Emotional Support Loans

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A beluga whale was found last week in the Arctic Ocean off the northern Norwegian coast. Otherwise not an unusual event, but this particular cetacean wore a harness. Its proximity to Russia sparked rumors the animal had been recruited as a spy.

Another theory, however, soon surfaced. Some surmised “Hvaldimir” was an escapee from a marine facility “for underprivileged children.” This notion gained credibility when the whale retrieved a tourist’s cell phone she had accidentally dropped in the water.

“We assumed it would be gone forever,” said Ina Mansika. “The whale is so kind.”

This story may resonate for those in private credit. Casual observers of the asset class find it irresistible to jump to the worst possible conclusions (“Risky loans!”), only to find, for a variety of reasons, it’s popular and can be helpful.

Take global growth. While better numbers are emerging of late from the UK and Europe, much of the developed world is still stuck with pretty sluggish GDP.

Private credit, particularly middle market, is US-centric. That puts it smack in the middle of one of the planet’s healthiest performers. These smaller borrowers’ clients and sales are less dependent than multinational enterprises on overseas economies.

Then there’s the business cycle. Back in December we were in the midst of a major market correction. Today, despite trade worries, equity markets are back to record highs. The recession is where it’s always been – still two years away.

Speaking of trade, US middle market businesses have certainly benefited from globalization over the past several decades. But the vast majority of midcaps focus on domestic opportunities. And as was the case locating low-cost manufacturing centers in Asia as wages in China rose, alternatives will be found.

Did we mention rates? Will the Fed cut, stick, or raise? Who knows? The beauty of private credit is that diversified asset managers can offer a full suite of floating (e.g. senior secured) and fixed rate (e.g. mezzanine) options to investors and issuers.

Have valuations reached bubble proportions? Following our special series on the topic, our readers should be fully briefed. Yet even amidst the tariff-induced turmoil this week, headlines fretted about “the high level of asset prices.”

Another investor concern is correlation. During the credit crisis, asset prices fell in unison. Because of increased global convergence among institutional managers, those linkages still exist today, even among otherwise unrelated categories.

But private credit, being illiquid, is more insulated from market shocks. It trades by appointment only. And less of its yield (unlike broadly syndicated loans) derives from secondary market-induced discounts (or premiums).

All loans, of course, aren’t created equal. But good managers find the kindest ones.