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Back to School

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For many of us the post-Labor Day week means reacclimating to the concept of being in front of a computer in an office. And not in your bathing suit.

For those in the leveraged loan market, it means wondering whether deal activity will see its usual September resurgence, and what that will mean for terms and pricing.

As our *Chart of the Week* shows, overall leveraged loan volume for the first eight-plus months of the year has already matched that of the same period in 2013. That was the busiest three quarters over the past four years, according to Thomson Reuters LPC.

The chart also details how that activity was comprised. As was true in 2013, more than 80% of this year's volume represented either refinancings or repricings. That's unsurprising, as sponsors have taken advantage of issuer-friendly conditions throughout the year to lower cost of capital and extend maturities where possible.

While these favorable conditions will likely persist, the repricing momentum has slowed. S&P LCD data show for the leverage loan market as a whole there were only $20 billion in repricings via amendment in July, compared to about $70 billion in March and more than $100 billion in January.

At least by the numbers, the summer of '17 in the middle market has been the slowest in four years. Including the expected September pipeline, LPC reports around $17 billion of volume for the three month period beginning July 1. Contrast that with $36 billion – double the level of activity – for the same period last year.

Of course, there's plenty of time for September's work-in-process to translate to upcoming transactions. Sponsors and lenders – including our own shop – have noted a healthy pop of recent deal flow in the auction stage that should hit the market over the next few weeks. Assuming constructive credit conditions continue, that should prove beneficial for loan investors as we head into the fourth quarter.

Not that there aren't plenty of potential worries hanging over the broader markets. Congress returns from its summer break with a daunting to-do list, including keeping the government open while writing big checks for hurricane relief. Tax reform continues to be the hope of many in the business community. But less-than-complete agreement on what those changes will look like, combined with failure on healthcare reform, aren't promising signs.

North Korea looms over everything as the biggest exogenous wild card, though no one has a handle on likely scenarios to ease tensions, or even whose court those options are in.

Nevertheless loan investors and issuers remain reasonably confident that after recharging their batteries in the Hamptons, the Jersey shore, or Quonochontaug, there is plenty of room for market optimism for the rest of the year.