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Unitranche minimum spread threshold shifts up

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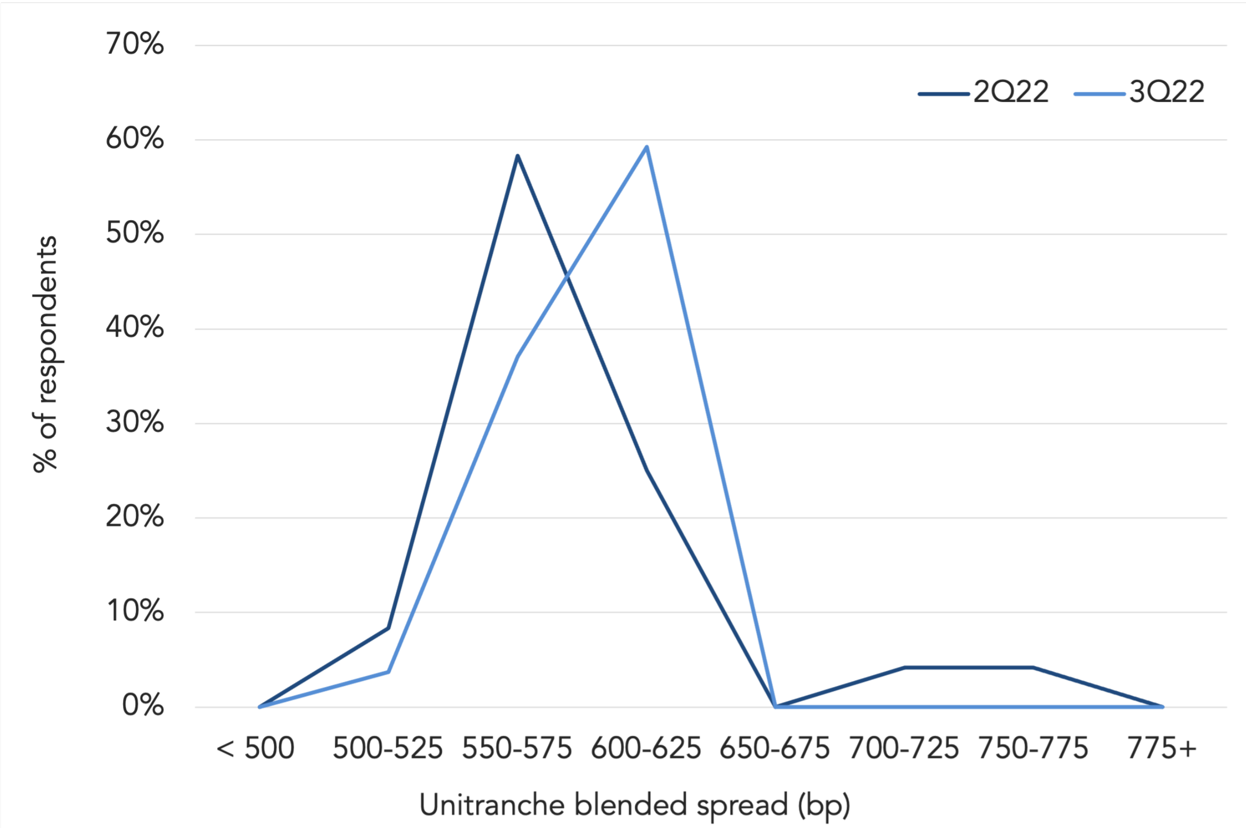

One of the main themes of the loan market in 2Q22 was the disconnect between the broadly syndicated loan market and the direct lending market. Increased volatility and recession fears hit the institutional loan market and investors pushed back, resulting in much higher pricing. In the direct lending market, there was little effect on pricing for most of the quarter. Yields did increase, but mostly due to rising base rates. For unitranches, the average blended spread in 2Q22 was flat relative to 1Q22 at 596bp. However, many lenders said that they expect pricing to move higher in the direct lending space and have already seen some evidence of this. Moreover, when asked what their minimum spread threshold on unitranches was heading into 3Q22, 59% of respondents to Refinitiv LPC's 3Q22 middle market outlook investor survey, said they were looking for minimum spreads of 600-625bp. Three months earlier, the most common response (58%) was a lower 550-575bp.

(Past performance is no guarantee of future results.)