



State of the Capital Markets:

First Quarter 2018 Review and
Second Quarter 2018 Outlook

Presentation to:

Capital Markets Review – First Quarter 2018

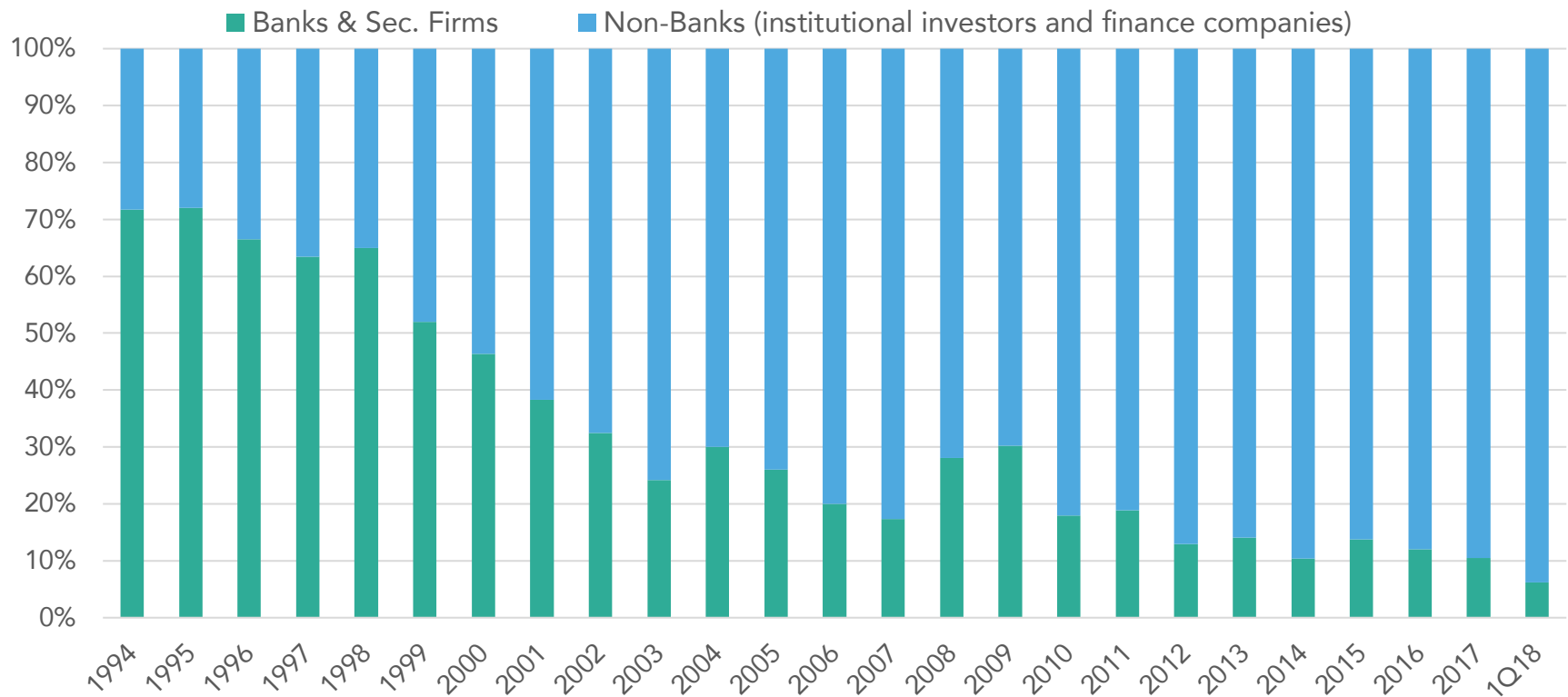
Volatility introduces new uncertainty into markets

- ⏪ Rising interest rates now center stage, squeezing borrowers, slowing repricings, supporting investor returns, and initiating economic drag
- ⏪ Public equity swung dramatically, though little effect on private markets
- ⏪ New entrants into direct lending and ample dry powder heightens competition and erodes structures
- ⏪ Deal supply from M&A off to slow start
- ⏪ Overall leveraged loan volume down from 4Q 2017; same with middle market

