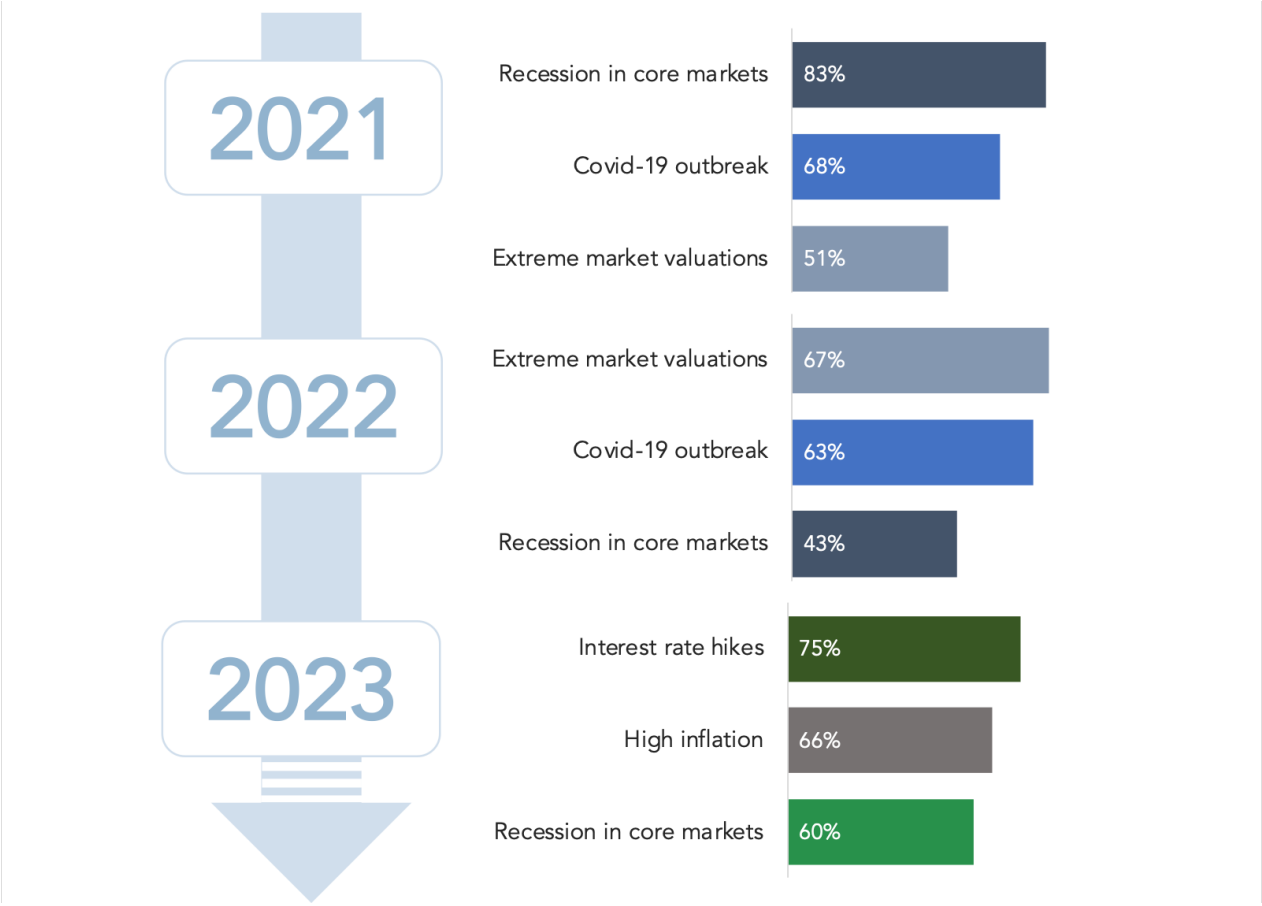
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Rates become chief performance concern

PEI Private Credit | January 24, 2023



Inflation and interest rates enter investors' list of top three worries this year, as fears of a recession persist.

Rising interest rates and inflation have become the key concerns for investors taking part in *Private Debt Investor*'s *LP Perspectives 2023 Study*, for the first time pushing extreme market valuations out of the top three factors they expect to impact the performance of their private markets portfolios.

Central banks, such as the Bank of England and US Federal Reserve, have been raising interest rates to curb soaring inflation. The Bank of England increased rates from 0.1 percent in December 2021 to 3 percent in November 2022, while the US Federal Reserve hiked the federal funds rate by 0.75 percentage points for the fourth time in a row in November, to 3.75-4 percent.

Fears of a recession, however, have been a consistent worry among LPs in the past few years, though the circumstances surrounding this have varied, with covid-19 most notably taking its toll following widespread outbreaks and subsequent lockdowns in 2020.

Our survey shows that, in 2019 and 2022, extreme market valuations was the number one concern. In 2020 and 2021, meanwhile, fear of a recession in core markets was the leading worry.

In this brave new world for private debt, which strategies are investors turning to? Direct lending strategies remain top of the shopping list, according to the survey, with almost half (47 percent) of LPs planning to invest more in those during 2023 than they did last year. Investors are split on distressed and special situations strategies, with 29 percent intending to invest more and 24 percent pulling back this year.

Meanwhile, speciality finance continues to please investors, with 67 percent planning to either invest the same or more capital in the strategy in 2023.

(Past performance is no guarantee of future results.)