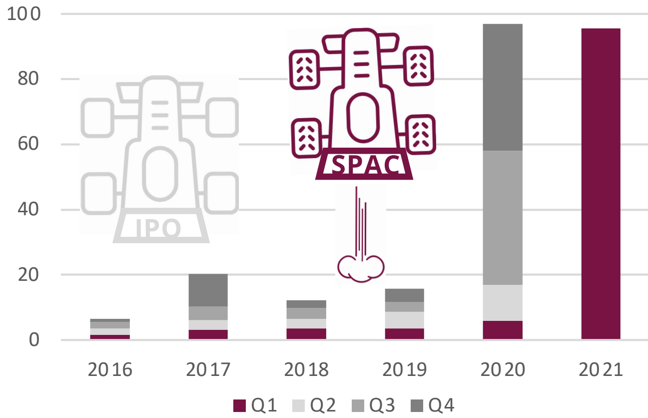
March 2021

Monthly Market Insights

Capital Market

The abundance of cash and hunt for yield has turbocharged the SPAC market. The momentum witnessed during 2020 - predominantly US biased – shifted into top gear right from the beginning of 2021. By mid March, SPACs or blank-cheque companies, raised nearly USD 80 bn across 264 vehicles, eclipsing 2020 with 256 vehicles. 2021 is different however, as European cities such as Amsterdam, Frankfurt, London but also Zurich have or are about to join in the frenzy in SPAClistings, possibly overwhelming investors despite the current insatiable appetite. Regulators are being urged to welcome SPAC listings. Despite signs of overheating, demand for SPACs among retail and institutional investors to build desired "sector exposure" such as e-mobility or fintech is strong. Remains to be seen, how many private companies choose the quicker "route-to-market", helping SPACs surpass the acquisition success rate watermark of 50% from funds raised in 2017.

SPACs on the fast lane – funds raised (USD bn)



Source: Refinitive

Loan Market

The SME funding gap, i.e. the unmet demand for bank loans by SMEs, fell Eurozone-wide in the years prior to Covid-19 to an estimated 3% of GDP by Euler Hermes, a relevant figure for (monetary) policy makers because of the high share of bank financing in total SME debt financing. Against this background, the invitation to banks repeated by Andrea Enria, Chairman of the Supervisory Board of the European Central Bank, at the Morgan Stanley Virtual European Financials Conference, not to postpone impairments in order not to weaken lending capacity for the time when SMEs are ready to invest in growth again, is telling. Enria is also clear when he calls for proactive engagement by banks with distressed customers to find viable solutions or initiate early exits, and points to the too low proportion of loans classified as "underperforming," between "performing" and "non-performing." Will Covid-19 lead to a rebound in the SME funding gap in the coming years?

Banks' heavy Easter duty of classifying loans

ESG

During this year's season of general assemblies, board directors face increasing pressure to consider issues ranging from climate change, diversity and risk culture and linking these to executive compensation. Basing executive pay on financial performance metrics alone will rapidly cease to be sufficient. Going forward, companies will be held accountable failing to set ESG targets when deciding on executive pay, a move considered necessary to deter "ESG box checking". Putting a "price tag" to a company's ESG efforts, profile and strategy is a rapidly growing key pillar of credit ratings, regularly triggering ESG-related rating actions. Considering the growing pressure from debt & equity capital markets and credit ratings, improving a company's ESG performance is not only the right thing to do for the environment & society, it's the right thing to do to generate sustainable debtholder- and shareholder-value.

Boards in the ESG spotlight – box ticking is not enough

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

PILFOR AG
Fürstensteinerstrasse 9
CH - 4053 Basel