Capital Markets – Behind the Scenes

Banks' share of loans down again; only 10% of overall market

Primary Investor Market: Banks vs Non-Banks

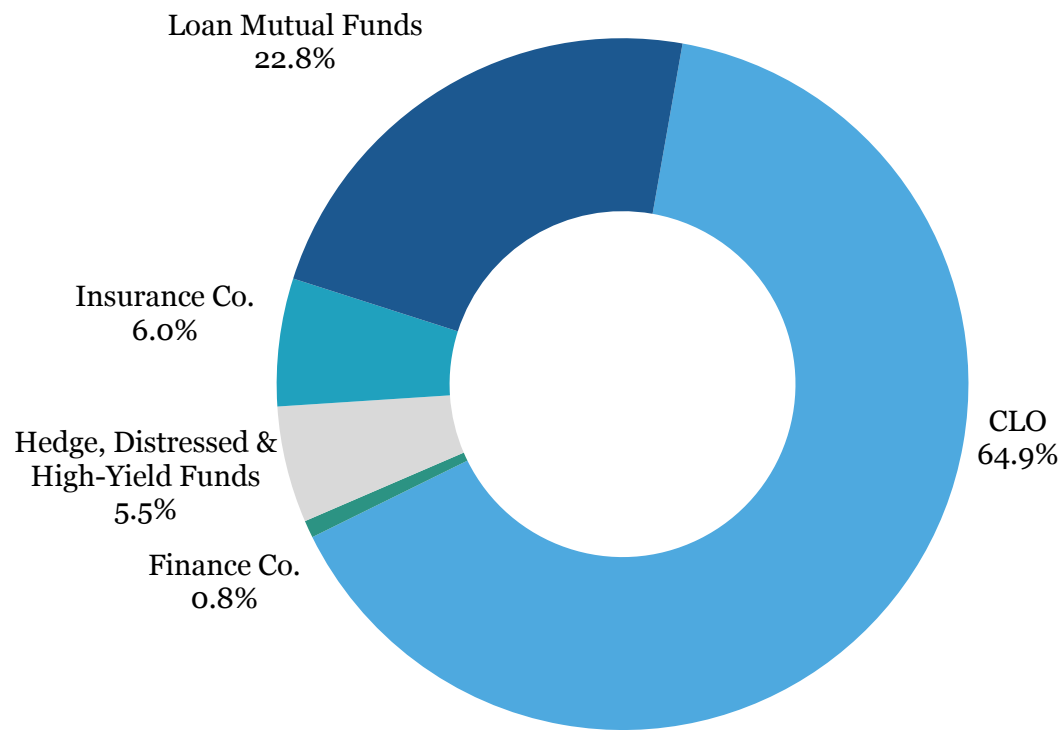


Institutional investor market share **Source:** Wells Fargo, S&P LCD Capital IQ

Capital Markets – Behind the Scenes

CLOs remain a significant share of the institutional market

Institutional investor market share

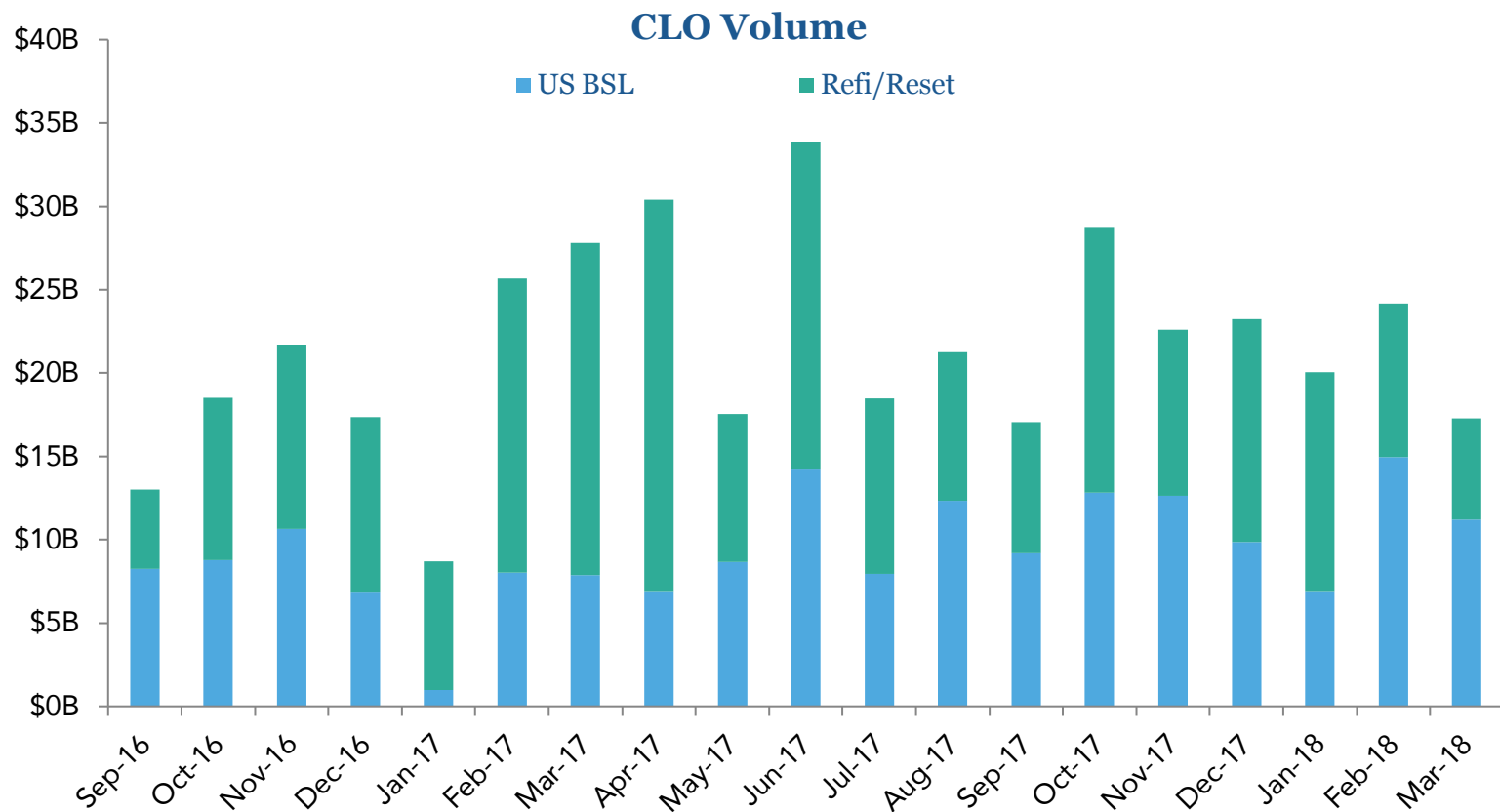


Institutional investor market share

Source: S&P LCD, Capital IQ

Capital Markets – Behind the Scenes

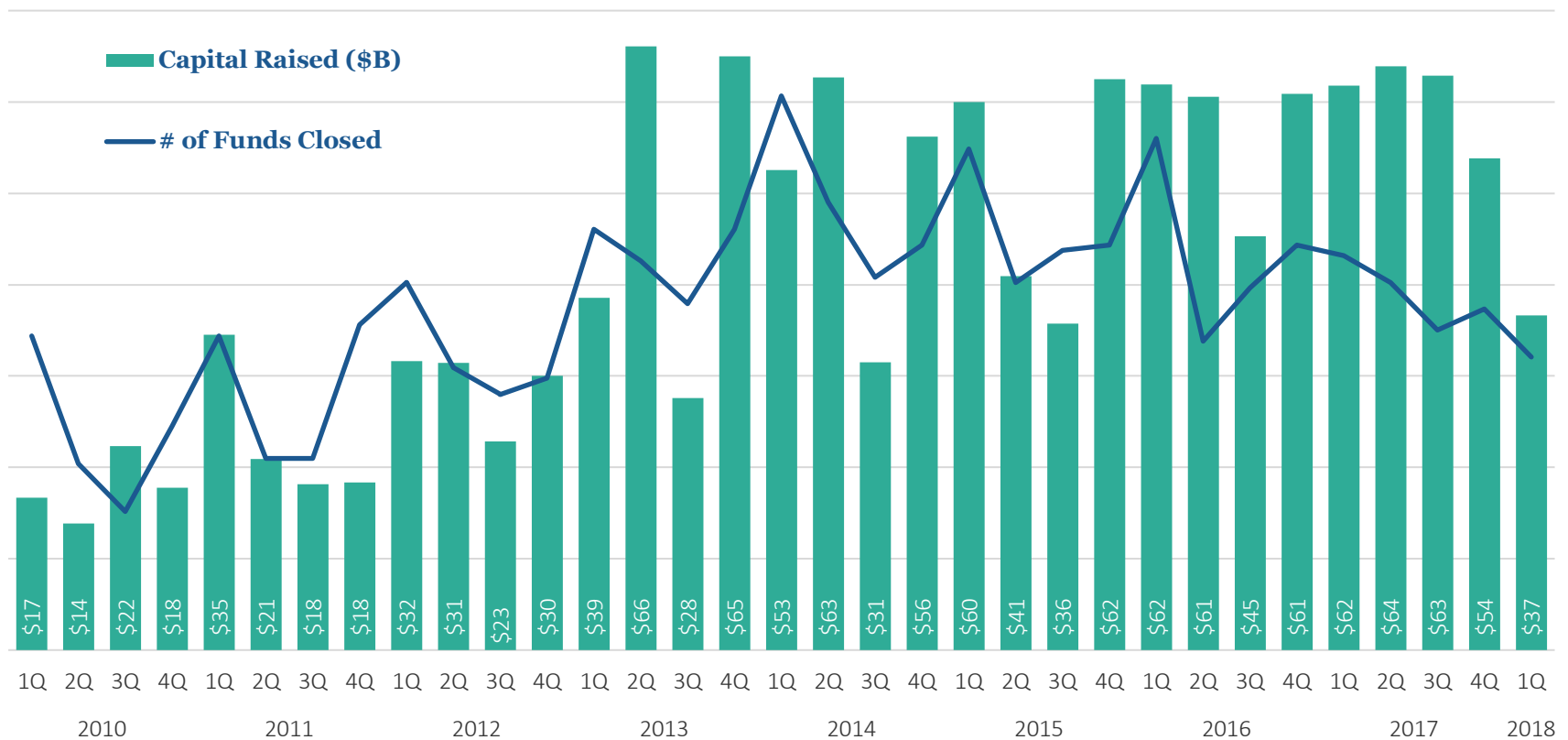
New CLO vehicle formation off to a healthy start



