US syndicated lending shrank by 20% to US$2.1trn in 2019
– Ioana Barza

January 3, 2020 – US syndicated lending activity slowed by 20% in 2019 to US$2.1trn from 2018's US$2.6trn record as issuers held off on both opportunistic refinancings and event-driven transactions. US M&A-related lending dropped 20% to US$465bn, hitting a five-year low.

"There is a slowness with respect to the willingness to both invest and pursue M&A. Every company I talk to is looking at smaller tuck-in acquisitions to complement the business," said one arranger. "In terms of doing anything more meaningful, their response is you need to feel comfortable with your base business in order to look out and try to expand your business."

Following six years of steady growth, US investment grade M&A lending shrank 20% to US$193bn with negligible M&A financings registered in the fourth quarter.

"Debt capital markets are primed and ready to accept whatever comes our way but valuations are impacting dealflow," said a lender. "Stocks are doing great. Maybe they (issuers) don't want to mess things up by buying something at too high a price and regretting it a year later."

A second arranger said, "Potential targets out there are showing general weakness with respect to earnings and given the geopolitical environment, valuations are still high relative to the uncertainty. Why do you want to bet the farm there?"

Leveraged buyout financings were also down 19% to US$124bn, following a 28% drop in 2018 from 2017's US$211bn record.

"Valuations are stubbornly high. At 11 times, you have less time to grow into your capital structure – meaning if you are a bit over levered at outset, even if you are performing well and generating good cash flow, as we are nearing a down cycle, there is a perceived risk, you don't have the runway to grow," said one underwriter. "I don't think that the market has a lot of time or patience to look at a deal that is over levered. The credit folks don't want to make a bad situation worse in terms of their portfolio so they won't look at more complicated deals."

The ramifications are also playing out in the secondary market where any sign of deteriorating performance results in dramatic drops in bids. "There is all this stuff trading into the 80s and no one there to buy because distressed players do not want it until the 70s or lower," said one asset manager.

Some portfolio managers say their patience has run out and consider the idiosyncratic risks that have appeared across a wide range of industries as the end of the line for these credits. The severe reactions in the secondary are expected to continue and create a dead zone in some cases as bids drop precipitously.

"They (troubled credits) are just making a quick stop in the 80s, they are ripe for trading lower," said a second underwriter.

Looking to 2020, these credits are creating a big investment opportunity, for those who have the flexibility and credit expertise to make the right picks.

“It won’t be CLOs and it won’t be retail or the crossover buyer, the year-end rally in risk assets notwithstanding, this opportunity is here to stay,” said a second asset manager.

Technicals that plagued the market in 2019 are expected to continue. More than US$37bn has flowed out of retail loan funds while CLO managers are de-risking.

“We see big moves in (loan) prices because no one is stepping in. The loan market is bigger and lower rated than we have ever seen but how can CLOs play offense with their existing vehicles?” asked a third asset manager.

With the absence of retail, a less risk sensitive buyer, and an expanded ratings universe, ratings migration remains a big concern. As a result, the bifurcation among credits is expected to persist this year with investors wishing there will be more supply of higher-rated credits. US leveraged lending was down 35% in 2019 to US$808bn as refinancings dropped 40% to US$453bn.

“We expect to see even more caution on underwriting, wider caps, more flexibility because deals have been tough to get done,” said a third leveraged underwriter.

Leveraged pro rata lending was down 21% to US$408bn while institutional loan issuance was down 45% to US$400bn.

One bright spot was the continued reliance on investment grade term loans. Even as US investment grade issuers held off on refinancing due to lack of need or incentive and overall issuance dropped 8% to US$952bn in 2019, term loan issuance was only 4% lower than 2018's US$140bn record.

“Borrowers utilize the bank market for flexibility; it is not the cheapest but the most flexible alternative,” said one investment grade underwriter.

But, will banks’ interest wane? “Term loan issuance will be down because M&A is going to be down and the primary use for term loans is to have prepayable debt in the capital structure in order to delever in connection with acquisitions. Bank demand is not what it was as a result of a combination of factors including concerns about the end of the cycle and performance of certain businesses and business segments,” said a second lender.

Heading into 2020, lenders surveyed by Refinitiv LPC will be tackling the transition from Libor and ESG lending, besides their hopes for a busier start to the year.

“We haven’t seen capex because of uncertainties but as uncertainty unwinds, including clarity on trade which was a huge step for the US and the global economy going forward, corporates will be more aggressive using capex, not just dividends and buybacks and M&A will be more attractive. Corporates won’t slow down, they will accelerate,” said a third arranger.

If any firms are going to make that bet, lenders say it will materialize in the first half of this year and then it will be very muted.

“Acquisition finance related commitments were fewer than I would have anticipated and in 2020 election uncertainty, concerns about being towards the end of the cycle, and high multiples will all combine to depress M&A,” said a third lender.

For the full report, see the January 6 issue of *Gold Sheets*.

	4Q18 Issuance ($Bils.)	4Q19 Issuance ($Bils.)	% change
U.S. Total Issuance			
Overall	659.73	518.67	-21%
Investment Grade	295.91	192.15	-35%
Leveraged	279.69	224.72	-20%
Institutional	128.29	138.44	8%
LBO*	43.66	29.07	-33%
LBO Leverage	5.22x/6.30x	5.03x/6.54x	
HY Bonds	14.17	68.10	381%
IG Bonds	199.14	196.26	-1%
U.S. New Money Issuance**			
Overall	208.92	108.87	-48%
Investment Grade	58.43	10.70	-82%
Leveraged	132.14	72.21	-45%
Institutional	82.70	50.01	-40%*

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

4Q19 US Bookrunner

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	BAML	74,435,160,852	277	14%
2	JP Morgan	70,386,941,801	271	13%
3	Citi	55,850,723,902	139	10%
4	Wells Fargo & Company	49,892,316,083	215	9%
5	Barclays	22,920,673,251	97	4%
6	RBC Capital Markets	16,303,469,050	65	3%
7	Deutsche Bank	16,177,539,054	65	3%
8	Mitsubishi UFJ Financial	16,126,884,700	70	3%
9	Credit Suisse	15,789,323,276	66	3%
10	U.S. Bancorp	15,502,193,141	90	3%

4Q19 US Leveraged Bookrunner

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	BAML	24,465,666,300	123	11%
2	JP Morgan	22,070,642,229	126	10%
3	Wells Fargo & Company	19,393,754,809	92	9%
4	Credit Suisse	14,043,947,819	56	6%
5	Barclays	11,703,710,699	65	5%
6	Citi	11,525,685,418	58	5%
7	Goldman Sachs & Company	11,310,192,741	54	5%
8	RBC Capital Markets	9,602,192,152	35	4%
9	Deutsche Bank	8,218,301,453	43	4%
10	Morgan Stanley	5,646,363,462	36	3%

4Q19 US Investment Grade Bookrunner

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	Citi	42,132,216,317	69	17%
2	BAML	40,595,308,944	120	17%
3	JP Morgan	35,393,894,023	109	14%
4	Wells Fargo & Company	23,613,901,834	94	10%
5	Barclays	10,549,212,552	28	4%
6	Mitsubishi UFJ Financial	9,112,402,080	34	4%
7	U.S. Bancorp	9,070,841,062	45	4%
8	Mizuho Financial Group Inc	7,227,616,447	23	3%
9	Sumitomo Mitsui Financial	6,828,479,298	10	3%
10	RBC Capital Markets	5,819,074,517	23	2%

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