

Now We Wait

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Answer: For most of US history, it was March 4, not January 20.

Question: What is Inauguration Day?

We found ourselves channeling our inner Alex Trebek this week as the nation's attention began shifting from election matters to vaccine watches.

News from Pfizer's late-stage trials that their COVID-19 vaccine was 90% effective buoyed public equities, sending indices to near or record highs. But what remains clear is availability of any vaccine to the general public is likely months away.

Meanwhile rising infections are propelling a third virus wave across the US, with 800,000 cases in the past week – up from 600,000 cited in last week's commentary. That brings total cases to over 10 million, with almost 240,000 deaths.

With the onset of winter a mere six weeks away and cold weather hitting northerly cities, COVID will continue to accelerate until a workable vaccine is available. That leaves commercial activity exposed, with the likelihood of additional fiscal stimulus an open question.

Credit markets are seeking their own paths, depending on supply/demand technicals. The volume champion remains high-yield bonds. As our [Chart of the Week](#) displays, junk bonds reached an annual record level on October 7 – \$345.6 billion, easing past 2012's number of \$344.8 billion (per S&P/LCD).

The proximate cause is fund in-flows of \$33.6 billion year-to-date, despite \$4.7 billion of outflows in the past two weeks and \$8 billion in September.

Of course, the Fed lent a helping hand to bond investors earlier in the crisis by supporting specific COVID-impacted names. And in this no-yield environment anything in the mid-high single digits checks the box for many investors.

Loan funds, in contrast, have witnessed \$28 billion of outflows year to date. Retail money is still a small share of the BSL buy-side, with CLOs at 72% of all institutional investors – the highest share of market on record.

CLO managers have cash and are eager to deploy it. Unfortunately the supply of new money deals lags pre-COVID levels. Not helping has been the combination of weaker (i.e. single-B) rated credits and the uncertain political climate. Arrangers pulled three transactions – ION Analytics, Greystone, and PetSmart – to await "better conditions."

Middle market arrangers with scale and strong sponsor relationships find themselves awash in deal flow. The combo of sellers looking to beat higher taxes next year with PE dry powder is the Daily Double driving the rush to the exits.

With year-end approaching, this will likely ease soon.

Answer: Anyone's guess.

Question: What will the deal pipeline look like in January?