US syndicated lending fell to US$1.5trn in 2020, a 10-year low
– *Ioana Barza*

January 6, 2021 – While high yield and corporate bond issuance reached record levels, US syndicated lending activity shrank by one third in 2020 to US$1.5trn, leaving lenders primed for a dramatic pick-up in 2021.

"We have seen some changes and rationalization at banks, but if you survived this year, you're in it for the long haul," said one lender. "It has been a terrible year and hopefully the vaccine rolls out quickly. If somebody would have said bond markets would have opened up as fast as they did, blasting through records, I would've said you're crazy. But equities are flying and the loan market is fundamentally strong. All positive surprises against the backdrop of a horrible year."

US leveraged lending was down 12% year over year, falling to an eight-year low of US$711bn, while high yield bond issuance was up 50% to US$400bn.

"The Fed took months to do in 2008-2009 what it did in a matter of weeks in 2020 and the market took comfort in that, believing that although this is really bad, it's not permanent and there will be a solution by way of vaccine," said one leveraged underwriter. "This was the hope at the beginning and has come to fruition. We saw a massive rally and rates that are unbelievable by historical standards. It was a Fed induced technical creating a wave of cash looking for spread assets that benefits high yield and will keep benefiting the high yield market."

Similarly, US investment grade lending was down 36% to US$606bn in 2020 while corporate bond issuance was up more than 60% to US$1.86trn.

"A lot of loan amounts were way down this year because if you could avoid going to refi facilities or to take bank capital, you did for the most part because you didn't want to engage in the harder conversations with banks occurring in 1H20, from spread and all-in coupon point of view and a very strong short end of the bond market which was much more attractive," said one investment grade lender.

"2020 was a very unique year in the investment grade loan market because it was the first time we saw meaningful changes in tenors, terms and spreads since 2011-2012," said a second investment grade lender. "March to May were quite challenging, a time of price discovery, but banks were willing to step up when capital was constrained and we are all impressed by how quickly the market has returned to a new normal, which is close to the old normal."

Although there were record incremental liquidity asks, the incrementals were paid back as the bond market and commercial paper market reopened. Later in the year strong credits were refinanced with no issues returning to near pre-crisis pricing and fees, suggesting it will become more available for more issuers.

As far as term loans, "From a bank point of view, (some banks) want funded assets to augment or supplement returns and also expect to see more issuers say I can put a term loan in place, it gives me flexibility alongside the bond, so we expect to see more interest from both sides," said one lender.

By the end of 2020, lenders concluded that access to affordable capital was prevalent across the spectrum. Institutional loan issuance was down 3% to US$387bn while leveraged pro rata lending saw a 20% drop to US$324bn.

"Issuers teetering on the edge did what they had to do in order to shore themselves up," said a lender. "Now we all take a breath and hope they survive. The expectations we all had at the end of 1Q and beginning of 2Q were very dire, given the amendment cycle we all went through, how much cushion we filled in."

"The loan market traded down precipitously and it was heightened by the CLO buyer which went into hibernation," said a second arranger. "We always knew the loan market was very dependent on the

CLO buyer base, which was dependent on the triple-A buyer base. Initially in the pandemic, spreads gapped out, it was hard to finance CLOs, a lot that had been issued went into static mode and were unable to buy new issues so the loan market had its own set of problems."

A jump in secured high yield bond issuance bought some time for the loan market to repair itself as investors built up cash given a lack of new issue or a major overhang to work through.

The pause on new issue helped boost the secondary market. Lenders across the spectrum said they were way off on their recovery expectations with the secondary rallying faster and stronger and defaults lower than projected given the ongoing challenges around the spread of Covid.

Similarly, the fourth quarter defied expectations with a broader pick-up in new activity and issuer-friendly terms supported by confidence that there is enough liquidity given pent-up investor demand, year-end budget goals, and the emergence of a vaccine. In fact, of the 36 deals with structural and/or price flexes tracked by Refinitiv LPC in December, 35 were issuer friendly.

For the year, the pullback in new issue resulted in only US$262bn in US M&A-related lending activity, a figure that hasn't been this low since 2012. New LBO activity remained slow but sponsor to sponsor activity gained traction and some of the M&A that was put on hold in the spring did return in the latter part of the year. While M&A was more concentrated in certain sectors and Covid-resistant businesses, arrangers said dialogue and discussions picked up. With the election uncertainty resolved and hopefully an end in sight as it relates to Covid, even though the full vaccine rollout will take months, many believe there is a clear end to what will have sidelined activity for a year.

