# Deal, No Deal (Second of a Series)

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Last week we took on the question of deal flow. How does the backdrop of M&A activity relate to the volume of reported sponsored debt financings?

This week, we took to the road in search of answers. At the SuperReturn Private Credit conference in Chicago, we chaired the first day of panels, so had a front row seat. Given all the volatility this year, investors remain ever-vigilant for signs of market weakness.

Our journalist friends also blogged about headwind worries across a variety of sectors and disciplines. A Reuters dispatch was typical:

"Wall Street's biggest banks are facing several challenges in growing their revenue, largely due to the ongoing U.S.-China trade war and concerns about further interest rate cuts by the U.S. Federal Reserve."

It appears as well that the broadly syndicated loan market has grown increasingly challenged. One head of capital markets at a major private equity shop told us she was concerned by the number of deals backing up. "I don't like what I'm seeing out there," she said. "I would rather club my deals up, than risk a failed syndication."

We've noted all year the exodus of retail cash from loan funds. Last week a whopping $868 million departed accounts, which makes $26 billion of outflows for the year, according to S&P LCD. Though these funds represent less than 20% of liquid loan demand, the trend is not helpful.

The bigger issue is CLO capacity. While new vehicle formation for 2019 has maintained a steady beat, baskets for loans with the lowest single B rating are filling. Few CLO managers can tolerate riskier assets, knowing that, in a downturn, rating agencies will downgrade those to triple-Cs.

This means more opportunities for larger direct lenders to provide exit ramps for deals hung in a syndication process.

So back to our question. As our *Chart of the Week* shows, the number of M&A transactions in the U.S. has lost steam. That is mirrored in the fall-off of sponsored financings, both large and midcap as Refinitiv reported in our column last week. Interestingly, it's also reflected in lower investment grade M&A volume year to date.

This slowdown is being seen globally as well. International M&A loan activity for the third quarter rang in with its worst performance in over six years. And the share of M&A as a percent of the overall market is at its lowest point since 2014.

Yet at least one leveraged loan arranger pushed back against the notion that deal drag was wrapped up in trade wars and political uncertainty.

"The economic data is pretty strong," Refinitiv quoted the lender in a recent feature. "Central banks have been supportive. Still people do not want to be long an LBO. Stuff is already pricing super wide in the loan market.

The concern is risk not the economy.”