PILFOR
LENDING SOUNDNESS

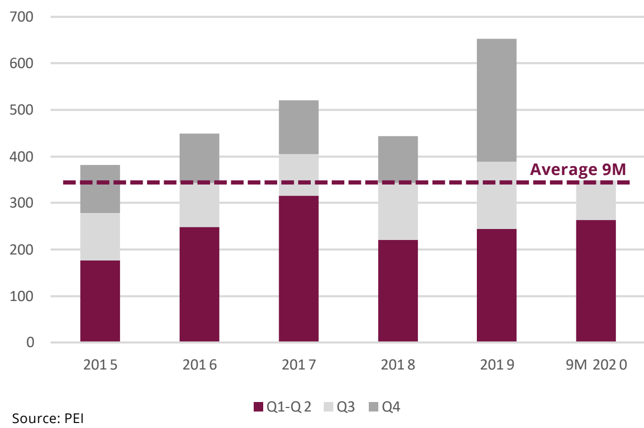
October 2020

Monthly Market Insights

Private Equity

Fundraising in 9M 2020 reached around USD 350bn, only around 10% below previous year's level due to lower Q3 levels. Investors, seeking more security in the wake of the Pandemic, are increasingly shifting towards lager funds, thereby fueling some concentration on the back of smaller managers. 2020 is bound to see the number of funds closed fall short of past numbers. The average fund size is steadily increasing. Despite the initially challenging environment in 2020, global buyout deals have recovered considerably from Q2 levels. The number of deals in Q3 was pretty much flat YoY, a remarkable outcome given the extent and duration of the crisis. Undoubtedly, private equity and especially buyout funds have been keen to deploy their dry powder in what may prove to be a strong vintage. A near-zero interest rate environment where investors are eager to pick up higher-yielding and riskier investment opportunities offers the ideal base for increasing deal sizes targeted by mega funds.

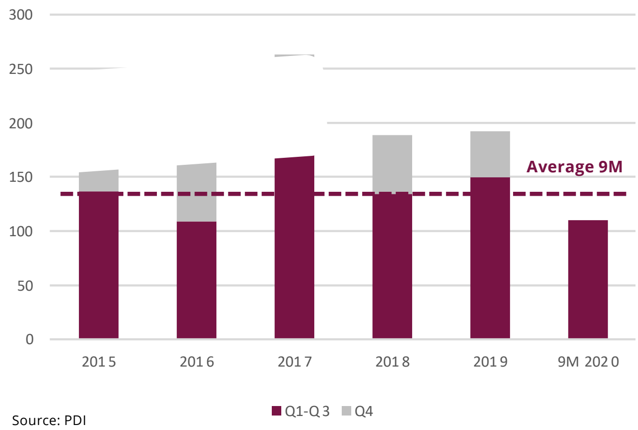
High gear: USD 349bn raised during 9M 2020



Private Debt

Private debt recorded a strong growth over the last 10 years, increasingly filling the gap created by withdrawing banks. However, ever since questions how the market would fare in times of economic downturns remained among participants. 2020 has definitely offered a good glimpse of the market's resilience in the stormy waters. Not surprisingly a number of investors highlighted issues in parts of their portfolios with especially vulnerable credit profiles. During 9M 2020, private debt funds raised around USD 110bn. However, considering the limited travel ability, fundraising can definitely be considered robust keeping in mind, that much of the capital raised was committed before lockdowns. Not surprisingly, senior debt took a larger share. Contrary to 2019, distressed debt's share dropped as sizable amounts were already allocated, some of which focused on evolving opportunities within the direct lender landscape. This might hint towards mounting challenges for some investors.

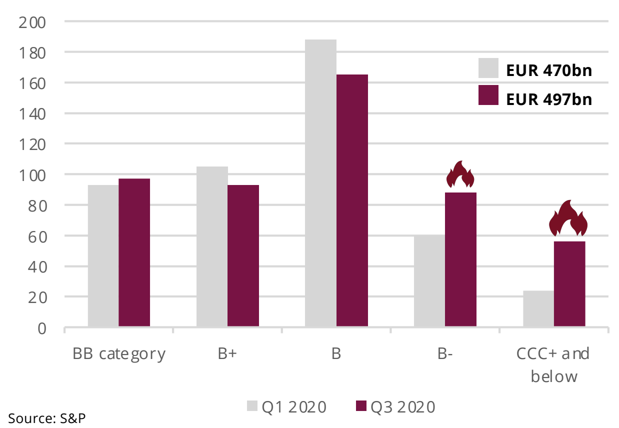
Going sound: USD 110bn raised during 9M 2020



Bond market

2020 is bound to enter the history books for two special reasons: COVID-19 and an unprecedented issuance of debt launched shortly after the outbreak. The piling up of debt and wide-spread deteriorating rating transitions by corporates to repurchase equity, pay dividends and pursue "optimal capital structures", found a somewhat "unexpected helping hand" in the midst of hefty market turmoil by means central bank interventions. The corporate bond market was backstopped, investment grade and junk debt was purchased, driving the massive "de-coupling" of "fair market values" and fundamentals to new levels. Preventing overly-leveraged corporates from hitting the wall in March 2020 is starting to take its toll at an increasing pace. Dwindling corporate recovery levels well below historic levels, will likely set off bitter wake-up calls for yield-hungry / weakly protected creditors as we move further down the road.

Deteriorating Rating of Sen. Sec. Debt – Europe (EUR bn)



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

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