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# A Market in Full (Last of a Series)

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Our friends at William Blair ended their 3Q survey [link] with a summary of issues most expected to impact leveraged loans through year-end. Here's a sampling:

**Supply/demand equilibrium.** Which comes first, supply or demand? Retail cash inflows and CLO capacity largely drive liquid loan demand. Once issuers see there's investor appetite, they hit the market with whatever bankers deem to be clearing terms. With private credit, it's all about manager dry powder. There's plenty of that.

But the rush to close by December 31st is swamping investment teams' band-width. Managers can pick and choose so terms are leaning more investor-friendly.

**Tax effect.** Hard to recall a year-end when taxpayers *weren't* worried about higher rates. Nevertheless selling owners of companies expect the worst and are hastening to put as much cash in their pockets today.

**Sellers' market.** In red-hot residential suburban real estate markets, property owners find some offers to sell hard to resist. Same in the middle market. Lender (and sponsor) discipline is being tested amid urgency to put LP dollars to work. Better an earning asset (at least for the moment) on the books than cash earning zero.

**High purchase price multiples.** Covid-friendly businesses are dominating M&A flow. How long will the pandemic bump last? Anyone's guess. Supply chain disruptions are lifting the price of products and services across many sectors. Economists expect this to continue well into 2022, so expect financial and strategic sellers to take advantage.

**Low default rates.** Covid's impact on leveraged loan defaults centered around travel and leisure, retail, restaurant and hospitality. It was relatively short-lived and more subdued than with high-yield bonds. Direct lending defaults were even lower. What could reverse that?

**Interest rates.** Even if the Fed inches rates up next year, as our *Chart of the Week*) suggests, hard to imagine borrowers' cash flows dented much with Libor (or SOFR) starting points so low. No one thinks we're headed back to 2007 when Libor peaked at 5.5%.

**Inflation.** The Fed predicts this period of higher prices and commercial log-jams is transitory. As the recent run-up of public equity indices demonstrates, faith in that view remains high. As long as longer-term signals remain hopeful, runaway inflation worries should ease, keeping credit and other investors in a buying mood.