

Q&A

Trump Deregulation Won't Boost Bank Lending Overnight, Says Antares' Nolan


Peter Nolan, incoming head of loan syndicate, sales and trading at Antares

- U.S. loan volume may grow 15 percent next year with possible rule changes boosting CLO issuance to \$90 billion.
- Less regulation may not immediately embolden banks to compete with private lenders.
- This year Antares completed 183 deals with \$11.6 billion in lending commitments through Sept. 30. Nolan, a managing director in leveraged loan syndications, takes on his new role Jan. 1.

Interviewed by Sridhar Natarajan and Jeannine Amodeo, Bloomberg News, on Nov. 30 and Dec. 2. Comments were condensed for clarity.

Q: What's been the risk appetite for high-yield debt since Donald Trump was elected?

A: We've come through two events, Brexit and the election. In both cases, the markets responded more positively than anticipated. Everything we've seen shows a strong appetite. There is definitely a desire for leveraged-loan products.

Q: What do you expect will be the "Trump effect"?

A: Early returns are good. There is a pro-business climate and a willingness to re-examine regulation on the margin. If you are doing away with risk retention, it becomes easier to form CLOs.

Q: Should companies prepare for a change in lending guidelines?

A: As an issuer, you have to be concerned about whether the regulated entities are going to be curtailed by regulators six months from now. On this particular front, there is uncertainty.

Q: Will banks become deregulated and more aggressive, poaching some of your business?

A: I don't see the banks with a knife in their teeth saying this is what they've been waiting for. I don't know how wise it would be for them to speak and act well in advance of any clear change. I don't think regulation changes like a light switch on and off.

Q: What about the rate of inflows in leveraged loans?

A: We are seeing mutual-fund flows increasing, money coming into the system, and not just from retail. As we talk to buy-side accounts, they are seeing increasing interest from overseas accounts, both in terms of the strong dollar as well as the prospect of rising

rates. It's not just U.S. retail investors migrating to the asset class.

Q: How will rising rates affect leveraged loans?

A: We are coming to an inflection point, as spot Libor gets closer to 1 percent. Until it reaches that, CLOs are getting pinched a little. While generally we say higher interest rates are not conducive for any debt product, because the pace is expected to be gradual, it's going to be a net positive.

Q: Will Libor floors go away?

A: My expectation is the Libor floor will stay. The justification would be if things go back down, the 75 [basis points] or 1 percent floor has been established and accepted. I don't think Libor floors will rise with spot Libor. It's only been a protection at historically low Libor, and that's why I think it will have staying power.

Q: Which sectors do you see as most favorable or unfavorable?

A: The accounts we speak with have a view that we are in the late stages of a relatively stable growth mode. There is concern about cyclical credit such as industrials and autos. There are certain areas where there's little concern, such as some parts of health care with the regulatory overlay, and how that might change. In terms of what's favorable, the traditional ones like food and packaging

sectors have been good, and we've seen a few deals roll through recently that were well received.

Q: What's the biggest risk for 2017?

A: It's probably political and regulatory oriented. The new administration is looking to take a new view of regulations and the tax environment. Any diminution of Dodd-Frank, and a full step-back of tax code along with the examination of deductibility of interest, would affect the entire debt market as a whole.

Q: What will loan issuance look like next year?

A: U.S. institutional loan volume should probably grow 10 or 15 percent absent any exogenous shock. It's important to remember it was a very quiet first quarter this year.

Q: What about CLO issuance?

A: If there's a move to rein in Dodd-Frank, and a portion of that has to do with its effect on CLOs, that could be a net positive. Wouldn't surprise me if we had a better year, perhaps around \$90 billion.

Q: What do you expect for returns on leveraged loans?

A: We came into this year from depressed secondary levels. Next year is probably going to be a coupon-clipping year, about 4 to 5 percent. High-yield highest, loans in the middle, and lowest investment grade.

At a Glance

Birthplace: Farmingdale, New York

Education: Trinity College in Hartford, Conn., then Harvard Business School

Career: Bankers Trust, JPMorgan, GE Capital, Antares

Favorite sports team: One of the few New York Islanders fans in New York

Favorite book: "Team of Rivals" by Doris Kearns Goodwin (on Lincoln's cabinet)

Favorite vacation: South of France **Favorite New York restaurant:** Neraï (Greek food)