THE LEAD
https://theleadpc.com/the-price-of-everything-last-of-a-series/

The Price of Everything (Last of a Series)

THE LEAD | December 19, 2018

"US credit markets are grinding to a halt." So warned the front page of Monday's *Financial Times*. Followers of this column will recognize the ensuing list of culprits – money pouring out of loan funds, falling secondary loan prices and resultant choppiness in the primary market, and stalled high-yield bond issuance.

Credit markets may be indeed be poised for a major correction. Every day the Dow racks up triple-digit losses certainly sets an increasingly gloomy backdrop for investors. Combined with the Fed's "dovish hike" yesterday, and we have an interesting soup of market signals.

It does feel as if we're at an inflection point. What's not evident is whether this is the prelude to a recession or merely a new clearing price for leveraged loans.

Public equities and fixed income have taken a pounding since October, thanks to tariff and inflation worries. In the "be careful what you wish for" category, interest rate concerns have been supplanted by the fear that economic growth has stalled.

One sign of trouble is our old friend, the yield curve. Earlier this month, the five-year Treasury yield dipped below the two-year. While not the traditional ten-year/two-year inversion, it added to the noise.

Market sentiment does seem to have changed abruptly. At a gathering of veteran institutional investors this month, the tone was decidedly pessimistic. Several predicted a recession would be actually be underway sometime in the second half of 2019. Many forecast ten-year rates have peaked, falling through the end of next year.

One analyst said he hoped a reset of public equity valuations would lead to a decline of the lofty LBO purchase price multiples being paid by private equity sponsors. "That would help bring leverage multiples back to normal," he said. Whatever "normal" is.

There's a critical distinction between dramatic headlines and the reality on the ground. Yes, broadly syndicated loans have been on the defensive with a few deals pulled, and others needing investor-friendly flexes.

But for every loan seller there's a buyer with conviction. And cash. Our trading desk sources are reporting their busiest month in years. Managers are opening new warehouses at a brisk clip, taking advantage of conditions by buying cheaper assets in bulk.

Meanwhile the middle market remains highly constructive. Fund flows and price volatility drive large caps, but mid cap deal flow comes from fund raising, dry powder, and client relationships. For direct lenders, it's about the dough, not the Dow.

So another year, incredibly, comes to a close. Despite media reports of the world ending, savvy credit investors will lean into a new world where lower prices finally bring yields in line with risk.

From the Editor: The Lead Left will be on break until January 7th . To all of our readers, best wishes for a wonderful holiday season.