# Pain across the board

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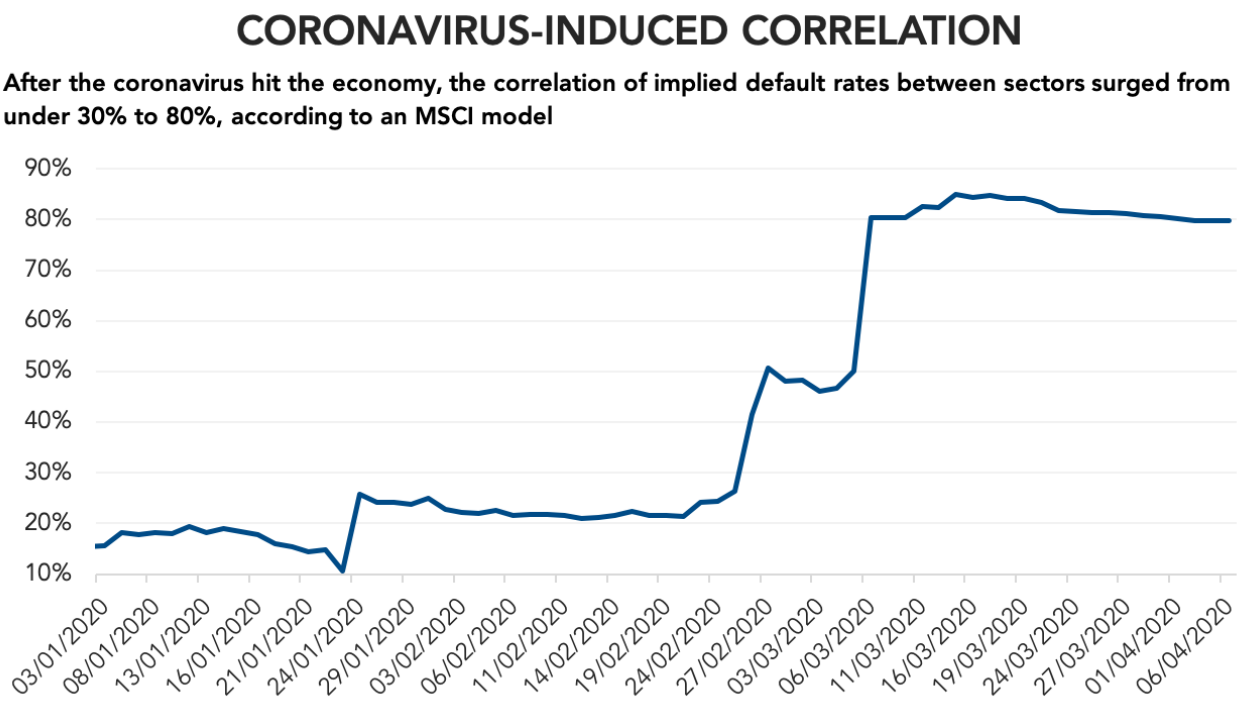


*The covid-19 crisis has dished out equal treatment – hitting all types of sectors hard.*

The subject of the chart above is the CLO market, but it makes a point that is equally valid for the private debt universe. Not only have prospects for company default risen sharply in the wake of the global pandemic, but also the correlation between sectors when it comes to likelihood of default is much higher.

In other words, this is a crisis which is affecting a multitude of different sectors badly. The default rate since the global financial crisis has been at a steady and low level with just a handful of sectors, such as oil & gas and retail, making an outsized contribution to the totals. Those sectors remain in a perilous condition today, but have been joined by many others, with the default rate set to spike.

In *Private Debt Investor*, both through this column and elsewhere, we have been tracking the ‘dislocation’ theme whereby new funds are being raised to take advantage of the changed market circumstances, with target returns generally around the mid-teens. The theme has given global private debt fundraising, which was extremely subdued in the first quarter, a substantial boost.

However, some sources have made the point to us that distress and stress are being seen so widely – by sector, by type of business and by region – that it makes it challenging for investors to understand and pinpoint where the right opportunity is. “By comparison, the GFC was quite specific in terms of where the pain hit, and the opportunity was a bit more obvious,” one source reflected.

The danger here is that investors, needing to devote a lot of time and resource to existing exposures, become distracted by the siren call of new market offerings at a time when the opportunity set is alluring but unclear. “Fear of missing out” or “FOMO” is a powerful motive but could lead LPs down paths they may regret taking.