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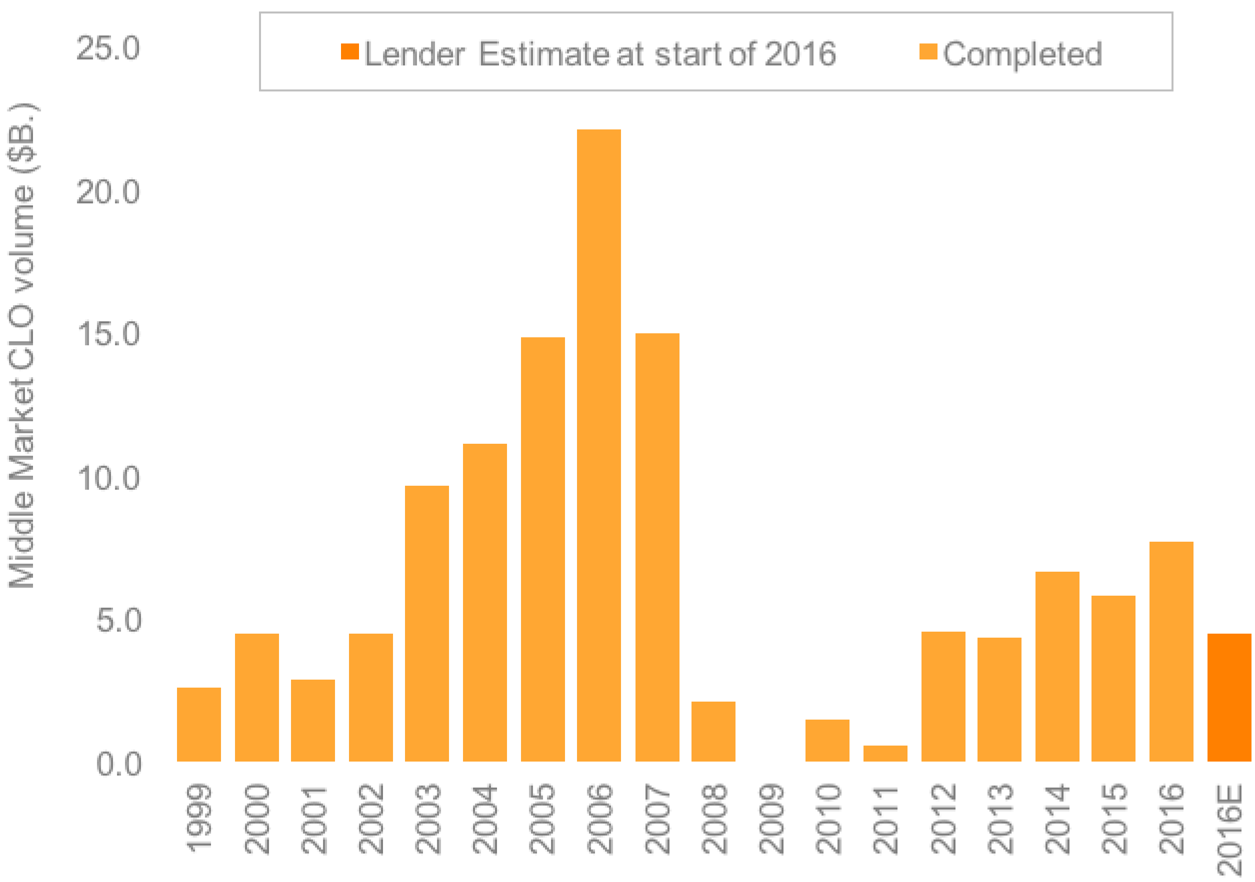
2016 MM CLO volume hits highest level post credit crisis

While the upcoming risk retention rules have certainly slowed broadly syndicated CLO volume in 2016, the middle market has bucked the trend. Middle market CLO issuance has reached US$7.7bn so far in 2016, surpassing last year's $5.8bn and reaching the highest level since 2007. This is a pleasant surprise as most managers that took LPC's Middle Market Investor Survey at the beginning of the year were only expecting to see around US $4.5bn in issuance this year. Most middle market managers retain the equity interest in their CLO funding vehicle, so this segment of the market was not too hampered by risk retention rules.



Furthermore, the middle market has received strong investor interest this year from investors looking for yield and a way to diversify their portfolios. The strength of MM CLO issuance is also surprising as the pricing of AAA liabilities has been elevated all year long. The average AAA spread in 2016 is 220bp, up from 190bp in 2015 and 180bp in 2014. These higher spreads should help keep a higher floor on new issue spreads in the primary market. Larger deals helped boost volume with two recent MM deals for Brightwood and Fortress issued at north of US$700m in deal size.

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