Source: LevFin Insights and Fitch

Capital Markets – Behind the Scenes

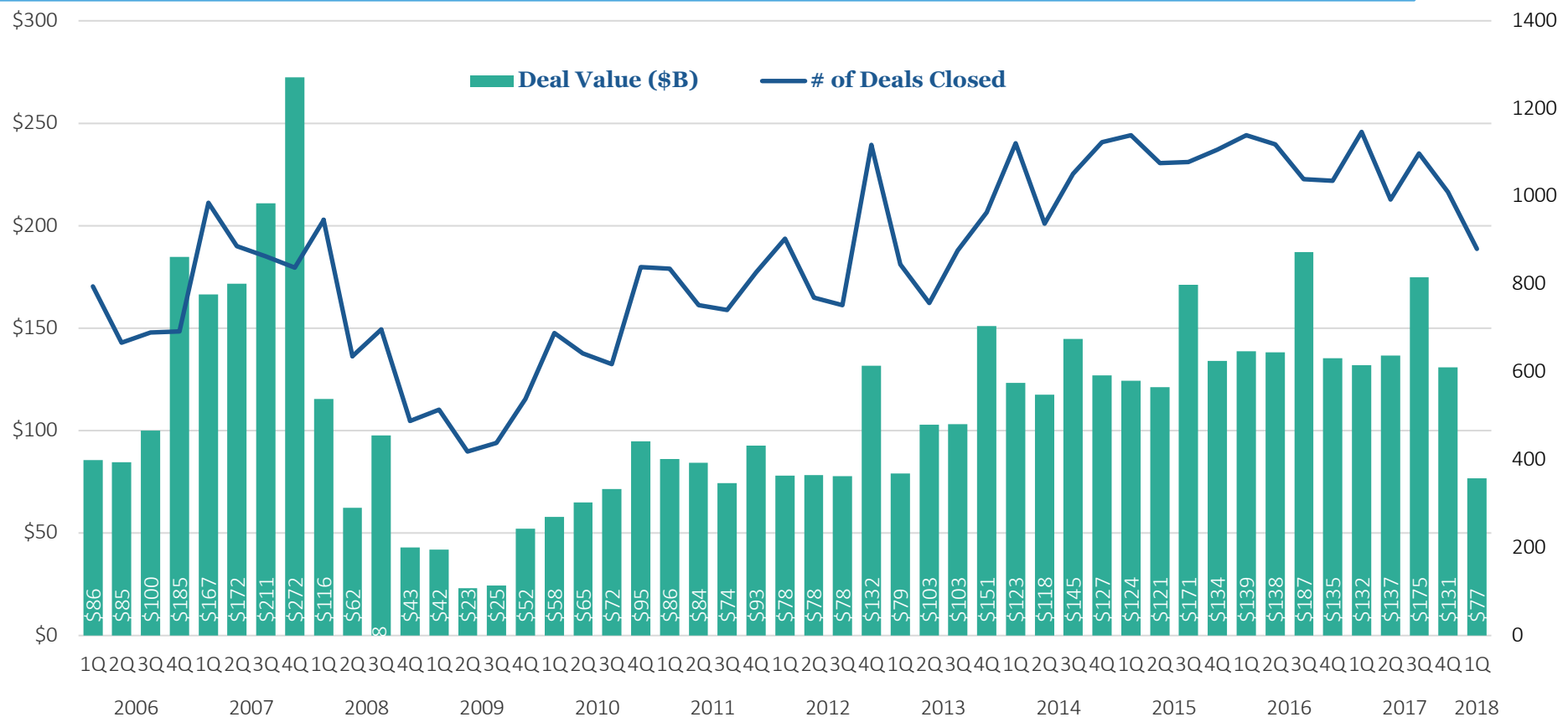
1Q was slowest fundraising quarter since 3Q 2015...



Source: PitchBook; data for United States

Capital Markets – Behind the Scenes

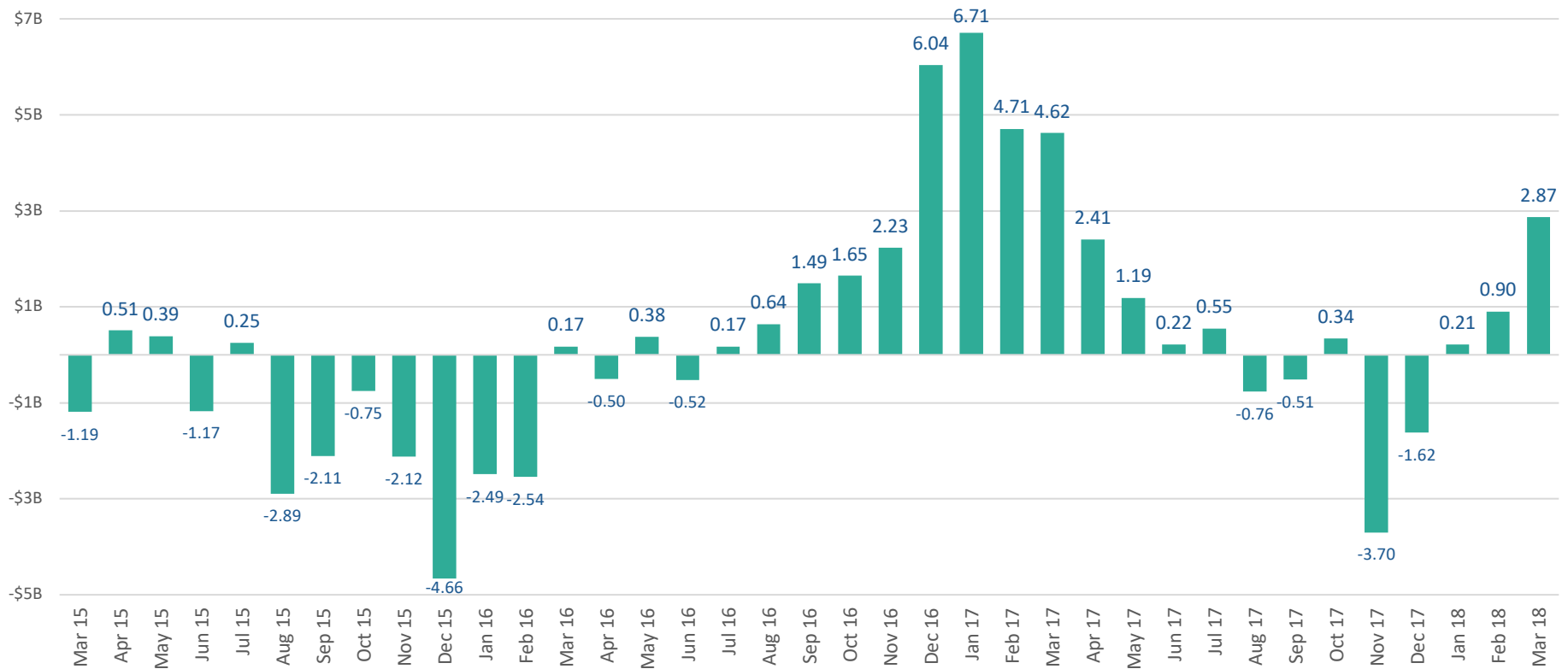
...and slowest investing quarter since 3Q 2011