US M&A-related lending jumped to US$85bn in the fourth quarter, the highest since 3Q19's US$120bn. This pick-up is expected to continue.

"M&A will really take off in 2021," said one leveraged underwriter. "We are not alone in that; this is very much a market consensus view."

"There is a lot of pent-up demand (on the part of issuers)," said one investment grade underwriter. "We saw strategic growth come to a halt during the height of the pandemic. Deals and trades that would have normally occurred during the year, we're catching up to now."

Underwriters said it is easier to strategize in sectors such as technology and healthcare, especially pharmaceutical companies, where firms have sizable cash balances and are able to bet on future cash flows. In comparison, in businesses that are feeling battered, the focus is more on getting the base business in shape versus M&A, which is a growth driver.

"It was the same post-credit crisis where M&A at first was stock heavy deals, then we saw more cash and willingness to put leverage on the balance sheet," said one underwriter. "But you have to feel good about your own business if you are going to take that bet."

"2020 wasn't the year anyone expected. Lenders thought 2020 was going to be pretty good and it certainly changed quickly but the market showed resilience," said an underwriter. "We look at volumes and the lack of M&A and people were anxious to shut the door on 2020 and start over. At the end of the day what will really drive it is some big M&A, but it will be a big year of refi volumes, after a weak year, we'll definitely get buoyed by that. Whether it's a super year will depend on big M&A."

For the full report, see the January 11 issue of *Gold Sheets (www.loanconnector.com)*.

4Q19 Issuance ($Bils.)	4Q20 Issuance ($Bils.)	% change	
U.S. Total Issuance			
Overall	518.67	371.99	-28%
Investment Grade	192.15	138.54	-28%
Leveraged	224.72	184.43	-18%
Institutional	138.44	107.47	-22%
LBO	29.07	31.30	8%
LBO Leverage	5.03x/6.54x	5.73x/7.36x	
HY Bonds	70.38	90.17	28%
IG Bonds	207.69	228.02	10%

U.S. New Money Issuance			
Overall	108.87	153.28	41%
Investment Grade	10.70	27.62	158%
Leveraged	72.21	106.16	47%
Institutional	50.01	74.23	48%

Excludes bridge loans
Includes only new financings, such as M&A, LBO, dividend payments, and incremental fund raising

4Q20 US Bookrunner

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	BofA Securities	227,462,124,990.60	869	14.03%
2	JP Morgan	213,852,941,819.81	766	13.19%
3	Citi	145,821,227,152.02	384	8.99%
4	Wells Fargo & Co	126,941,054,443.75	547	7.83%
5	Barclays	60,373,901,960.71	261	3.72%
6	Goldman Sachs & Co	57,256,221,290.63	239	3.53%
7	Credit Suisse AG	50,465,887,612.04	187	3.11%
8	Morgan Stanley	46,951,049,769.07	153	2.90%
9	US Bancorp	44,404,932,675.20	301	2.74%
10	Mitsubishi UFJ Financial	43,296,272,487.96	226	2.67%

4Q20 US Leveraged Bookrunner

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	BofA Securities	25,388,682,614.87	145	14.16%
2	JP Morgan	17,313,997,621.16	138	9.66%
3	Wells Fargo & Co	13,214,076,943.04	80	7.37%
4	Credit Suisse AG	9,754,669,083.70	58	5.44%
5	Barclays	9,343,311,582.21	62	5.21%
6	Goldman Sachs & Co	8,883,229,899.07	59	4.95%
7	Deutsche Bank AG	6,832,468,147.86	55	3.81%
8	Jefferies	6,184,067,460.32	37	3.45%
9	Morgan Stanley	5,646,154,655.79	37	3.15%
10	BMO Capital Markets	5,317,756,471.26	61	2.97%

4Q20 US Investment Grade Bookrunner

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	JP Morgan	32,912,456,140.15	76	20.22%
2	Citi	31,062,733,917.94	45	19.08%
3	BofA Securities	27,171,559,314.92	67	16.69%
4	Wells Fargo & Co	13,999,073,600.65	44	8.60%
5	Barclays	9,264,519,632.40	20	5.69%
6	Deutsche Bank AG	4,923,527,568.90	10	3.02%
7	Mitsubishi UFJ Financial	4,667,257,727.64	17	2.87%
8	Goldman Sachs & Co	4,311,126,775.25	11	2.65%
9	US Bancorp	4,126,999,791.13	18	2.54%
10	Mizuho Financial Group	3,803,626,775.25	11	2.34%

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