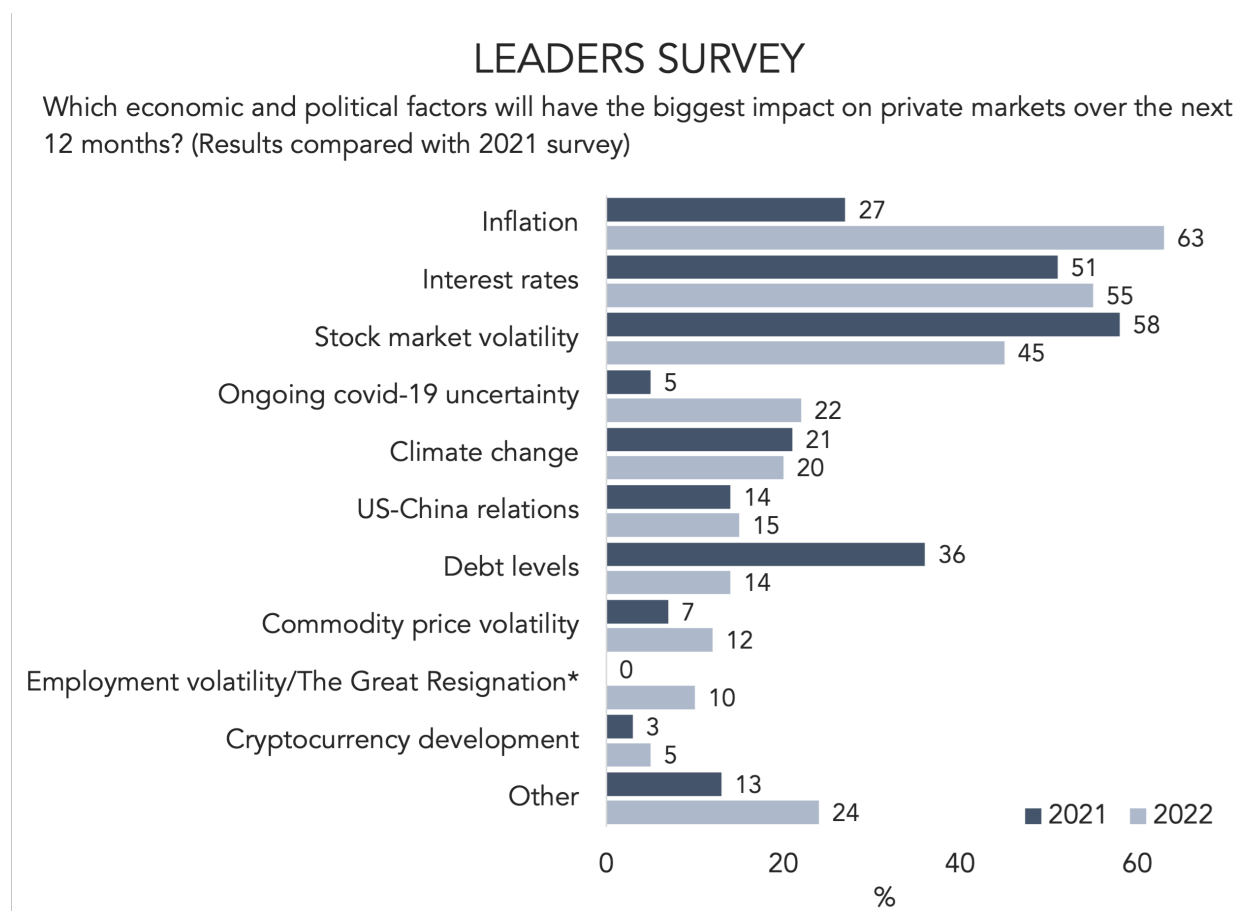


Positive thoughts amid volatility

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Recession may be looming but, in the private debt market, confidence remains high.

The worst is yet to come. That's the not entirely reassuring message from an LCD survey, which found that, when polled last month, 56 percent of respondents said peak market volatility still lies ahead. This represented a sharp rise from the figure of 35 percent recorded in the first quarter. The same survey found more than half of respondents believed there was at least a 75 percent chance of recession in the US in the next year – compared with just 9 percent putting the chance that high in the first quarter.

Also, sharply on the rise is concern about inflation. In our *Fund Leaders Survey*, which is featured in the July/August issue of *Private Debt Investor*, almost two-thirds of survey respondents identified inflation as the economic or political factor that will have the biggest impact on private markets over the next 12 months – compared with just 27 percent a year ago.

But in the face of these gloomy predictions, confidence remains notably high. Despite the shaky macroeconomic and geopolitical outlook, *Fund Leaders* found almost two-thirds of private market participants describing

themselves as either positive or very positive about the coming year. This was down on the figure of just under 80 percent last year, but still strikingly high given the circumstances.

Will this positivity be crushed by the onslaught of higher interest rates, as efforts are made by central banks to try and rein back rampant inflation? Not necessarily. One side effect of higher rates is expected to be a cooling of valuations, something that may result in a more sustainable market environment. Moreover, credit returns are unlikely to be reduced too much given the floating rate nature of most loans.

In the immediate term, there appears to be no substantial threat to the private debt market, which is even beginning to claim further market share from the banks as private equity sponsors turn to credit funds for more reliable execution and better financing terms. It would perhaps be a push to say the future's bright, but there is at least some cause for optimism.

(Past performance is no guarantee of future results.)