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Middle market loan volume disappoints in 2Q17

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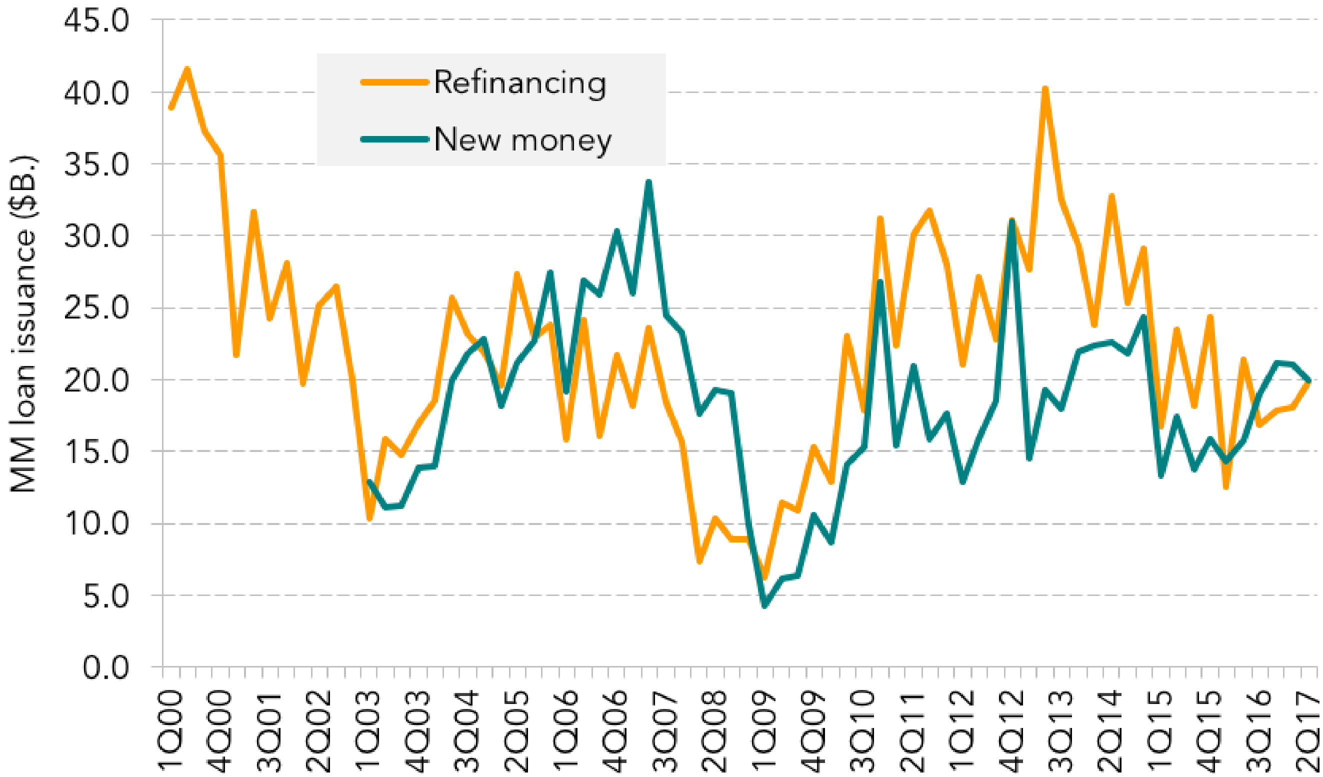

Despite all the capital flowing into the middle market, loan supply continued to disappoint in 2Q17. Total middle market loan issuance reached US$39.8bn in 2Q17, up a slight 2% and 7% from 1Q17 and 2Q16 levels. However, it was refinancings that drove the bump in issuance as new money volume of US$19.9bn was down 5% from 1Q17 levels. In the non-sponsored market, new money activity continues to be muted as M&A only reached US$2.3bn, a mere 10% of overall activity. With so much uncertainy with regards to the new administration coupled with extremely expensive valuations, it does not pay for smaller issuers to pull the trigger on acquisitions leaving fewer new money opportunities for the banks. In the sponsored market, new money issuance has been trending in the right direction since Trump took office. In fact, middle market LBO issuance hit the highest level tracked post credit crisis at US$7.4bn, comprising 46% of activity. However, the new money supply has not been sufficient to soak up all the capital coming into the market. Lenders are struggling with deteriorating docs, rising leverage levels, and contracting spreads. Spreads on both pro rata and institutional sponsored loans sank to lows last seen in the 2014/2015 time frame. Lenders are hopeful for a pick-up in activity in the second half of 2017 for both the non-sponsored and sponsored markets. However, most lenders feel the pick up will be modest at best.