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Feeding the Beast

THE LEAD | September 28, 2017

The world's oldest fruitcake was found in Antartica in a building left from the expedition of Robert Falcon Scott. The British explorer died during his 1912 attempt to reach the South Pole. But not apparently from eating the fruitcake. The perennial delicacy was found covered in ice, and left "wrapped in paper..and in its original container."

One researcher said the early 20th century dessert was in "excellent condition" and "smelled almost edible." Precisely how fruitcakes appear to us today.

Meanwhile, the leveraged loan market continues on its festive way. In its always- informative semi-annual webinar, Lincoln International noted last week the trends in private debt fundraising. This year is expected to reprise 2016's robust performance when almost $58 billion was raised, compared to $23 billion in 2015.

The question was raised (but not settled) as to whether this cash is incremental dollars, or just recycled from existing platforms. Evidence for both may be found.

As Lincoln highlighted, public BDC valuations have slumped despite overall equities being on the upswing, reducing their cash available for investment. But private BDCs have jumped to more than $30 billion over the past six years. That represents half the growth in BDC assets since 2010.

The variety of private credit sources have also expanded in recent years. Besides BDCs, they include separate management accounts (SMAs), debt funds, and CLOs.

Debt investors are increasingly curious if these burgeoning funds can find enough deal flow to stay fully invested. Lincoln reported that M&A and refinancing volume is poised for a turnaround after three down years. Based on Thomson Reuters LPC data, annualized M&A loan activity looks to be 30-35% higher than 2016's numbers.

The same improvement is expected for the refinancing and dividend pipelines. On a combined basis, middle market sponsored loans will weigh in at almost $162 billion, sharply higher than last year's level of $139 billion (see our *Chart of the Week*).

Yes, as we've often discussed in these pages, overall market leverage has risen steadily, and pricing has been range-bound. But as long as lenders see a steady volume of transactions, optimism will remain that quality credits may be found.

For canary-in-the-coal-mine watchers, the flow of cash into and out of retail loan mutual funds is a good leading indicator of the broadly syndicated loan market. That metric has turned bearish over the past few weeks. According to LCD, almost $800 million has departed funds since early August.

While early days, this trend bears watching. A drag on large cap demand can translate in the middle market as upward spread pressure. The idea that credit investors may see some buy-side relief by Christmas is not as nutty as some holiday cakes.