Source: PitchBook; data for United States

Capital Markets – Behind the Scenes

Funds have net cash in-flows for each of first three months of 2018

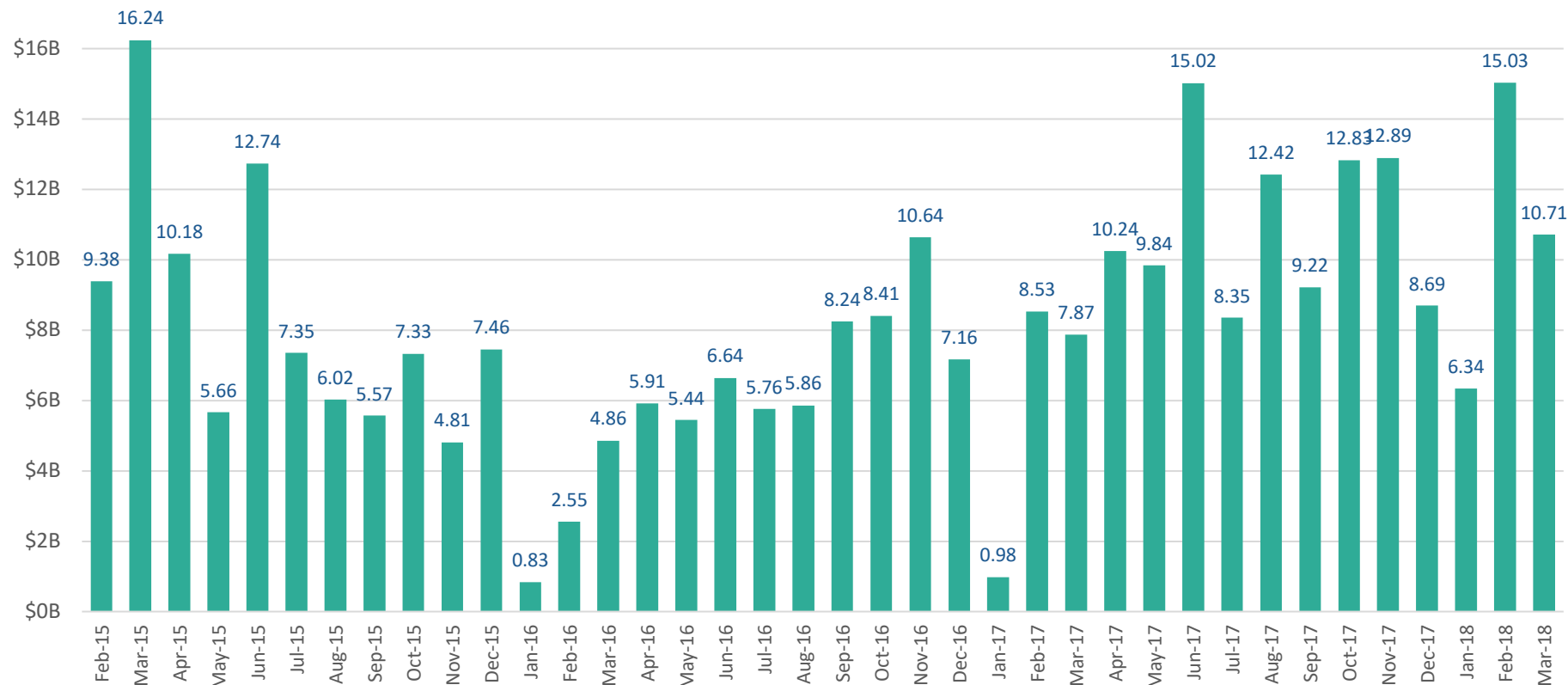


Source: S&P/LCD, Lipper

Capital Markets – Behind the Scenes

New CLO formation continues strong trend from last year

