Private Debt Intelligence – 3/6/2017

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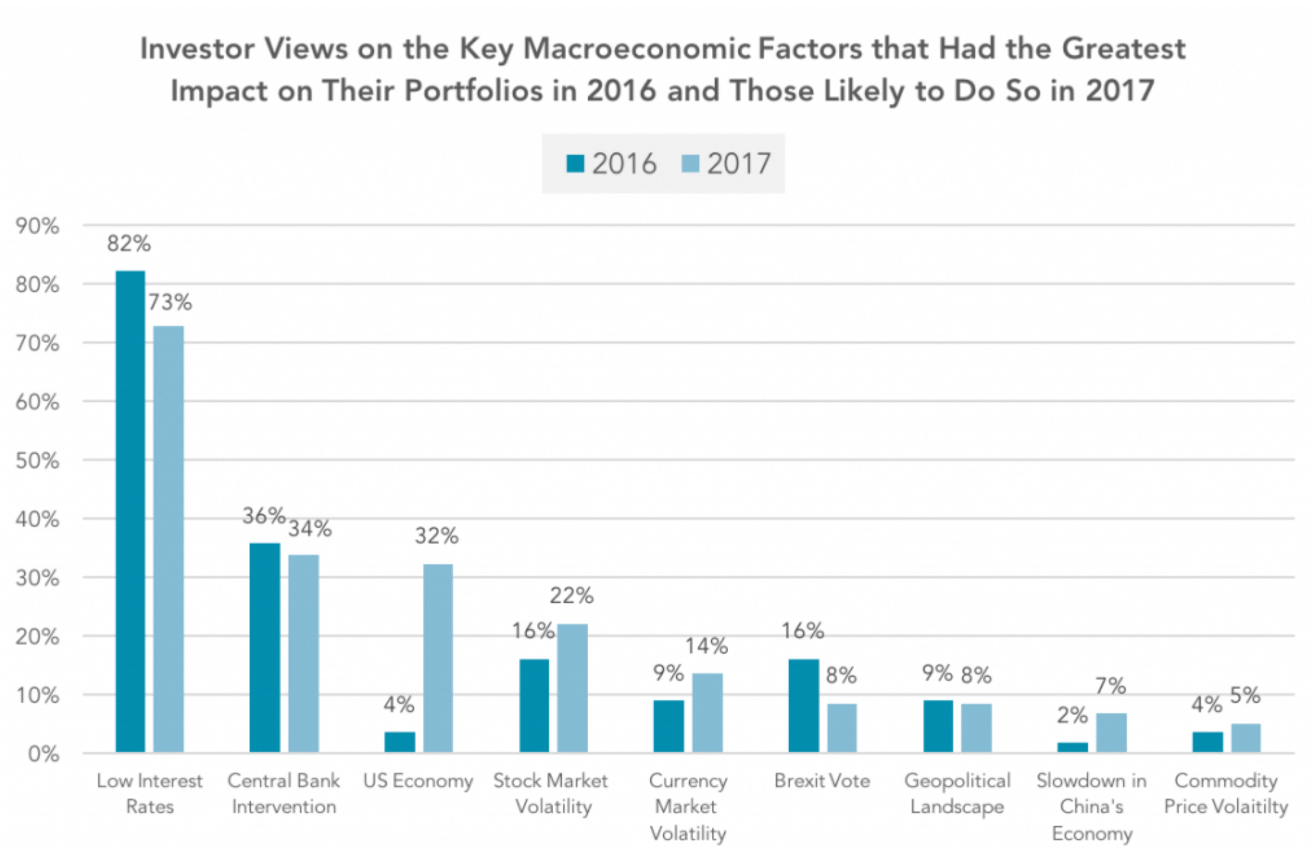
Investor Views on the Key Macroeconomic Factors Affecting the Private Debt Industry



Institutional investors currently hold the private debt industry in extremely high regard, with 93% of respondents surveyed by Preqin at the end of 2016 stating that their investments had either met or exceeded their expectations in 2016. However, investors will be keeping an eye on the macroeconomic factors that affected their portfolio in 2016 and are likely to make an impact in 2017.

Unsurprisingly, the largest proportion (82%) of investors stated that low interest rates – which make lending relatively cheap – had influenced their portfolios in 2016, although under three-quarters (73%) expect the same this year. Over a third of investors also noted that central bank intervention continues to play a defining role within the private debt industry with 36% of respondents noting that it had impacted their portfolio last year and 34% expecting further ramifications in 2017.

Following the unexpected result of the US election, and given that North America is home to the majority (58%) of private debt investors, it is no surprise that the US economy has grown in significance for the industry. Just 4% of those surveyed said that it was a factor through 2016, however nearly a third (32%) now believe that the economy will affect their portfolios. With President Trump looking to scale back the Dodd-Frank Wall Street

Reform, private debt investors may well be concerned about renewed competition from traditional lenders.

Conversely, the consequences of the Brexit vote appear to be less of a concern in 2017 for private debt investors. The proportion of respondents (16%) stating that it had an effect in 2016 has halved to just 8% of those who believe it will have an influence in 2017, which may relieve participants operating in the rapidly expanding European market. Other a fifth of investors (22%) believe that stock market volatility could impact private debt in 2017, while the slowdown in China's economy has also increased in prominence as a factor for the investor community with 7% now considering it a key macroeconomic issue for the year ahead.

The private debt industry remains on an upward trajectory with investors planning to allocate more capital to funds in 2017. Macroeconomic factors will clearly have an influence on portfolio performance over the course of the year, but investors remain confident that the private debt market will continue to grow and meet their performance expectations.

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