PILFOR
LENDING SOUNDNESS

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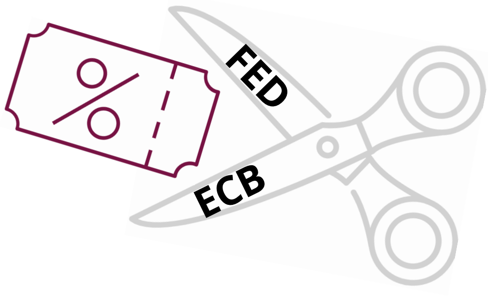
Monthly Market Insights

High-Yield Bond Markets

The helping hand offered by the FED, ECB, BoE and peers enabled many a non-investment grade issuer to tap the capital market in 2020 and bolster their balance sheets. As vaccines are being rolled out and GDP forecasts point northwards, non-investment grade issuers are about to join another party. Never before has it been cheaper for "junk" rated issuers to raise debt in the US, driven by an unrelenting appetite from yield-hunting investors. Issuers like MDC Holdings ("BB+"), T-Mobile ("BB") or Ford ("BB+") issued 5+ year bonds below 3%. Historical monetary policies and pledges to support markets by means of "whatever it takes", have clearly boosted confidence and pushed investors down the rating ladder to pick up at least some yield. Even "CCC" rated bond yields have hit historical lows this month, just north of 7%. Central banks act as floor layers, putting a floor under asset prices, thereby capping return potentials, while fundamental risk throttles remain open.

Coupon cutting central banks



Private Debt

It is quite telling when a national development bank with a public mission to make finance markets work better for small businesses issues a report on private debt: British Business Bank confirmed the suitability of private debt to support the recovery and growth of SMEs post-Covid. Indeed, the higher risk appetite of debt funds allows them to deal better with both deteriorated credit metrics of companies hit by the pandemic and growth companies, with products ranging through unitranche up to quasi equity. More than 60% of all observed deals related to growth, an equivalent of more than GBP 11 bn during 2018/19. The flexibility of debt funds to offer bespoke terms increases further the asset class' attractiveness for new funding and refinancing of existing loans alike. In countries where SMEs play an even more important role like Germany, Austria or Switzerland, private debt dry powder currently standing at close to USD 300 bn globally should be utilized much more than in the past.

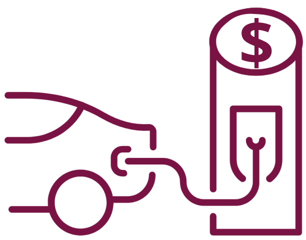
UK's SMEs getting a recovery and growth boost

Sources: British Business Bank, BVCA

ESG

When markets tumbled in 2020, investors fled mutual funds apart from one sector: sustainable investing. This area - where ESG issues are factored into investment decisions - had long been viewed as niche. However, 2020 proved the opposite, with year-end total assets reaching nearly USD 1.7tn, up 50% YoY. Things looked similar in the debt capital market, increasing by 29% to above USD 730bn. ESG is also defining the shape of alternative capital. Not surprisingly, the real economy is rushing to account for these major developments. Executives are overhauling strategies to ensure alignment with fundamental sustainability trends. Taking automotive as an example, manufacturers like BMW, Volkswagen, Jaguar Land Rover, GM and Ford to name just a few, are fully committing to electrified vehicles, while ditching internal combustion engines. Higher valuations are likely to reflect these actions.

Corporates rushing to ESG to connect with fund industry



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