PILFOR
LENDING SOUNDNESS

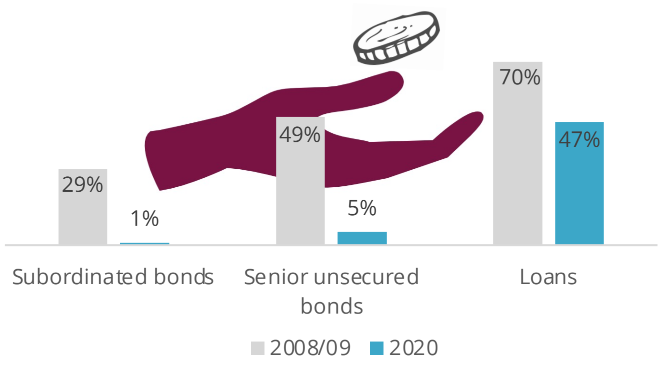
May 2021

Monthly Market Insights

Debt Market

Looser underwriting standards and shifts towards more fragile capital- and debt structures challenge lenders' ability to recoup from defaulting corporate borrowers than in previous downturns. The effects of years of stunning demand for corporate debt with borrowers in the drivers' seat has begun to show painful outcomes. Looser documentation gave borrowers more flexibility to postpone bankruptcy filings in pandemic-infested environments. However, once filings eventually take place, borrowers are in a worse state with subdued recovery levels. Not surprisingly, the aforementioned harbingers changed the "recovery storyline" across the entire debt ladder: Subordinated bonds offered 1 cent to the dollar vs. 29 cents in 2008/2009, senior unsecured bonds offered 5 cents to the dollar vs. 49 cents, and even loans - offering business class amenities - received only 47 cents vs. 70 cents in the past. The default de-masking is set to haunt lenders and investors alike.

Meagre recovery levels across the debt ladder

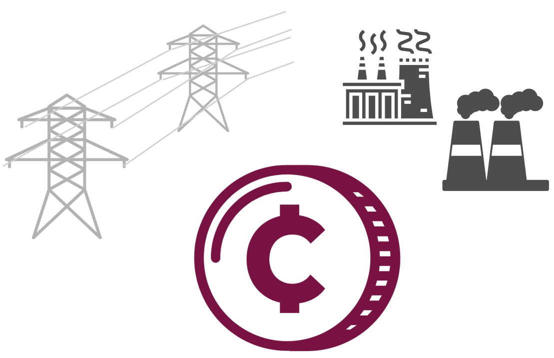


Source: FT

Cryptocyrrencies

In recent months, cryptocurrencies have been among the assets attracting the most attention, with Bitcoin and Ether reaching historic price levels. A mass of research and announcements on the one hand and increasing adoption by companies and institutions on the other have driven these gains. However, one side was less known to many until very recently: How much electricity is needed to run the bitcoin network? Comparisons of Bitcoin's electricity consumption with that of companies, countries and cities, as well as a look at the energy mix used for cryptomining, exposed cryptocurrencies to criticism from sustainability-conscious investors and the general public. As cryptocurrencies become gradually more mainstream, the industry's carbon footprint is also likely to attract the attention of governments and other regulators to ensure compliance with sustainability goals.

Awaiting the greening of cryptomining



ESG

The unabated sustainable investing boom and rapidly increasing share of companies making such commitments require a closer look at the approach of institutional sustainability investors, as they are not willing to be burdened with costly information gathering and expect a well-prepared, coherent and scientifically sound ESG story, i.e. one that is sophisticated yet easy to communicate. Investor types with a long-term orientation are specifically suitable for companies with high ESG scores. Investors require direct engagement with issuers for a sufficiently deep understanding, not least to grasp their ESG strategy. There is no doubt that it is directly up to company boards to steer ESG by overseeing key issues, ensuring high performance on material issues and being available to engage with key investors, for the ultimate benefit of funding access, financing cost and enterprise value.

Driving enterprise value

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

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