US syndicated lending dropped 28% in 3Q19 to US$463bn but loan market remained resilient
– Ioana Barza

October 1, 2019 – US syndicated lending dropped 28% in the third quarter to US$463bn amid a relatively tumultuous quarter. Escalating trade tensions, a Treasury yield curve inversion suggesting a recession, an attack on Saudi Arabia's oil facilities which cut 5% of the world's oil supply and triggered the biggest jump in oil prices in almost 30 years, signs of China's slowing growth, along with concerns of slowing global growth, and a spike in the SOFR rate and two Fed rate cuts were some of the highlights. By the end of the quarter, the Fed appeared deeply divided: are they simply tweaking policies or embarking on a more aggressive fight to keep the expansion on track?

Amidst this backdrop, market veterans said the loan market remained remarkably resilient. At US$208bn, investment grade loan volume was down 36% in the third quarter and up slightly year over year.

"Trade issues are certainly top of mind; they have significant impact on companies that have meaningful Chinese operations but we are not hearing that deals are not getting done as a result of Chinese concerns," said one investment grade underwriter.

He added, "We have also seen that the tectonic shifts in certain subsectors have played out for the most part so we are no longer seeing the kind of shifts that are forcing activity the way we saw in 2015 to 2017."

To this end, US investment grade M&A financings fell from US$69bn in the second quarter to US$40.5bn in 3Q19 and are also down from US$48bn at this time last year.

"M&A is down and trade is part of it but concerns of where we are in the cycle have a lot to do with it plus a lot of potential acquirors are on the sidelines because they are in deleveraging mode as a result of previous transactions they have conducted," said a second underwriter. "A greater percentage of stock is going into deals as multiples are high and it is a way to hedge against a downturn."

Roughly US$105bn in bridge loans have been recorded both this year and last year to date. However, this year's figure was comprised of eight deals compared to 17 deals at this time last year as larger bridges dominate. Meanwhile, quarterly term loan issuance surpassed US$40bn for only the second time on record with 70% slated for M&A.

But, "M&A is so situation and industry specific," said a third investment grade underwriter. "Clients need to do transactions for a variety of reasons. Everyone is looking for growth as organic growth is fairly skinny and if you do not have it, there is a desire to go and look for the right acquisition, have a discussion around value, concerns with trade and with the cycle turning. Companies are being pretty deliberate in asking do we want to buy at these prices at these levels."

DISCRETION AND DISCIPLINE

Private equity sponsors have been equally discerning, focusing more on add-on acquisitions. LBO-related lending was down 20% to US$29.6bn. All told, leveraged lending fell 16% in the

third quarter to US$181bn driven by a 30% drop in pro rata lending to US$85bn while institutional loan issuance was flat at US$96bn.

While supply was tempered, demand was as well. Retail loan fund outflows were US$7.85bn this quarter and US$28bn for the year to date, according to Lipper. New issue collateralized loan obligations (CLOs) were US$90bn compared to US$99.75bn at this time last year according to LPC Collateral.

“The market is definitely open, it is not the most liquid market we have seen due to retail outflows but there is enough of a calendar to keep CLOs investing and not worrying about cash,” said a leveraged underwriter. “It is going to be a pretty good year for CLO issuance, but weighted to higher quality, they will only jump in and do lower quality from time to time.”

However, “It is very bifurcated: good deals are going very well (BB and high-quality single B names). People need to be very, very careful. A bunch of deals are getting rocked,” said one leveraged banker.

“The market is showing a discipline it hasn’t exerted in a while with substantial pushback on pricing and structure of deals, they are not just minor changes,” said a second leveraged lender.

“Pricing will only do so much as there are concerns about rating migration, industry and trade volatility. Investors are looking to protect value more than they’re looking for price,” said one asset manager. “Value is protected by minimizing leakage, reducing ability for the company to lever in the future, having MFN protection if they do decide to leverage in the future and the list goes on.”

The bifurcation is reflected in the secondary market. Since the share of highly bid loans fell off a cliff in October last year, the market has yet to see more than one quarter of the entire multi-quote universe bid at par or higher. This is in contrast to at least 60% to 80% of loans bid at par or higher in 2017 and 2018.

At the other end of the spectrum, a material part of the market has been selling off, not just due to secular disruptors, changes in technology are hitting every business to varying degrees.

“The dynamics are unlike 2015 where energy was the issue, in 2016-2017 when it was a retail issue, or in 4Q last year, where everyone had an issue,” said a second asset manager.

