying it will be the buoyant quarter that they have come to expect in 4Q. “We are starting to see the repricings and dividend recap deals come back, I wish there was more M&A” said a middle market lender.

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