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Stresses and strains may trigger a distress revival

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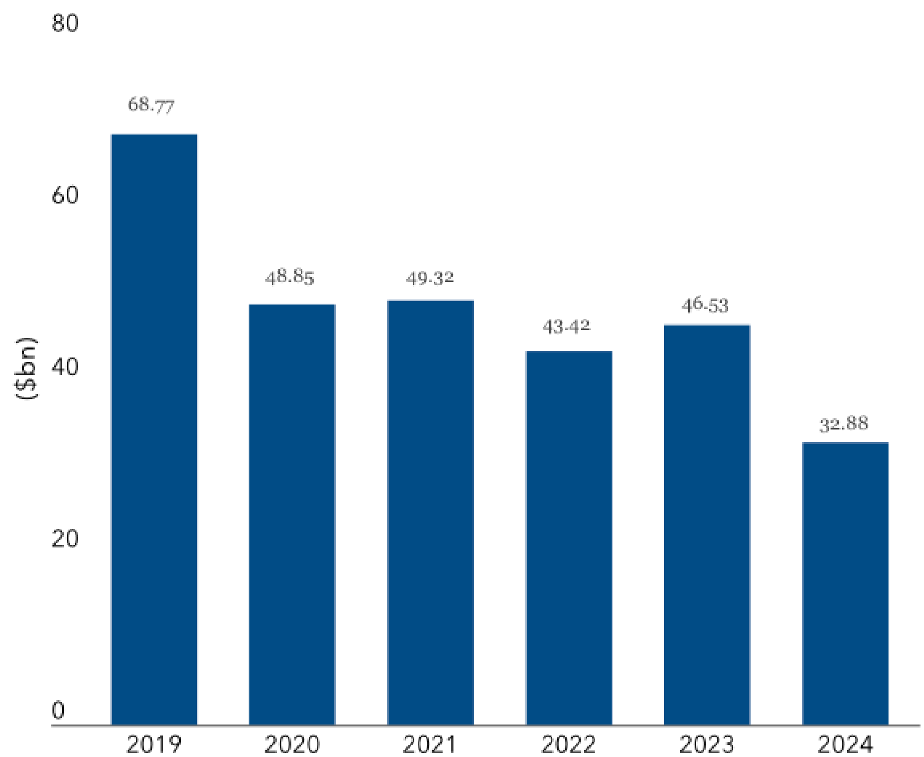

Source: Private Debt Investor

Distressed debt has adapted to more benign market conditions but may revert to a 'pure' form as pressure on borrowers grows.

Distressed debt isn't what it used to be. In the wake of the global financial crisis, there was a once-in-a-lifetime chance to invest in rebuilding a global economy that was in tatters. That was a genuine "pure distress" opportunity which made fortunes for some but may have burnt others.

Since then, market conditions have been occasionally volatile but never coming close to a repeat of what happened in 2008/09. In the wake of the covid pandemic, some fund managers raised dislocation funds – some of these vehicles were closed in a matter of weeks – to take advantage of what ultimately proved to be a short-lived crisis.

Overall, economic conditions over the last couple of decades have been broadly benign. But even with a tranquil economic backdrop, there will always be companies in need of complex financing that they may not be able to obtain from ‘plain vanilla’ providers. And this is why a host of labels have become increasingly familiar over the years: special situations, opportunistic credit, capital solutions…the list goes on.

As can be seen from the chart above, distressed debt fundraising sunk to a new low last year. But it’s possible that 2025 may see something of a revival as investors take note of a changed economic and geopolitical backdrop in which stubbornly high interest rates and a likely revival of inflationary pressures will keep borrowers under pressure.

Certainly, distressed/opportunistic fundraising got off to a flying start with Oaktree Capital Management closing a $16 billion vehicle in February. It’s a part of the private credit market that may just be in line for something of a revival.