What's Ahead for 2015? (Part Two)

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One of the enduring mysteries of life, other than the fact that Kanye West is Bruce Jenner's son-in-law, is getting a handle on deal supply in the leveraged loan markets.

By the numbers, the forward institutional pipeline has been drifting south since Labor Day. According to S&P Capital IQ, last week's calendar stood at $40 billion, up slightly from the $35 billion low point at Halloween.

Actual institutional loan volume is up to $400 billion, per Thomson Reuters LPC, with full year numbers close to $500 billion. Impressive, but well short of last year's $639 billion.

M&A stats generally also point to very healthy flow. Global volume has topped $3.2 trillion (Dealogic); the best performance since 2007, and significantly ahead of 2013. The same holds true for financial sponsor-related activity. YTD 2014 volume is just shy of $700 billion; again, best in seven years.

Digging into the PE flow a bit more, PitchBook reports 440 US deals, with sponsor investments of $91 billion, have hit the market this quarter alone. But that's way off the 784 mark ($163 billion) recorded for the comparable 2013 quarter.

Whatever the reason – intimidating purchase price multiples, absent tax motivation, competition from corporates with cash – it's not for lack of funds. Sponsors raised $127 billion through 3Q this year; not shabby, though likely not headed for 2013's $230 billion.

These trends have been echoed in the middle market, though overall activity has been even more subdued of late. Smaller institutional loans, measured by LPC, dropped from $13 billion to $10 billion to $6.5 billion in the first three quarters of the year. 4Q is at $4.4 billion with just a few shopping days left.

With that as a backdrop, here's our forecast on elements of deal supply for 2015:

Private Equity Fundraising: GPs always have an eye on their next fund, so we anticipate (despite less than propitious investing conditions) they will keep hitting the road with LPs. Expect 2015 to look like 2014: we're calling for $150 billion raised.

Private Equity Investing: Macro-economic tailwinds are strong, but so is competition for deals. Sponsors are desperate to put LP money to work, but lacking external stimuli, 1Q 2015 has little steam behind it. That'll mean playing catch-up for the rest of the year. Our forecast calls for $450 billion; less invested by sponsors than 2014.

Leveraged Loan Volume: As our *Chart of the Week* depicts, there's a hole in the new loan tank. As with PE investing, we think 2015 will kick off with less than a bang. For full year middle market volume: $40 billion – better than 2014, but well off 2013's pace. For the overall institutional market, we're calling for $475 billion, also down from this year.

Next week: What to expect for loan pricing and structures in 2015.