THE LEAD
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Thin January

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As hard as it is to grasp, one-twelfth of the year is already over. For the few of our readers who are goal-oriented, that means if you haven't started adding good investments to your portfolio, your work for the next eleven-twelfths is harder.

The good news is that conditions for deal making remain propitious. Rates are low, including default rates, the economy isn't slowing down (at least, not yet), and private credit and equity have plenty of dry powder to spend.

Regarding interest rates, it's worth noting that the Fed's dovish stance became firmer yesterday, greatly encouraging markets. First unveiled at year-end, this has stopped upwards Libor creep. The three-month rate, which rose from 2.3% over the summer to 2.8% in early December, has remained at that level.

This may explain less enthusiasm from floating rate investors. Last week marked the tenth consecutive week of outflows from retail mutual funds – this time $950 million. During that stretch $18 billion left loan funds, marking a significant turnabout from the first nine months of 2018 which had $12 billion of in-flows.

At some point, the removal of this much loan demand will have an impact on the broadly syndicated market, but so far deals are getting done. And in many cases they are getting done on terms still generally favorable to issuers.

The large cap pipeline is also growing. After a relatively slow start to the year, roughly $30 billion of institutional loans are expected to come to market. Some mega-financings are also slated for February which should test market depth.

Middle market spreads have not moved with BSLs; they have been range-bound. Today's average mid-cap senior debt Libor spreads are in L+450 bps territory. Institutional (i.e. syndicated) leverage was higher for both senior and total (5.2x/5.8x) than private club deals (4.4x/5.0x), per LPC. Deal specifics vary widely.

As our *Chart of the Week* highlights, LPC's pipeline of announced middle market deals is slightly ahead of last January's levels. But that's deceptive. Lenders are using the same word to describe their own list of actionable transactions: "Thin."

Another way of putting it: there are plenty of private equity firms participating in auctions, but it's tough to tell how many of these will translate into real business.

Help might be on the way. According to a Citizens Bank survey of 600 U.S. middle market companies, borrowing conditions are ripe for M&A activity. But that might change. "I would not wait too long," says Citizen's head of M&A Advisory, Ralph Della Ratta. "When the market finally turns it could be for more than a few months."

With any luck, we might be waving good-bye to Thin January and hello to Fat February.