CLO Volume

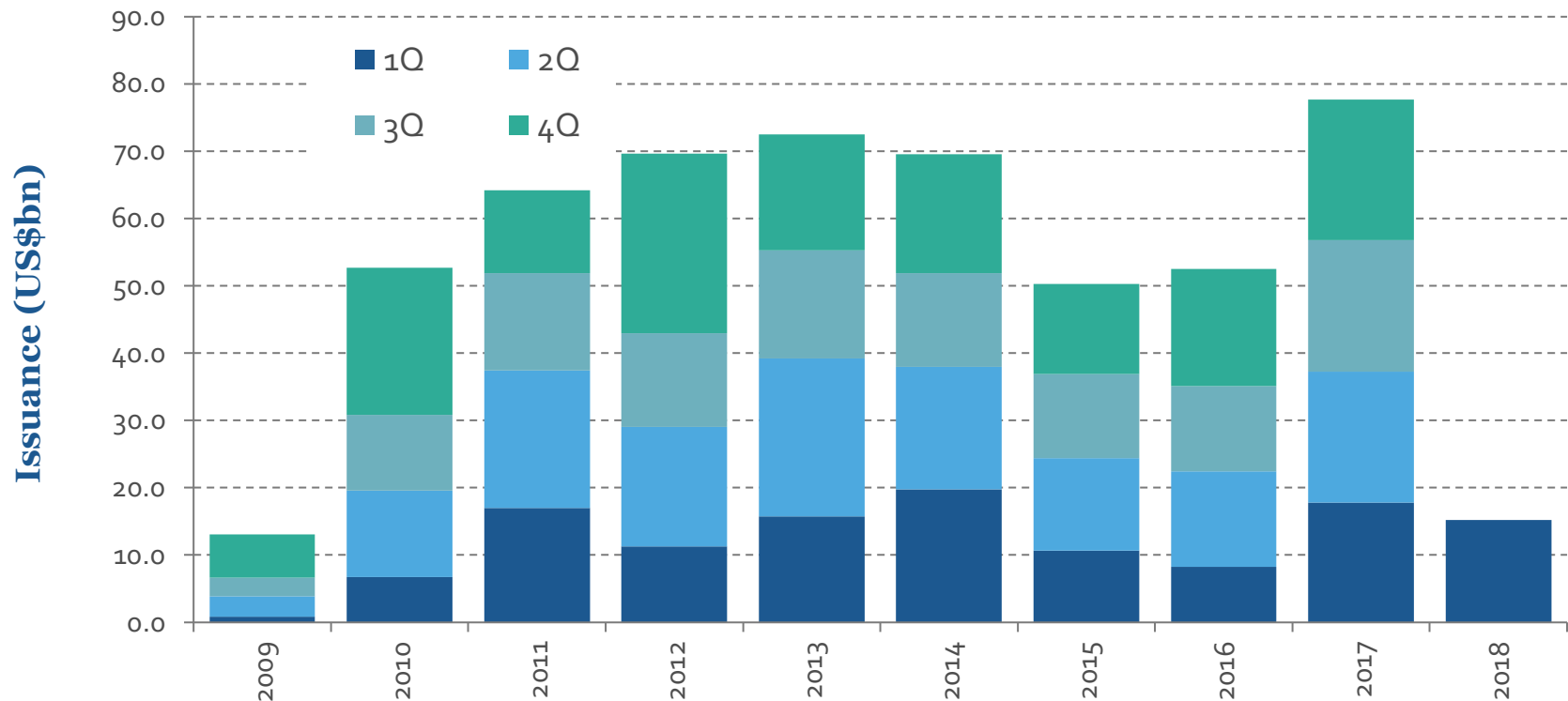


Source: S&P/LCD

Capital Markets – Loan Volume

Middle market sponsored activity off to similar start as 2017

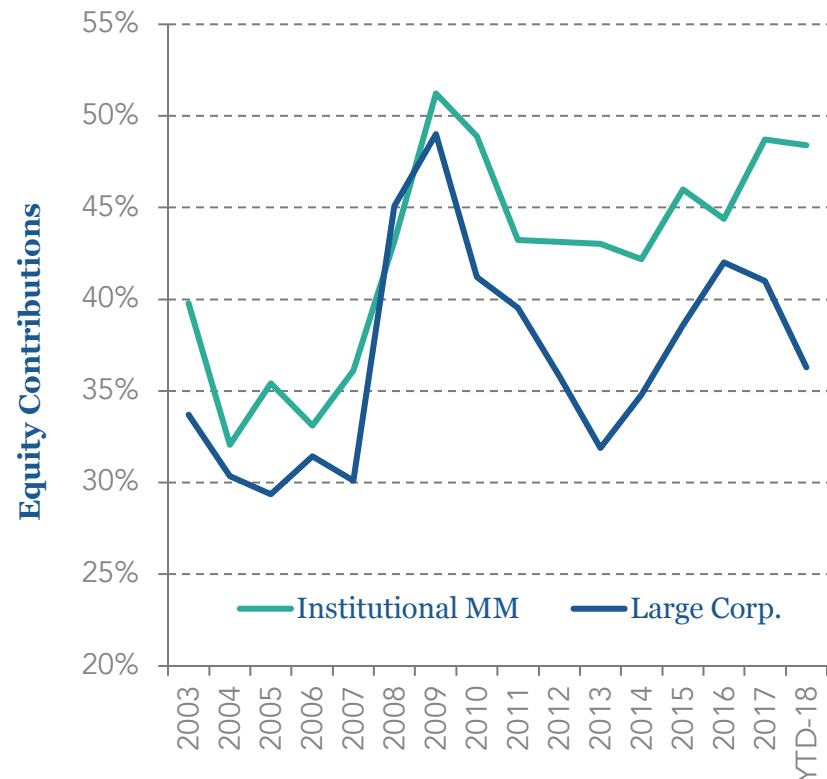
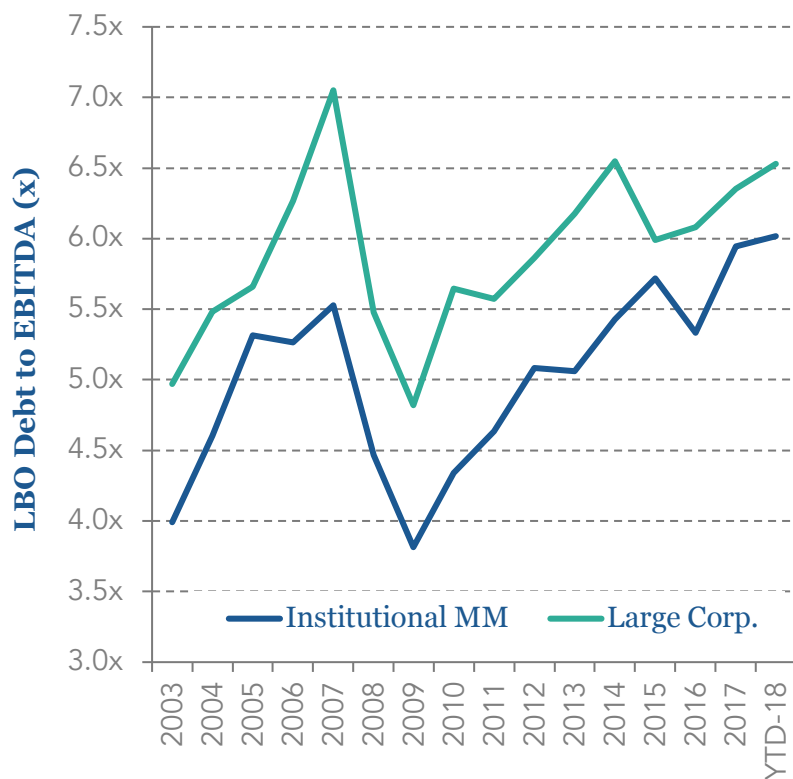
Annual Middle Market Sponsored Volume



