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Letter from Switzerland

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We conclude our current private debt world tour with stops last week in Geneva and Zurich.

As was the case with our previous visits in various overseas capitals, investors shared similar concerns about the world of volatile liquid markets and the relative stability and value in private markets. And as was the case with other geographies, Switzerland has its own unique economic backdrop.

The Swiss economy, while losing steam since early 2022 (see our *Chart of the Week*), remains in positive territory. Contrast its 0.6% 1Q 2023 GDP with neighboring Germany in a technical recession after its negative 0.3% and negative 0.5% for the previous two quarters, respectively.

This differential may be accounted for in part by national sector strengths. Swiss industries such as financial services, biotech, and specialty manufacturing compare favorably from a cyclical perspective to Germany's automobiles and chemicals. Add to that the weight of higher German energy costs from its shedding dependence on Russian natural gas.

Our friends in Geneva and Zurich were a mix of family offices, wealth managers, and institutional investors. These firms shared a sophisticated approach to alternatives. Real estate, as one example, has been well-supported for decades as a successful diversifier from the traditional 60/40 model.

A similar appreciation involved private equity. Here questions revolve around the relative value of PE returns compared to private debt. Will the significantly higher all-in yields (and corresponding financial burden on borrowers) accruing now to direct lending hurt sponsors' returns as they raise new funds?

Our Arcmont and Nuveen colleagues also shared views on European private debt markets which are less developed than the US. The nuances of each country's legal jurisdictions make it difficult to have a truly pan-European credit platform. But that also creates an opening for those lenders with scale and relationships to take market share.

Investors inquired about the outlook for quality deal flow in the current high-rate environment. While activity for the first half of the year has been muted compared with the second half of 2022, bankers are seeing a rush of books for properties being positioned for sale.

Finally, we highlighted how experienced managers build portfolios to weather recessions. How do we deal with problem situations? Will the current crop of loans produce higher or lower defaults and recoveries? How do private debt valuations compare to public ones?

While the uncertainty of growth, inflation, and rates hovers over asset managers regardless of region, those conditions position private debt as an increasingly essential asset in any diversified portfolio.