TRENDING TOPICS

PNC JANUARY 2016 SYNDICATED LOAN MARKET

MACROECONOMIC UNCERTAINTIES CLOUD OUTLOOK FOR 2016 SYNDICATED LOAN MARKET

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Participants in the syndicated loan market started out 2015 with expectations of global economic growth, increasing M&A and general strength in the market. A year ago, interest rates were at historic lows, lenders were flush with capital and corporates were ramping up their acquisitions despite lofty price multiples.

According to Thomson Reuters, participants in the syndicated loan market lent $2 trillion in 2015, down 6% from record-setting 2014 but still very strong. Furthermore, $740 billion of those loans represented new, rather than refinanced, debt — the third highest volume of new money for such loans ever, after 2006 and 2007.

Thomson Reuters reports that most of the new money supported M&A transactions, reaching an all-time record of $546 billion. Corporates borrowed $211 billion, and private-equity sponsors borrowed $120 billion. The syndicated loan market fell off later in 2015 due to a 17% drop in leveraged deals. Investment-grade lending increased by 4%.[1]

WHY THE SLOW END TO 2015?

Jack Broeren, a Managing Director in PNC Capital Markets, says several factors led to syndicated loan volume dropping the second half of last year. These factors include high acquisition prices that took private-equity sponsors out of the market, plunging oil prices combined with energy sector turmoil, and Chinese economic worries.

DRIVING FACTORS IN 2016

2016 has started off much the same. Lenders are also grappling with banking regulators' guidance on leverage lending and the new Basel III capital requirements, both of which reduce banks' interest in providing riskier loans.

PNC, sitting 8th in league tables for all syndicated loans and 3rd for syndicated middle market loans, has already begun implementation. Broeren believes this will continue to trickle down to smaller lenders, causing ongoing uncertainty. He notes that the Federal Reserve's interest rate tightening is unlikely to have much impact, since it is anticipated to be gradual and because syndicated loans are floating rate. However, even if macro factors such as the price of oil and China's economy turn positive, loan demand is unlikely to match what it was in 2015, he says. "It's uncertain what loan demand will be. There's still some M&A activity, but it will probably be hard to beat the $2 trillion lent in 2015," Broeren says.

BANKS VS. INSTITUTIONAL CAPITAL

CLOs and Institutional Bank Loan investors have pulled back on the more aggressive transactions. In addition, the high yield bond market is becoming increasingly more volatile, causing investors to avoid all but the highest-quality credits.

"Better quality transactions can be syndicated in the institutional market. Meanwhile, those with leverage multiples that are too high or are in risky industries are struggling and clearly price at materially wider spreads," Broeren says.

Banks, on the other hand, have stable loan portfolios and they are still interested in adding loans. Banks tend to stick to the investment-grade space and the high-quality leveraged space.

1 Loan Connector, Thomson Reuters, "US: At US$2trn, 2015 US loan volume is third highest on record; market disruptions breed selectivity," Jan. 11, 2016

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