Source: Thomson Reuters LPC

Capital Markets Metrics – Leverage

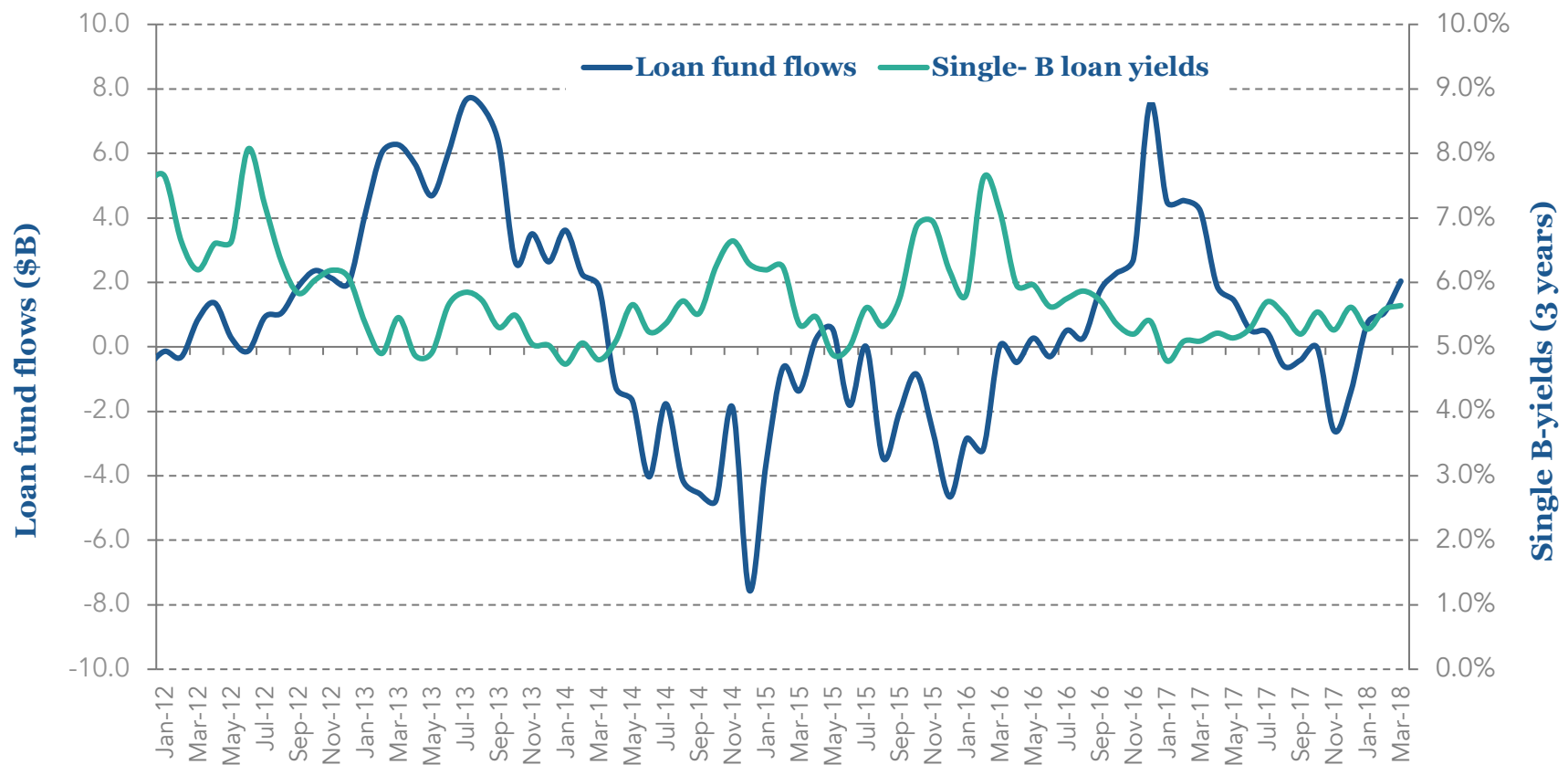
High purchase price multiples push leverage, equity contributions



