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Stirred, Not Shaken

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D28 made headline news last week. No, we're not referring to a new *Stars War* character. And it's not a winning move in German Bingo. D28 is an iceberg.

In what glaciologists said was *not* a global warming-related event, D28 "calved" off from the Amery Ice Shelf in East Antarctica, making quite a splash. Depending on your source, Big Berg's mass equaled Los Angeles, Oahu, or 27 Manhattans. The island, not the cocktail.

Ice shelves shed major chunks every 70 years or so. Otherwise, said one expert, they "just grow and grow – like not cutting your hair." We'll take their word for it.

Meanwhile, in the warmer climes of leveraged loans, market observers contemplated other mega moves. One is recent economic data. Both manufacturing and services indices dipped sharply last week. The former fell to levels not seen since the Great Recession, while the latter dropped to its worst showing since August 2016.

Yet just as D28 trackers cautioned against climate bashing, economists offered signs of optimism. Friday's labor data – another 136,000 jobs created – demonstrated the expansion still has legs. As did the further easing of unemployment, to 3.5%.

It remains a question whether headwinds created by trade worries and actual tariffs will eventually bring growth to a halt. Consumers still drive the majority of the economy and confidence remains relatively strong.

Typical for the asset class, private credit markets shrugged off calving glaciers and Sinophobia, continuing to drive debt opportunities.

As S&P LCD reported last week, September proved to be the most active month in 2019 for new broadly syndicated loans – some $40 billion in volume. At the same time, loan demand grew apace, with CLO formation keeping a $10 billion monthly beat. That's $90 billion for the year so far; not bad, though shy of 2018's $101 billion.

The middle market has also seen solid growth in loan securitization. According to Bloomberg, more than $10 billion of midcap CLOs has been issued this year. While on track with 2018's activity, it's a fraction of the overall market.

Middle market CLOs differ from their large cap cousins in several ways. First, they are employed, not as trading vehicles, but as integral pockets among which to originate and hold loan commitments. That fundamental aspect makes them still subject to risk retention guidelines; rules that were relaxed for BSL CLOs.

From an asset perspective, smaller vehicles hold loans that are less leveraged and better structured. Cov-lite, for example, is a much less significant element of debt originated by middle market arrangers. Liquidity is sacrificed in exchange for these benefits, but investors get a 100-150 bp premium for that give-up.

All in all, despite chilling headlines, credit markets remain far from frozen.