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U.S. DIRECT LENDING WRAP: 'Green Shoots' Emerge for Shadow Banks

*By Kelsey Butler
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U.S. direct lending activity is starting to see some signs of life, though volume remains depressed as borrowers and their private equity backers tread cautiously.

* "Any which way you look at it, volumes are low," said Suhail Shaikh, head of U.S. direct lending for Alcentra Group in an interview. "But we're starting to see some green shoots, we're seeing some more inbound activity, but by no means at the same pace as before Covid"

** A resurgence in activity could "evaporate very quickly depending on what happens in the broader economy," according to Shaikh

* Private equity sponsors focused on middle-market businesses that typically tap direct lenders are exploring add-on transactions for their portfolio companies and buyouts in coronavirus-resistant industries, according to market participants

** The volume for PE deals is higher in July than it was in June, but still remains relatively muted, according to James Cassel, co-founder of middle-market investment bank Cassel Salpeter & Co.

** "When the water mark is so low, it doesn't take much to float it higher," Cassel said

* Spreads, which widened out considerably in the early stages of the pandemic, have eased slightly

** Pricing for most unitranches has settled back in the high L+500 to low L+600 range, down from around L+700 at the start of the pandemic, but above the L+500-550 range pre-Covid, according to market participants