Source: Thomson Reuters LPC

Capital Markets Metrics – Pricing

Large cap yields steady; cash coming back into mutual funds

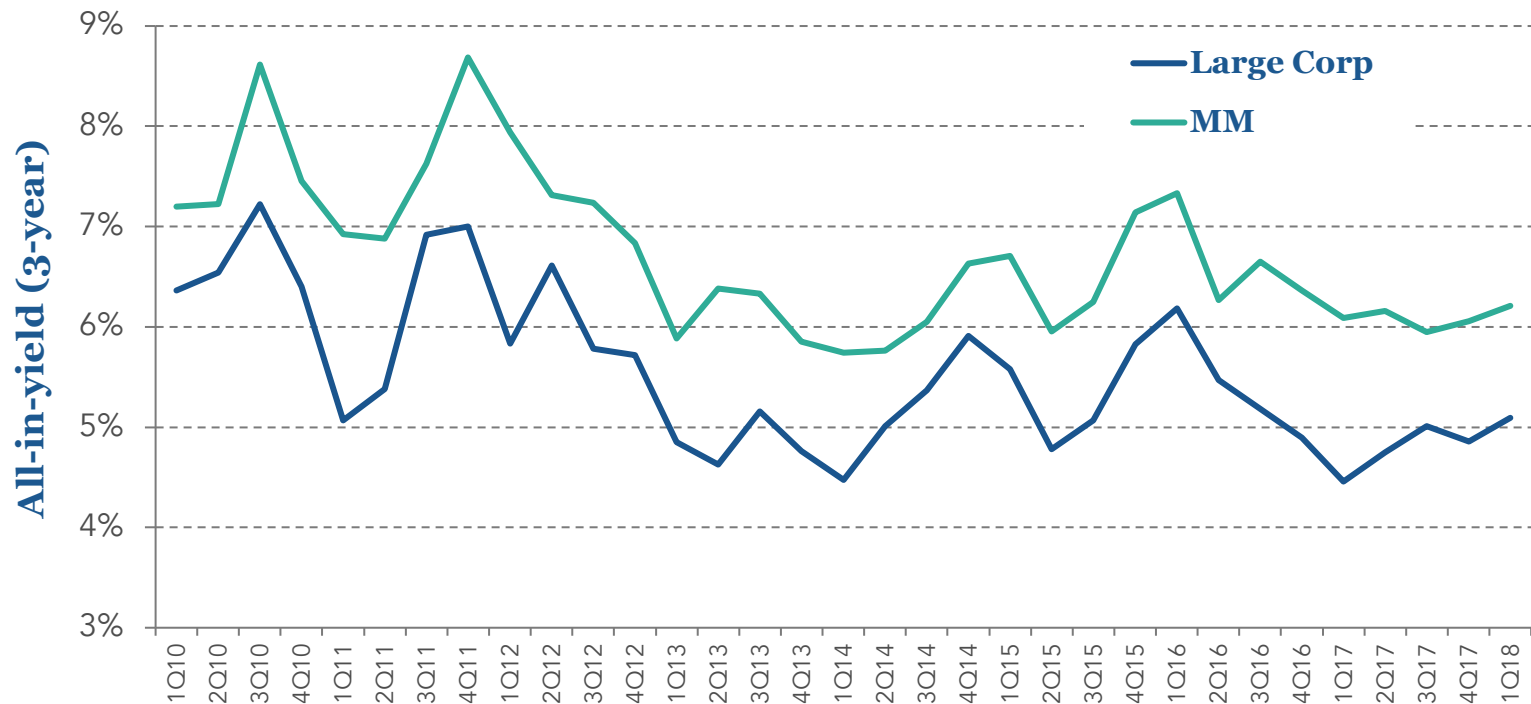


Source: Thomson Reuters LPC

Capital Markets Metrics – Pricing

Middle market illiquidity premium at 112 bps

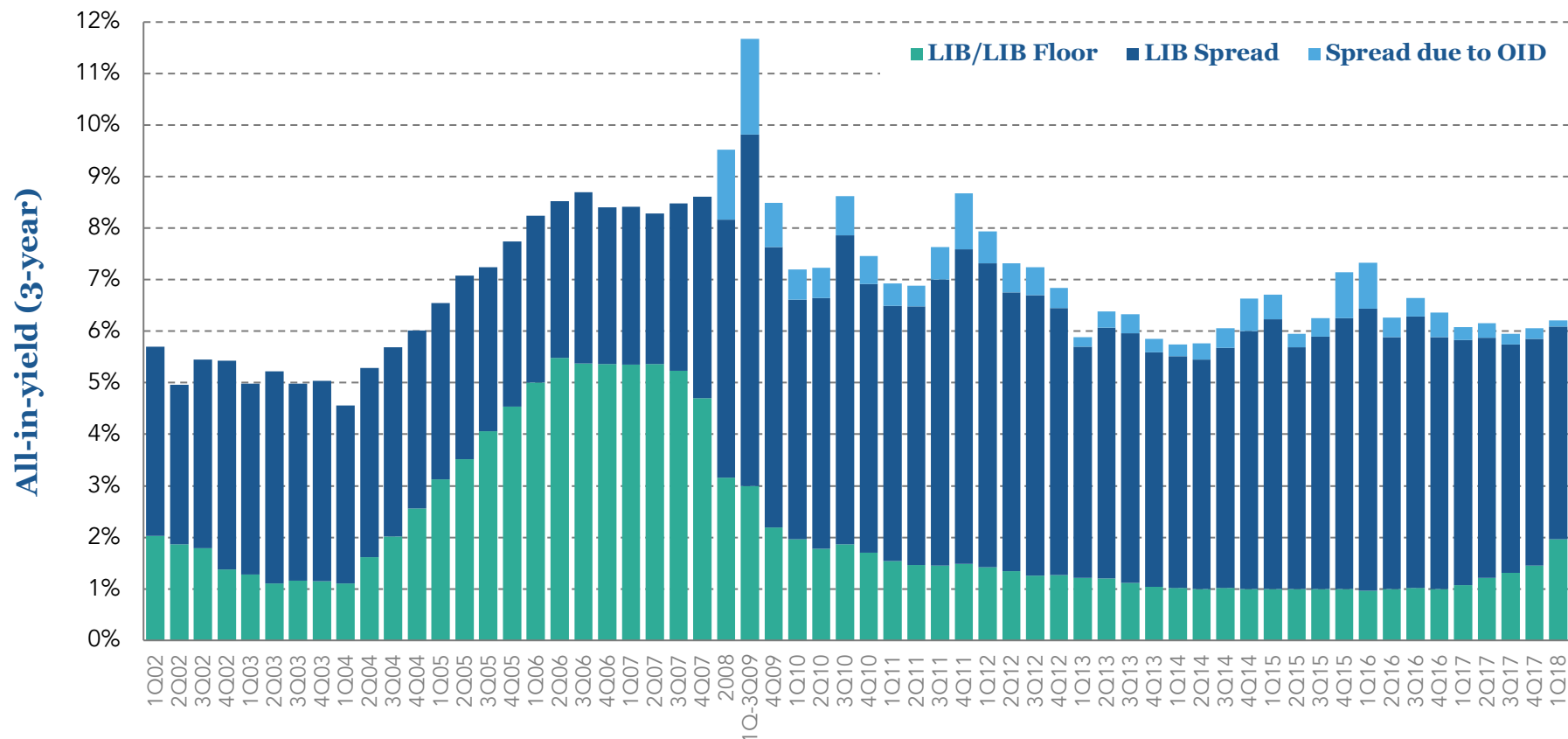
Middle market and large corporate quarterly average yields



Source: Thomson Reuters LPC

Capital Markets Metrics – Pricing

Middle market leveraged loan yields up for 3rd straight quarter

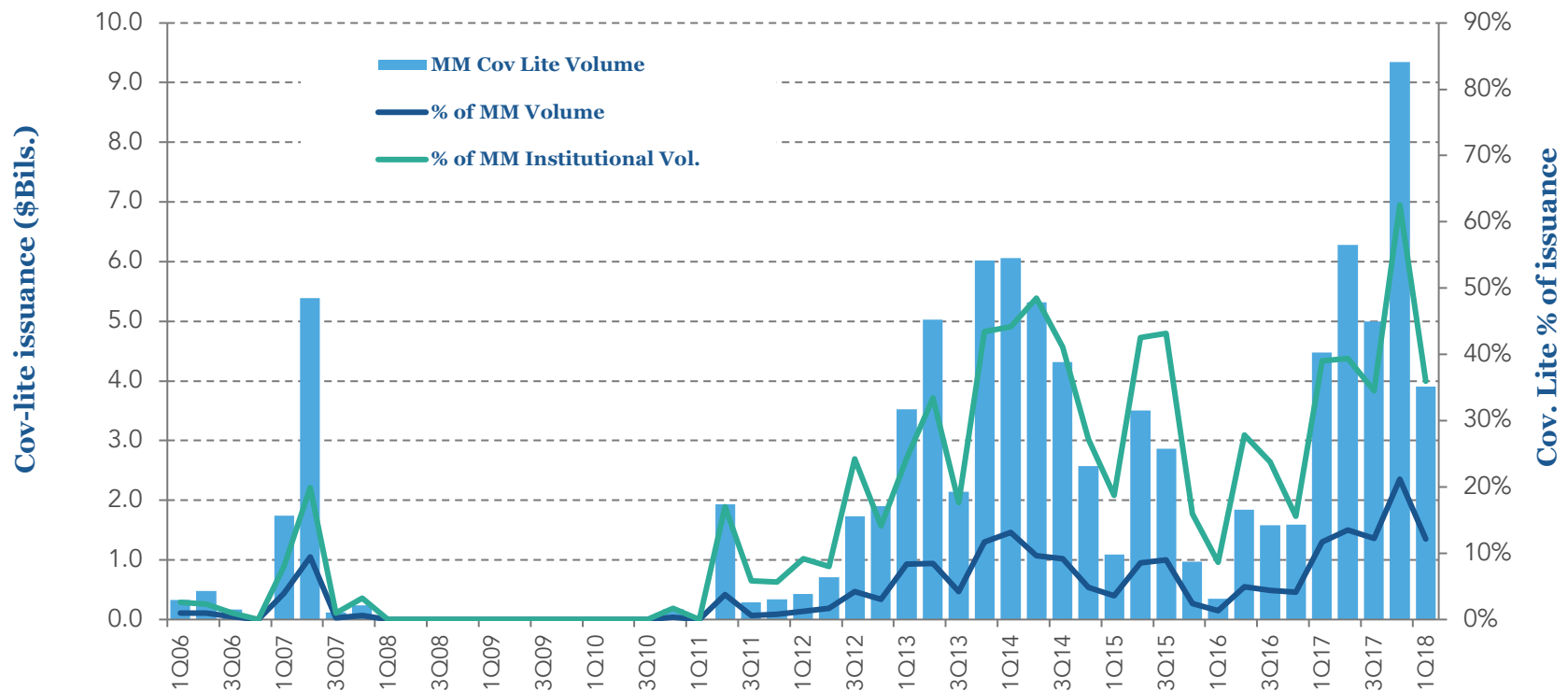


Source: Thomson Reuters LPC; all-in middle market institutional yields (3 year)

