# "It's Been A Long Year"

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So bemoaned one friend from a broadly syndicated loan desk on Monday. We get it. As we covered in our first column of the year last week, there's been enough to-ing and fro-ing in liquid markets in the past half-month to already fill your 2019 diary.

Such is the nature of today's market velocity propelled by scary media headlines. It's also where we are in the credit cycle. When teens are partying in the basement, no one expects parents coming downstairs at 7:30 pm. But around 2 am, ears start perking up.

High yield fund flows reversed last week dramatically. With rate hikes on the backburner for a bit, fixed income jockeys began turning their horses back to the track. Same was true of loan funds, which saw outflows moderate to $327 million. Departing cash looks to be slowing to a trickle, perhaps even a modest uptick this week.

Round-the-clock activity is also fundamental to loans and bonds. They trade. When participants are pushed in a direction by one market trend or another, they trade a lot. We saw that in spades in December, and it seems to be the case this month as well.

It's also true that Januarys bring new budgets. "We are creatures of the calendar year," one portfolio manager told LPC. That means cleaning up year-end positions by buying or selling, then having a fresh pot of money to put to work in 2019.

To add to the fun, PMs are often challenged managing cash. With loan funds as sellers for the moment, CLOs are the prime source of institutional investor appetite for broadly syndicated paper. These vehicles have adapted to all sorts of market environments over the past three decades, but they are also highly structured.

To protect both their equity and liability investors, CLOs have various tests that measure things like spreads, valuations, and ratings. Being in a climate where loan prices can move five points within days makes balancing those metrics a test.

On the middle market front, there's less market-prompted direction. As our readers know, private credit (being illiquid) is less subject to market swings. Demand comes from asset managers who have raised long-term capital in various funds. Supply for many comes from private equity sponsors who also have plenty of dry powder.

So far PE deal flow has been light, though not related to market volatility. 2018 was another strong year for M&A volume, as our *Chart of the Week* depicts. Unlike some years where tax considerations drive transaction timing, this past December 31 held no special significance.

Sponsors, unlike big banks and asset managers, are not creatures of the calendar. They are creatures of the funds they raise, and fiduciaries for investors eager for yield. All things being equal (admittedly a tall order), we are confident this year will see the same search for value we experienced last year. As long ago as that seems.