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The pain is yet to come

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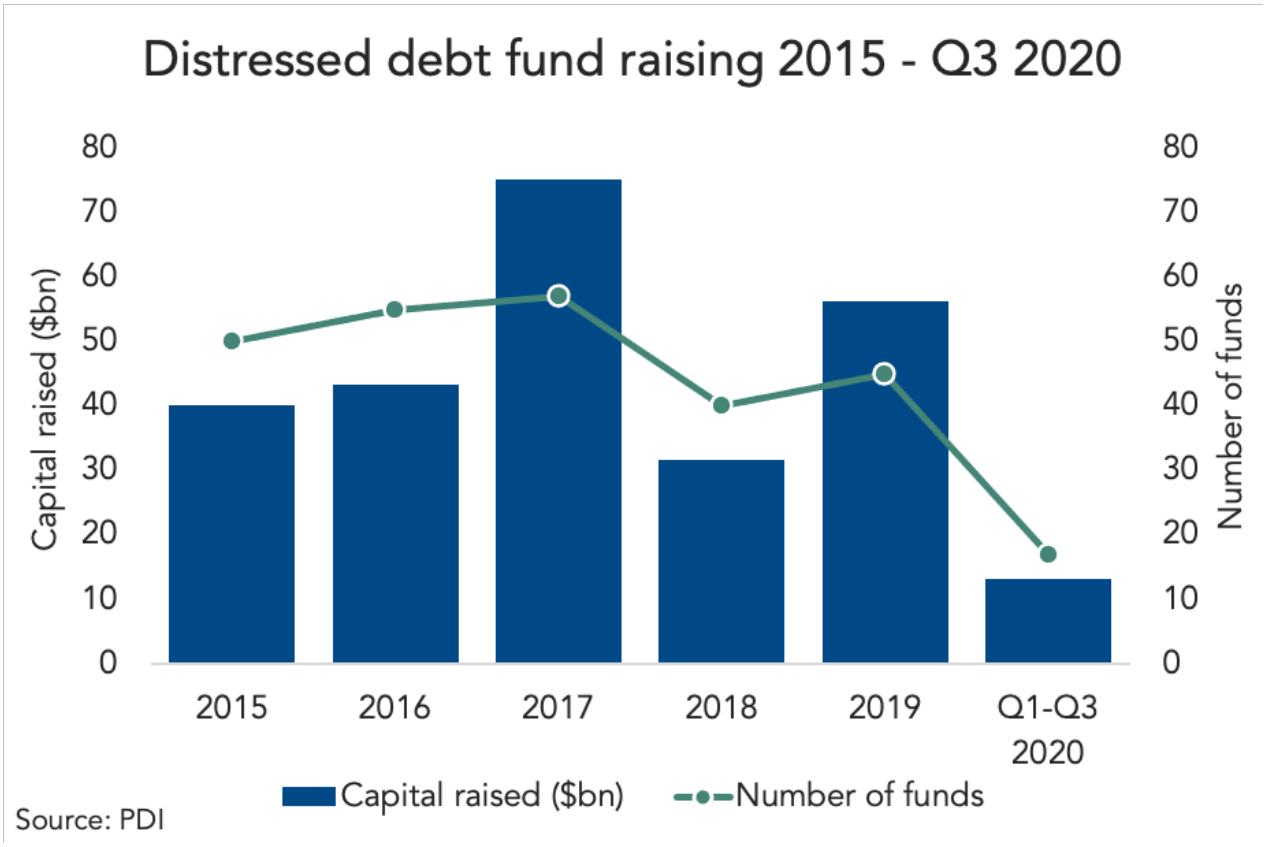

Plenty of capital has been raised in anticipation of a distressed opportunity that may take a while to materialise.

Distressed debt has been a major focus for investors in recent years, as can be seen from our chart above. Although fundraising this year has been dealt a setback by the pandemic, capital for distressed strategies piled up in the peak fundraising year of 2017 and then again last year. There is plenty of dry powder waiting in the wings.

The buzz around distressed debt has picked up again recently, with Strategic Value Partners closing a $1.65 billion vehicle in October and Florida State Board of Administration this month revealing it was committing significant amounts of capital to the space. “We think the distressed opportunity will probably play out in a series of mini cycles over the next 24 to 36 months, so we’ve got a lot of firepower for that,” said FSBA head of strategic investments, Trent Webster, at the end of September.

But at *Private Debt Investor’s* recent Tokyo Forum (virtual of course), one attendee expressed the belief that thinking distressed debt represents a great opportunity over the next 12 months is a misreading of the crisis. He pointed out that this is a health crisis rather than a financial crisis and there is little pressure on either banks or direct lenders to sell underperforming assets. He also suggested that the looseness of documentation would make it difficult for distressed investors to access and meaningfully restructure assets.

Others at the event were also not convinced about the short-term opportunity but did feel that the residual impact of the crisis on economies would present promising distressed opportunities in North America and Europe over a longer-term timeframe of perhaps three to five years. In the meantime, many companies have benefitted – and are continuing to benefit – from government/central bank financial lifelines.

The pressures on companies that might be expected to provide low-hanging fruit for distressed investors may have been deferred. Few expect them to have completely disappeared, however.