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Private Debt Intelligence – 12/16/2019

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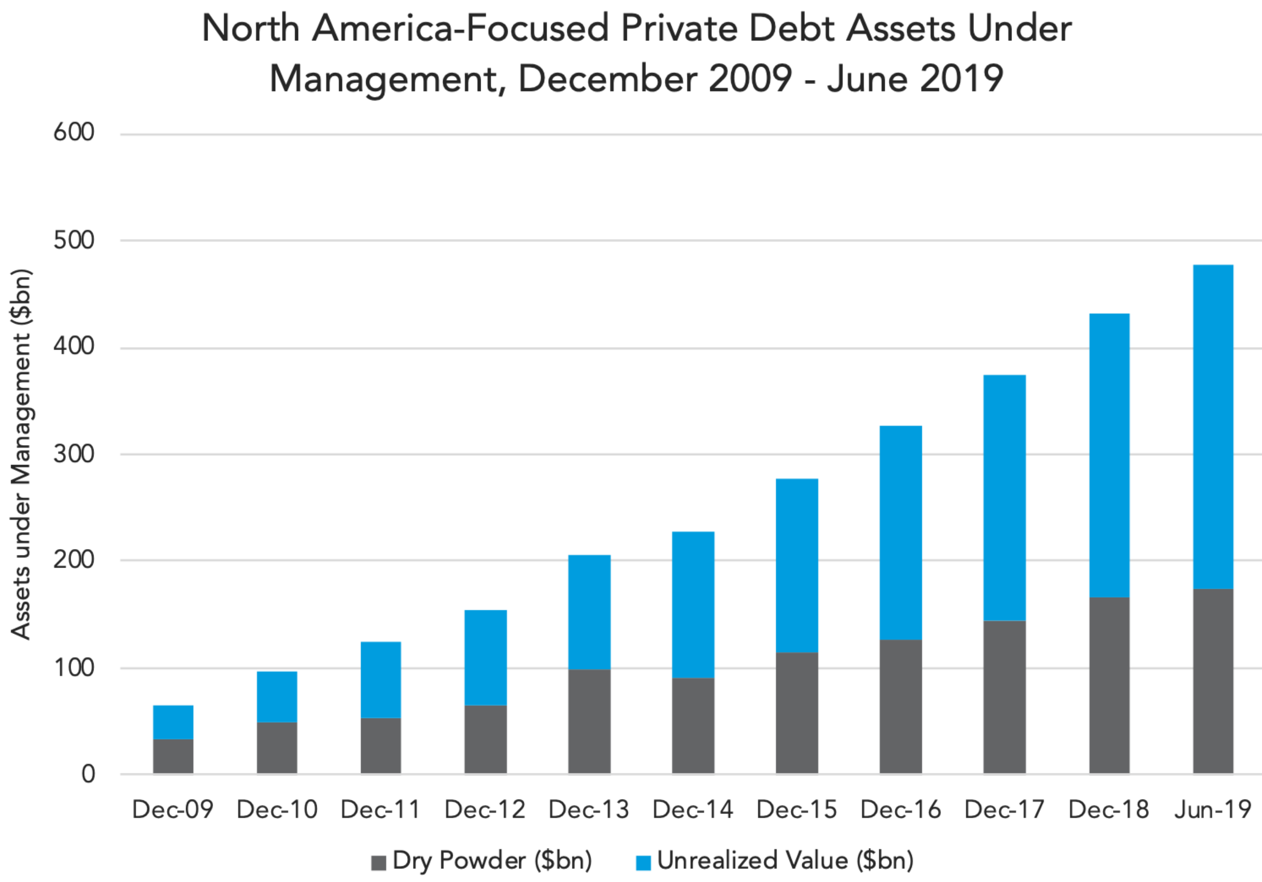
North America Private Debt Set to Hit $500bn

Chart



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The North America-focused private debt market has seen a slowdown in 2019. As of December, 58 funds focused on the region had closed, raising a combined $40bn. This is significantly down from the 118 funds that secured $74bn in 2018, and is the lowest fundraising year since 2014.

Despite the dampened fundraising market, North America-focused assets under management have continued to rise, hitting a new record of $477bn as of June 2019 (the latest available data). It seems likely that assets in the sector will cross the half-trillion threshold before the end of the year.

Encouragingly, the bulk of that growth has come from unrealized value increases rather than inflated dry powder totals. The level of available capital has grown by just $7bn in the first half of the year, indicating that fund managers have been able to deploy capital as quickly as it has been raised. But unrealized value – the total value of outstanding loans or assets currently in fund managers' portfolios – has grown by almost $40bn to cross the $300bn mark for the first time.

Direct lending funds have $155bn in assets, and the strategy accounts for the largest part of the North American market, as it does globally. But distressed debt still holds a significant proportion of assets ($151bn), with the same amount of dry powder and only marginally less in unrealized value than direct lending.

There are concerns among investors about pricing pressure and future returns for direct lending funds, and a market downturn is widely expected, which could provide more opportunities to acquire distressed assets. In the coming months, then, we may see it re-surpass direct lending as the largest part of the market as dry powder accrues in anticipation of a correction.

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