PILFOR
LENDING SOUNDNESS

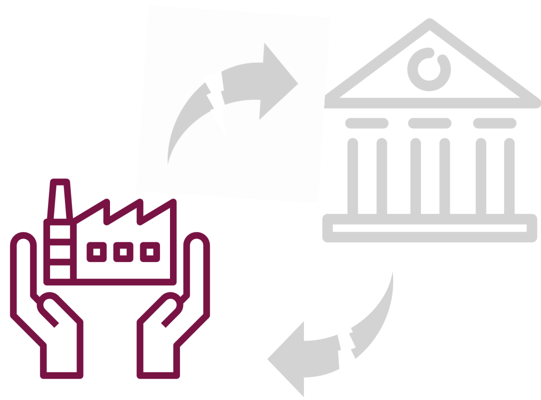
December 2020

Monthly Market Insights

Loan Market

The distortions caused by the pandemic call for observing closely any trends in the need for and availability of external financing of corporates. During April to September, euro area SMEs had a markedly increased need for bank loans typically for working capital and refinancing, rather than investments. While bank loan availability remained almost unchanged Euro area-wide, a contraction occurred in a number of countries such as Germany and Austria. Overall, SMEs see the generally deteriorating economic and firm-specific outlook besides their capital position increasingly impeding their financing access. Time to recall how a decoupling bond and loan market generally disadvantages SMEs: Bond markets generally allow for longer tenors and more flexible use of proceeds but in many markets pose "ticket size" hurdles for smaller borrowers. Due to their size SMEs are prone to bank lending, limiting their funding options.

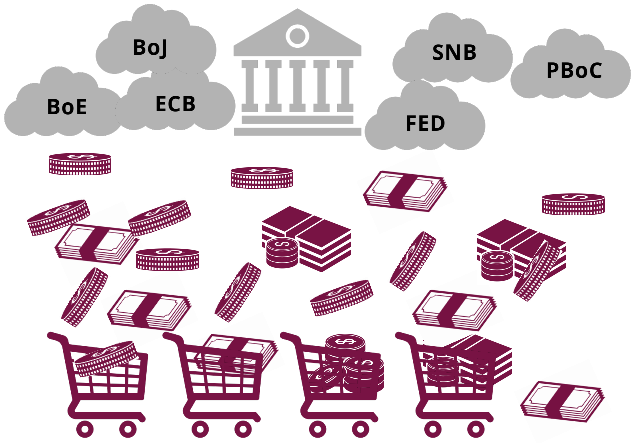
SMEs and banks heading towards difficult relations?



Bond Market

Companies around the globe have borrowed massively during 2020, with US issuers (non-financial) alone raising USD 2.5 tn in the bond market. This has driven leverage to an all-time high, pressuring companies' debt coverage ratios and fueling the number of zombie companies. Fitch, Moody's and S&P responded to the increasing risk with unprecedented rating actions. Many investors are still betting on a debt price rally in 2021, with expectations of continued central bank support outweighing fundamental risks. But what began in late spring with companies rushing to markets to raise liquidity, transformed into steaming hot debt markets. Issuers found themselves in the driver's seat as the "de-coupling" of risk / return continued and hit new highs. While central banks managed to dampen the pandemic's impact, the moves left companies highly dependent. Central banks can fix liquidity, not solvency problems. What will companies look like on the other side of the pandemic tunnel?

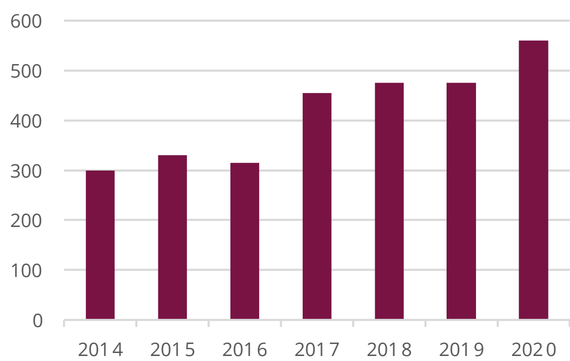
Precautionary funding turning into a debt frenzy



Private Equity

Private equity deals in 2020 soared to the highest level since 2007 reaching USD 559 bn globally. Activity jumped back from a slowdown in spring as private equity picked up a record number of companies and set an all time high of deals announced, even as the coronavirus pandemic triggered a global recession. Cheap debt is the kerosene of private equity and central banks unprecedented measures seen in 2020 built the base for ongoing buoyant market activity. The acquisition of Thyssenkrupp's elevator business is just one example of megadeals seen in 2020. Private equity houses sitting on large amounts of dry powder, a highly attractive financing environment and an increasing number of keen sellers are set to further drive activity in 2021 and beyond. We continue to see private equity interest across a range of Swiss consumer goods, industrial, medical device, and technology companies.

Dealmaking volumes continue their rise (USD bn)



Source: Refinitiv

PILFOR is an independent and specialized debt & capital advisor establishing and optimizing funding access - financial flexibility - financing costs

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