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Fast Food

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McDonald's reported surprisingly strong earnings for the first quarter. An RBC piece last week said the burger giant's results were driven by better sales in international markets, as well as the addition of value-priced options on its menu.

Bank analysts did not mention Don Gorske. The retired prison guard from Fond du Lac, Wisconsin just consumed his 30,000th Big Mac. He already holds the Guinness record and is committed to trying for 40,000 – a figure he should reach by 2032.

Though his diet consists mostly of the "two all-beef patty, special sauce" entrée, Mr. Gorske told the NY Post recently, "I'm healthy as a horse." He also can't remember the last time he had an apple or banana. "Last year I had some corn," he said.

Nutritional value has also been a theme in the leveraged loan market. As the second quarter reaches its halfway point, large cap issuers are continuing to feast on sell-side friendly terms such as cov-lite, lower spreads, and higher leverage.

On the supply side, the volume of M&A-related financings was up sharply last week. According to S&P LCD institutional activity so far in May is just over $26 billion. That's compared to almost $33 billion for all of April.

Demand is matching whatever the market serves up. $50 billion of cash in-flows comprise about $44 billion of CLO issuance and $6 billion of money coming into retail loan funds. Compare that with $15 billion of out-flows from high-yield bond funds.

Interestingly, the wave of support for floating rate assets from institutional investors has expanded the leveraged loan universe to record levels. As our *Chart of the Week* highlights, outstandings now top $1 trillion. The total amount of high-yield bonds in the US, by contrast, sits at about $1.5 trillion. Analysts expect equivalence between the two asset class worlds in the not too distant future.

Meanwhile the share of new-issue broadly syndicated loans that are covenant-lite continues to climb. LCD data now shows 77% with incurrence-only financial tests. Cov-lite was only 20% of the market in 2007.

Where's the beef? From a yield perspective it's in the middle market. Thomson Reuters LPC reports all-in yields for mid cap institutional term loans have risen five consecutive months to 6.7% from just over 5.8% in November 2017. This trend is driven by higher Libor as well as higher leverage.

Looking ahead, the outlook for credit investors remains, as we say, constructive. The economy is chugging along, defaults are modest, and inflation contained. There's also a decent backdrop for M&A activity. Corporates have cash and private equity has plenty of dry powder to deploy. That should sustain all sorts of financing volume.

So while few experienced investors are mistaking the current pipeline for fine dining, it should keep hungry buyers happy until the menu improves.