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Private Credit – Better than Ever (First of a Series)

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Over the past five months, we've dedicated this space to examining the impact of COVID-19 on the economy and the markets. We've also spent time interviewing top private equity and investment banking partners on the state of deal making in the U.S.

What has gotten largely lost in other media reporting on the capital markets is the dramatic turn of events for credit investing.

A decade ago private credit emerged from the ruins of the Great Recession to become one of the fastest growing asset classes in terms of fundraising and investing. Various trends lent momentum to that growth. Greater bank regulation, vast PE dry powder, soaring valuations – all pushing issuer terms to increasingly competitive levels.

Credit investors found themselves presented with a dilemma: choose the largest fund managers, who were winning transactions with the least investor-friendly terms, or pick opportunistic direct lenders who offered higher yields…with much higher risk.

As the recovery aged into its ninth and tenth years, observers worried the next recession would wreak havoc on assets beset by weakened terms and structures. Along with the list of usual suspects such as CLOs ("just like CDOs!") and leveraged loans ("risky loans!"), critics now included direct lending as a systemic threat.

The size of the private credit market, estimated as large as broadly syndicated loans and high-yield bonds, and its growing popularity with institutional investors became reasons not to like it. As Yogi Berra once remarked, "No one goes to that restaurant anymore. It's too crowded."

Then along came COVID-19. The "next recession" arrived with little warning and from a totally unexpected quarter. Understandably, attention has been fixated on the most visible aspects of the pandemic. Statistics on new cases, business openings and re-closings, and the restoration of public equities have overshadowed the middle market.

Certainly the sharp drop-off in M&A and lending volume became the main headline on private credit. After that, the stories were about issuer defaults, ratings downgrades, and hard-hit industries.

But as we've highlighted in recent weeks, deal activity is showing signs of recovery.

In this special report we'll take a fresh look at private credit in a pandemic world. How direct lenders are rethinking their strategies amid the new realities of an uncertain business outlook. How the asset class is being viewed by investors and issuers. How terms and structures are evolving as transactions emerge from the shadows.

In short, how these and other factors are aligning to make this loan vintage the best for investors in a decade.

? From the Editor: The Lead Left will be on its annual August break and will return the week of Sept 7.