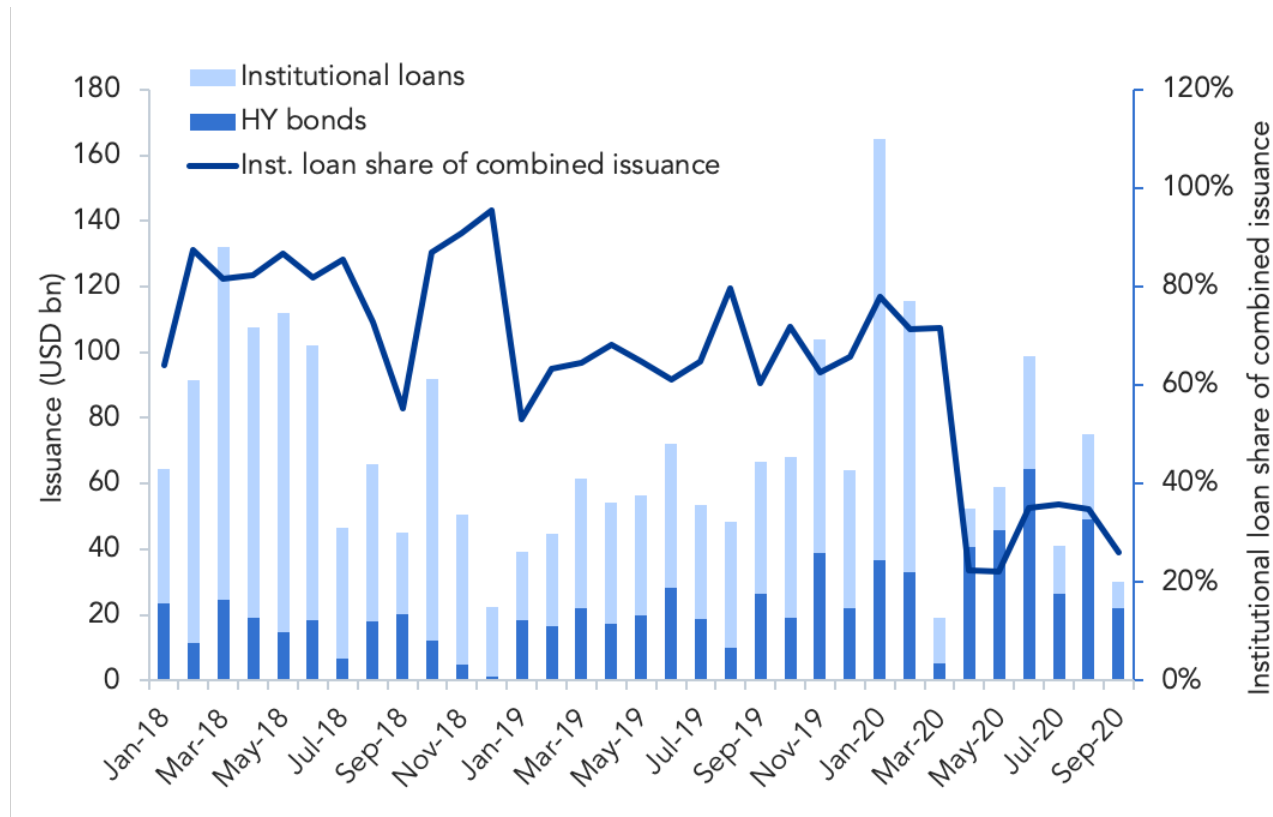


Loan issuance down sharply, portfolio managers concerned about future supply

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Source: Debtwire Par

In contrast to the high yield bond market, institutional loan issuance since the start of April is down sharply year-over-year, posting roughly a 50% decline. In turn, issuance has struggled to keep up with demand recently even though demand falls short of last year's levels. US CLOs, the biggest buyers in the market, have been active in 3Q20 and the pipeline is robust, but new CLO volume has dropped by 38% year-to-date from the same period in 2019.

Syndicated institutional loan issuance is at USD 49bn so far in 3Q20 (through September 15). While this number represents a strong uptick from the volume recorded in the March to May time period, activity remains far below the levels recorded earlier this year in January and February or the roughly USD 113bn posted in 3Q19.

The thriving bond market has not helped loan supply. A factor at play is that "the secured bond market is also wide open and is more like-for-like and that eats into our market", according to a leveraged loan portfolio manager.

Also, contributing to the drop in loan issuance this year is the pull back in LBO activity, with institutional loan volume backing LBOs down 41% year-over-year. In the current coronavirus (COVID-19) environment, there is currently more caution around industrials and consumer companies, and anything that is cyclical, leaving deal making more focused on the healthcare and technology sectors.

Concerns remain about the amount of new money loan deal flow going forward. In early September, one CLO manager said, “The loan market is extremely quiet right now. This is normally the case right before Labor Day but it’s even more so given the pandemic and the lack of deal flow. We have heard rumors of a forward calendar building but not sure where the deal flow is going to come from.”

Another noted they expect to be busy with new deals coming in September and October but “All the deals that have been announced are sponsor to sponsor, so I do worry about the supply of real new paper coming in terms of new LBOs.”