Capital Markets Metrics – Covenants

Quarterly cov-lite volume down sharply from 4Q

Middle market covenant-lite volume

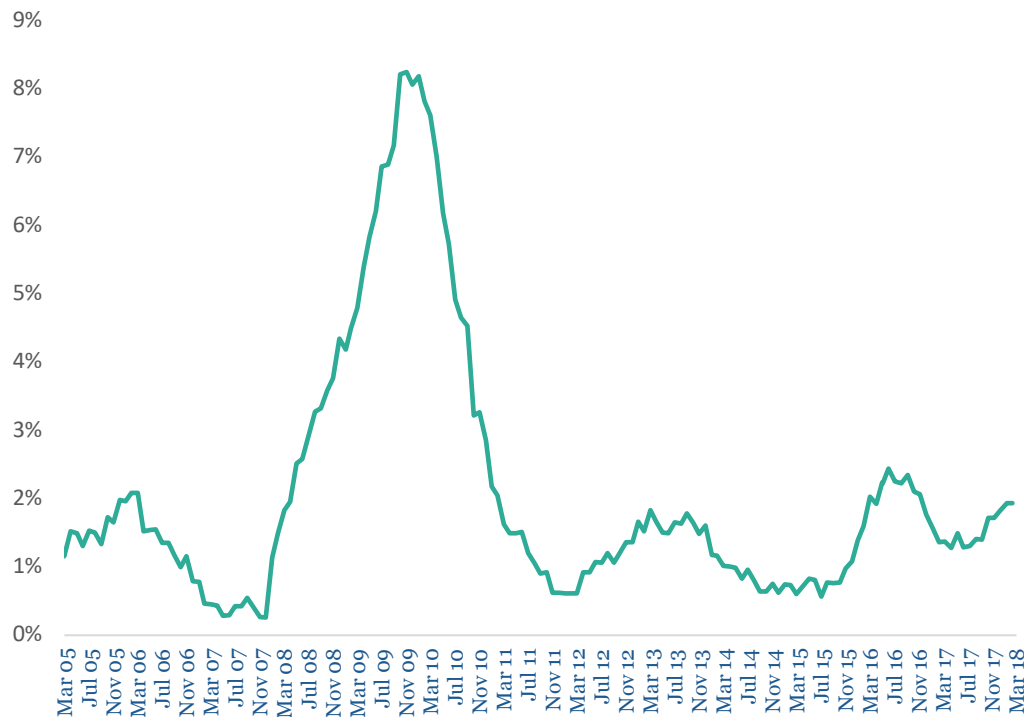


Source: Thomson Reuters LPC

Capital Markets Review – Credit Quality

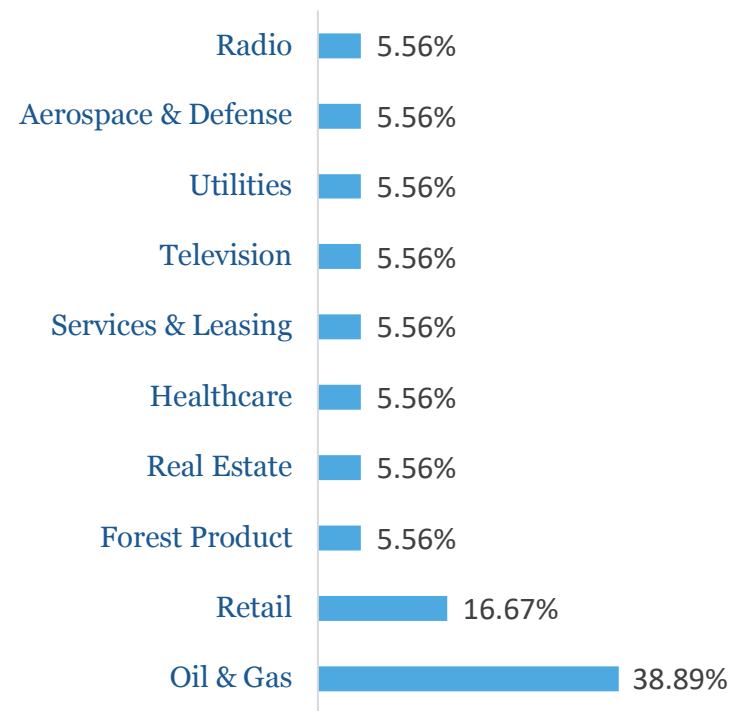
Default rates stable with sector-specific problems well-defined

Lagging 12-month leveraged loan default rate by number



Source: S&P LCD

Composition of defaults



Capital Markets – Second Quarter 2018 Outlook

Will rising interest rates be the downturn trigger?

- ⏪ Higher Libor expected to create pressure for lower spreads
- ⏪ Investment banks report growing pipeline for M&A transactions, creating improved leveraged lending supply
- ⏪ Middle market spreads sustained amid move to higher leverage
- ⏪ Continued capital in-flows further erode covenants, structures
- ⏪ Senior leverage of 3.5-4x; total of 5.5-6x for traditional middle market; 4.0-4.5x senior/6-6.5x total for larger mid caps; >4.5x senior/6.5x total for BSL

Our Partners



About The Lead Left

www.theleadleft.com



- Original commentary backed by thirty years of capital markets experience
- Weekly interviews with top decision makers in banking, private equity, and credit investing
- Data and commentary from four of the leading global capital market research firms
- Detailed information on deals in the market
- Plus our popular Charts and Quotes of the Week

Contact

Randy Schwimmer

Senior Managing Director
Head of Origination & Capital Markets
Churchill Asset Management

T (212) 478-9203 M (646) 584-1362

randy.schwimmer@churchillam.com

What is *The Lead Left*?

The Lead Left is [Churchill Asset Management](#)'s weekly newsletter reviewing deals and trends in the capital markets. Our publication has a unique focus on the mid-market space and is read by thousands of influential industry participants.

When you subscribe to The Lead Left, you become a member of an exclusive club of readers. As an experienced professional and decision maker in the capital markets, investment banking, and corporate finance sectors, you will have access to the leading one-stop provider of middle market deals and data. You will also receive insightful market trend commentary and analysis, and exclusive interviews with thought leaders. The Lead Left also gives you world-class content from top market research partners including Thomson Reuters LPC, S&P/LCD, IHS Markit, PitchBook, Preqin, SPP Capital Partners, Debtwire, Covenant Review, LevFin Insights, and Private Debt Investor

Since 2008, The Lead Left has become the premier source for information on trends in the middle market space. Distributed weekly to over 40,000 readers, this newsletter is the only publication of its kind in the industry. Produced by Churchill Asset Management's Head of Capital Markets, we give you an insider's perspective, supported by over thirty years of investing and market experience.

The Lead Left is your no-spin, media noise suppression device and tour guide for today's complex and challenging markets.