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Unitranche spreads, yields hit 2021 low in December

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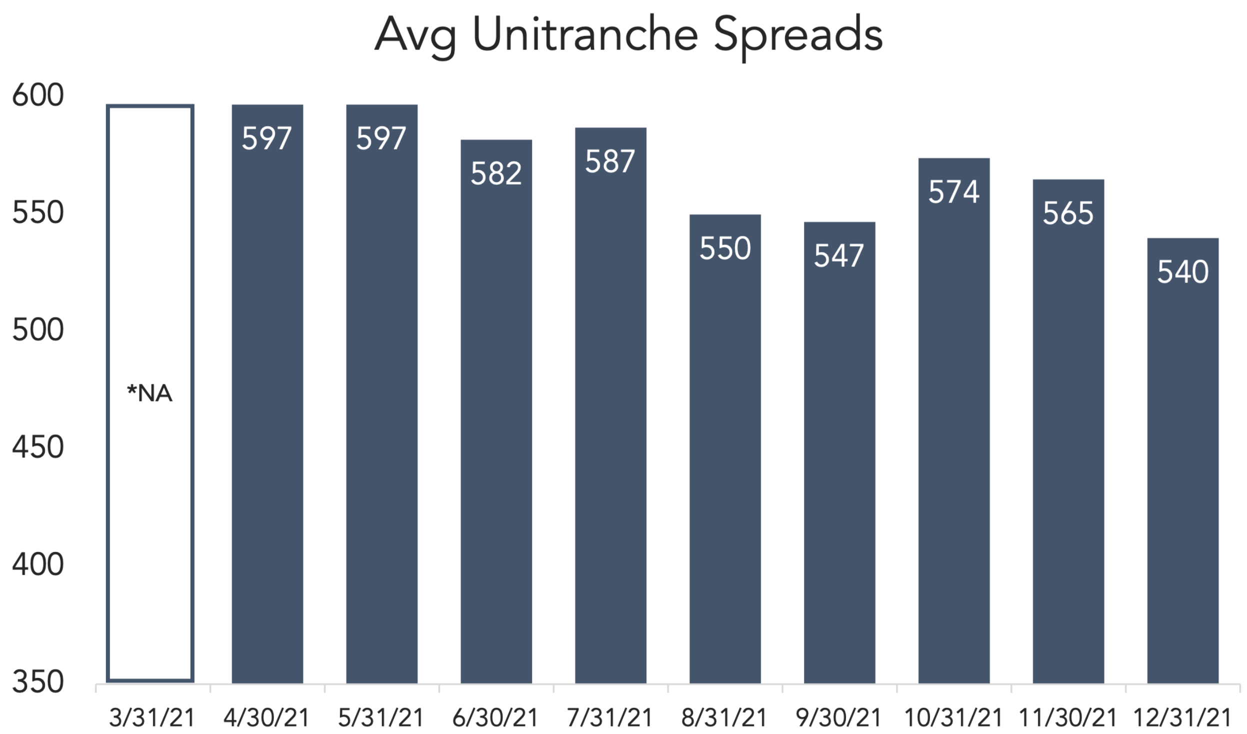

Source: DLD Private Data; Rolling 90-day avg; *NA: DLD started collecting terms for aggregation in Jan. 2021. There was not enough data in 1Q to provide a meaningful trendline, however the average would have been similar to those in the first half of 2021. DLD's Private Data pool totaled $103.5B at Dec. 31, 2021.

Competition moved unitranche spreads 25 bps lower in December to an average of L+540, a monthly low in 2021, despite the stabilizing effect heavy volume in the fourth quarter had on pricing for smaller borrowers and non-unitranche LBO financing. The decline dropped all-in yields to 6.7%, also a monthly low last year.

Return requirements should keep pricing from slipping much further, especially as looming interest rate hikes will bump funding costs.

DLD’s pool of unitranche loans consistently averaged about $50 million in EBITDA last year, the larger end of the middle market. Like a sliding scale, the private market’s reaction to movement in liquid credit tends to decline in tandem with borrower size, yet competition is affecting that convention. Today’s direct lending market is more crowded than before and grown exponentially since 2015.