Top Ten Myths About Private Credit (First of a Series)

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A Dartmouth College professor has found that middle age is even more depressing than we thought. The good news? Things start looking up pretty quickly after that.

In a recently published study, David Blanchflower found unhappiness is a U-shaped curve, bottoming out when people are 47.2 years old. These results were consistent with residents in over 130 countries, regardless of their income or longevity.

But after hitting a low, people soon start feeling better. By the time they hit their 60's, they're as chipper as they were in their 20's. Or maybe they just forget how miserable they are.

Investor happiness is another area of proposed study. Specifically, how do investors feel today about private credit, and has that changed over time? Certainly there are many excuses for that to happen.

For one thing the economic backdrop has changed The US is in its eleventh (and record) year of an economic expansion. In 2019 the Fed successfully pivoted with three consecutive interest rate cuts to forestall a potential downturn.

The outlook as well has brightened remarkably. Recent job reports and corporate earnings are painting a rosier 2020 growth picture than previous forecasts. This optimism has propelled public equity indices to new highs.

Nevertheless we suspect trade concerns and political uncertainties will remain in the background, headwinds that will create greater volatility in liquid markets for the foreseeable future. Meaning that illiquid assets will also remain attractive.

So why do we hear grumbling about private credit being "crowded" and "risky"?

Over the next several weeks, we will examine ten of the most persistent misconceptions about private credit, and why they hang on despite the proven track record of the asset class.

Clearly private credit's stable, historical performance, as well as broader knowledge of the product, has driven more capital into the space. Bank regulation and consolidation has further pushed leveraged loans into the hands of non-banks.

Accordingly private equity sponsors are increasingly turning to private credit managers for their senior (and junior debt) needs. That growing demand from issuers and the simultaneous appetite from investors, has accelerated manager fundraising. More experienced managers are crowding out smaller firms.

Robust fundraising has nudged valuations higher, and continued competition for assets has created weakened structures and challenging terms.

All these cross-currents contribute to misleading conclusions about private credit.

? Next week: Myth Number One: “Private credit is a crowded space.”