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A Market in Full (Third of a Series)

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We report (in person!) this week from the SuperReturn Private Credit conference in Chicago, where we chaired day one, moderated an LP panel, and interviewed the keynote speaker.

The event always attracts top-shelf credit investors and managers, and 2021 is no exception. Sifting through sentiments on the economy and markets from various panels, we discovered interesting findings.

In our conversation with UChicago economist and former Federal Reserve governor, Randall Kroszner, we explored the contrast between two US economies: one consumer-facing, one business-facing. Retail and restaurants are the object of the Fed’s lower-for-longer rate approach, while B2B is on a hiring tear and the focus of inflation worries.

How can one monetary policy cover both? Dr. Kroszner agreed this is a fundamental challenge. But he cited a study in which differing state incentives in the Sioux City region resulted in similar employment outcomes.

Ultimately the impact of higher prices on GDP and markets pivots on how “transitory” that will be. If a year from now inflation continues at high levels and long-term rates are escalating, the Fed’s credibility will be tested. Expectations are everything.

What metrics will you be watching, we wondered, to determine if watchful waiting is working? Risk spreads is one example, he told the audience, between the ten-year Treasury and high-yield bonds.

What about the difference between government’s response last year compared to the Great Recession? In 2009 ground zero was housing. It was easier to target capital and policies to address the problem. Solving lockdowns is something else again.

A common theme between downturns was the increased correlation among liquid strategies. As our *Chart of the Week* highlights the pandemic caused public equities and fixed income to trade in synch. Investors felt they had few options.

Conference panels discussed bespoke strategies designed to meet this perceived gap; music royalties, litigation finance and non-sponsored lending. Opportunistic investments have always been part of the landscape, but are receiving more attention as private debt rivals loans and bonds.

Remarkable also is the sophisticated analysis and diversity of products alternative asset managers are deploying. As we remarked to the audience at the close of day one, the vitality of these credit outposts is a great sign of the health of private credit today.