During this quarter, a growing share of issuers are having issues and seeing their loans dropping 2 to 5 or more than 5 points. All told, roughly 10% of the market across many different industries is having idiosyncratic issues. This phenomenon can hit at any point in a cycle, but it is more pressing at this point later in the cycle.

More companies’ business models have been affected by technology disruptions which have led to data transparency, shorter investment cycles and collapsing supply chains requiring investors to do a lot more digging, excavating on credits but also on the broader trends shaping industries.

“With the economy softening, more sectors see weakening, weaker companies are now starting to be eating wage and raw material increases, not being able to pass it on those exposed to exports are taking a hit too,” said a third asset manager.

However, asset managers say it is not time to pull the alarm bells on credit. There is weakening in some credits and some sectors rather than a broad downturn in corporate performance across all sectors. This remains sector driven by secular and some cyclical

drivers versus a single cause. “There is no universal blueprint for success; every deal has its own quirks,” said a second leveraged underwriter.

“Heading into 4Q, it’s been a good year for leveraged loans but not one where asset managers are going to stretch towards end of the year for yield,” said a third lender. “They will be more cautious to finish the year off on a positive note but not take too much idiosyncratic risk on credits to raise yield.”

Looking ahead, M&A financings are episodic and hard to predict. “It depends on what the outlook is for the company and industry: do they need to do something or is it a nice transaction that would bolster their portfolio but they do not feel they have a gun to their head? The latter category is more discerning. I’ve been in situations where they express hesitation, they want to do the deal but it is not a one size fits all approach. They feel some level of cautiousness around trade, growth, overall economic expansion and where we are in the cycle,” said a fourth investment underwriter.

For the full report, see the October 7 issue of *Gold Sheets*.

	3Q18 Issuance	**3Q19 Issuance**	**% change**
U.S. Total Issuance (US$bn)			
Overall	488.38	462.76	-5%
Investment Grade	198.50	207.75	5%
Leveraged	203.54	180.79	-11%
Institutional	117.07	96.67	-17%
LBO*	43.23	29.62	-31%
LBO Leverage	5.56x/6.95x	5.45x/6.99x	
HY Bonds	41.89	64.79	55%
Investment Grade Bonds	279.11	330.54	18%
U.S. New Money Issuance**			
Overall	197.68	160.14	-19%
Investment Grade	56.03	60.37	8%
Leveraged	118.82	84.86	-29%
Institutional	91.26	57.35	-37%

* Excludes bridge loans
**Includes only new financings, such as M&A, LBO, dividend payments, and incremental fund raising

3Q19 US Bookrunner

Rank	**Bank Holding Company**	**Volume**	**# of Deal**	**Market Share**
1	BAML	68,639,236,821	245	14%
2	JP Morgan	59,988,938,488	198	12%
3	Wells Fargo & Company	45,115,950,337	188	9%
4	Citi	43,212,952,508	113	9%
5	Barclays	22,859,740,196	72	5%
6	Mitsubishi UFJ	15,854,709,957	69	3%
7	Mizuho Financial Group	14,707,113,588	43	3%
8	Goldman Sachs & Co	13,906,657,363	61	3%
9	PNC Bank	13,891,874,994	84	3%
10	Morgan Stanley	13,583,609,431	43	3%

3Q19 US Leveraged Bookrunner

Rank	Bank Holding Company	Volume	# of Deals	Market Share
1	BAML	19,791,882,874	116	11%
2	JP Morgan	15,856,383,528	97	9%
3	Wells Fargo & Co	14,563,518,023	80	8%
4	Barclays	9,517,160,555	48	5%
5	Citi	9,315,230,707	50	5%
6	Goldman Sachs & Co	8,396,538,316	51	5%
7	Credit Suisse	7,637,732,245	46	4%
8	Deutsche Bank	6,274,083,902	41	4%
9	PNC Bank	6,026,581,594	35	3%
10	SunTrust Bank	5,734,786,220	41	3%

3Q19 US Investment Grade Bookrunner

Rank	Bank Holding Company	Volume	# of Deals	Market Share
1	BAML	42,658,720,613	107	17%
2	JP Morgan	40,645,726,356	84	16%
3	Citi	33,071,068,698	57	13%
4	Wells Fargo & Company	25,184,650,567	84	10%
5	Mizuho Financial Group Inc	11,370,163,631	25	4%
6	BNP Paribas SA	10,570,895,956	24	4%
7	Mitsubishi UFJ	10,463,979,261	31	4%
8	Barclays	9,739,107,419	20	4%
9	HSBC Banking Group	8,261,344,673	19	3%
10	RBC Capital Markets	7,681,244,171	16	3%

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