MM cov-lite issuance of $22B YTD slightly behind 2017's record high

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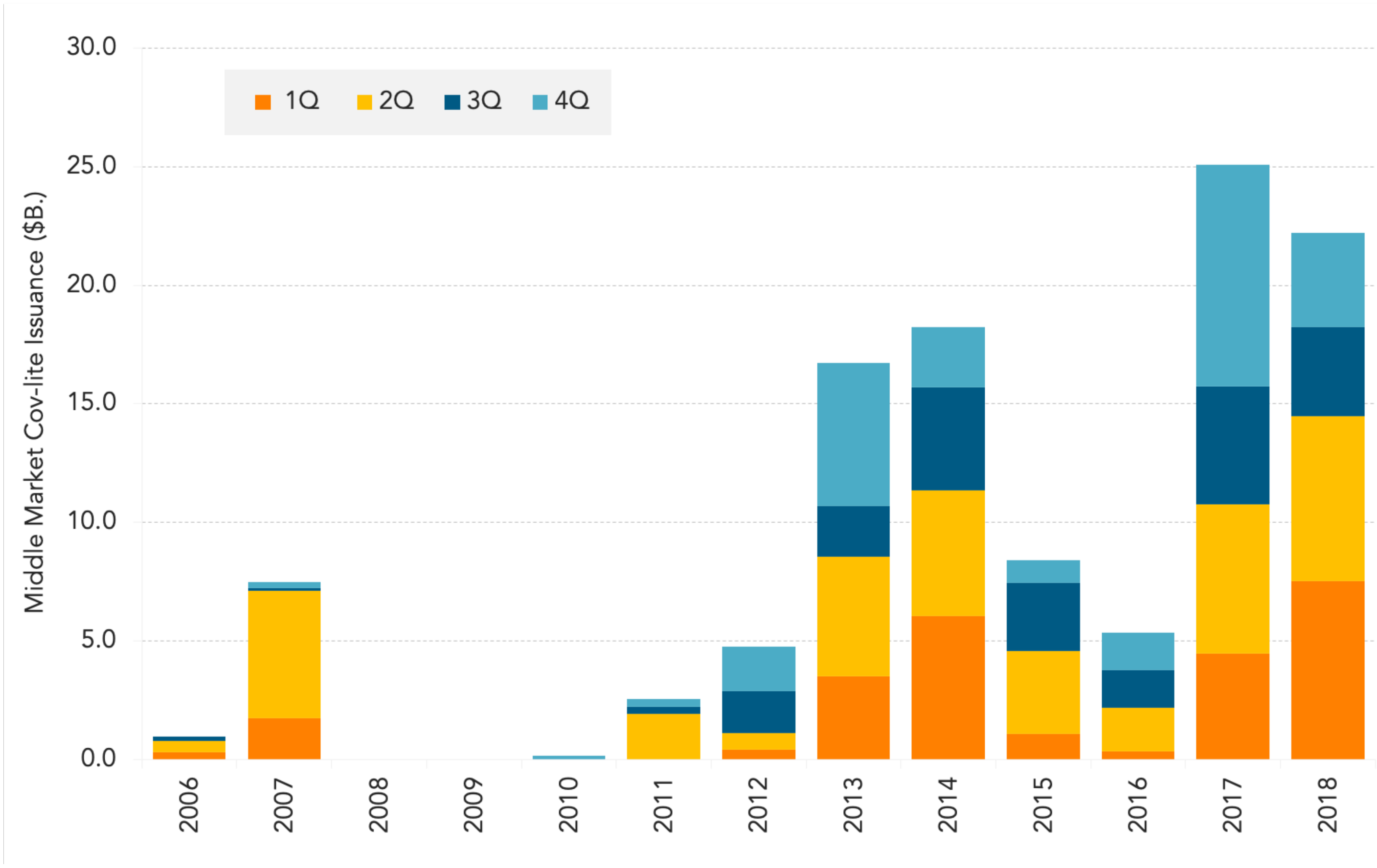

Year to date middle market covenant lite volume has reached US$22bn. This is only about 11.5% behind 2017's all time record high of US$25.1bn, making 2018 the second highest year on record. Much of 2017's strong momentum carried over into 2018 with 1H18 issuance surpassing 1H17 volume by 35%, putting 2018 on track to hitting a new record high. However, mild volatility both over the summer and in the last month has put the breaks on covenant lite volume in 2H18. So far in 4Q18, roughly $4.0B in middle market covenant lite facilities have hit the loan market which is a swifter pace relative to 3Q18's low of $3.8bn, but well below the pace tracked in 1Q18 and 2Q18 of US$7.5bn and US$6.9bn, respectively. Concerns about rising rates, tarriffs and weaker economic growth have caused institutional investors to pause and large middle market issuers have had a tougher time obtaining the same loose structures they garnered earlier in the year. Most of the issuers to obtain cov-lite in 4Q18 did so earlier in the quarter with Elo Touch Solutions being the last middle market issuer tracked by LPC to hit the market cov-lite during a period of uncertainty. Pricing on Elos' cov-lite facility opened at an elevated 650bp over Libor while the OID was lowered to 95 from a range of 97-98 OID. This compares to an average spread for MM cov-lite issuers of 471bp this quarter. Despite a slowing in cov-lite issuance in the institutional market, sources indicate the club and unrated middle market remains competitive with arrangers still pitching aggressive strutures, including cov-lite.

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