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# A Market in Full (Second of a Series)

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News reached us recently of a young walrus that had wandered south from his Arctic range in search of ice floes. Landing in Ireland, Wally began boarding luxury yachts. The property damage turned the whiskered wayfarer from “visiting celebrity to public enemy number one.”

It all worked out, though, when a marine biologist enticed the walrus onto a pontoon, which was hauled out of the harbor. Wally was last seen frolicking off the coast of Iceland. “He avoided sinking any boats while he was there,” one rescuer happily reported.

In the world of ultra-low interest rates, credit investors are similarly tempted off their usual hunting grounds. In part this is due to unusual economic conditions. On the one hand, consumers are still spending at higher levels than a year ago. But supply chain disruptions are acting to hold back real growth in many sectors.

Markets are similarly bifurcated. As Nuveen’s Brian Nick highlighted recently there is a “lack of clear and consistent signals about the trajectory of the global economy and public policy.” One day public equities are buoyant with growth prospects, the next, sinking on inflation and growth concerns.

As our *Chart of the Week* shows the gap between inflation and wage increases is narrowing. Virtually impossible to predict the medium-term outlook, but market volatility suggests the economy may be facing headwinds.

Dealmakers take note of these signs and are expediting transactions. Due diligence processes are being abbreviated or accelerated and preemptive bids on properties are occurring with greater frequency.

Direct lenders are accordingly stepping up to assist clients. Private credit is an excellent option, both in speed and efficiency, compared to the syndicated bank route. As we’ve seen, size is no object. And increasingly, neither is leverage.

For the right (it is hoped) borrower, particularly in the software space, debt-to-ebitda is easily in the 6-7x range. And even higher for larger issuers. As S&P/LCD’s Abby Latour highlights in an article last week, cov-lite is also “bleeding” into the middle market. While still a small minority of instances below $50 million ebitda, the trend is always a concern for market participants.

The 4Q rush of deal supply is keeping spreads on senior first-lien debt in the L+450-475 bps range. Average unitranche pricing, a mildly lagging indicator, remains L+525-550 bps.

But with the relentless drive to put money to work, aggressive credit terms are the 2000 lb. walrus in the canoe. Experienced lenders understand the damage an ice floe can do when you’re looking the other way.