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Thirst for yield overshadows other concerns

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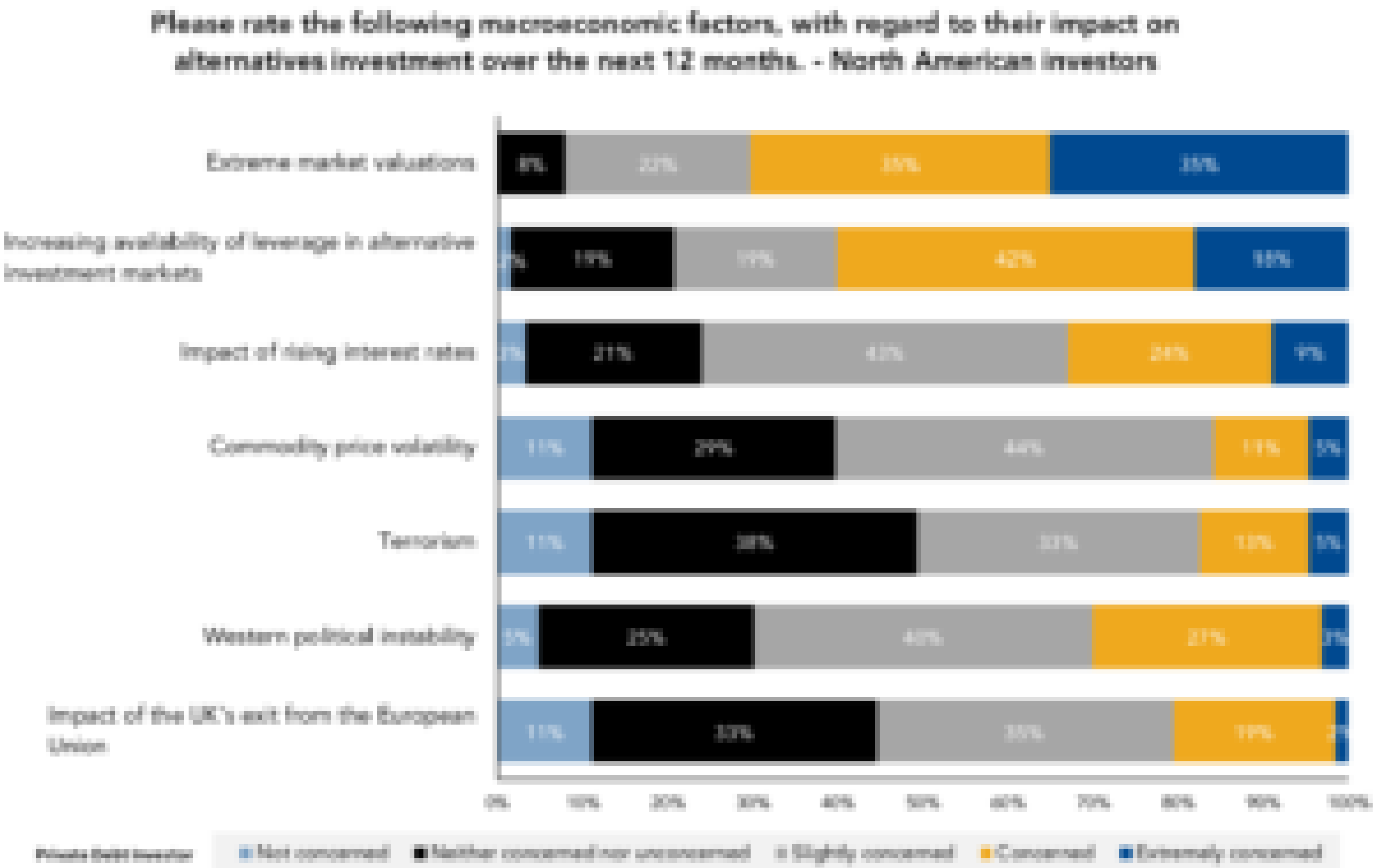

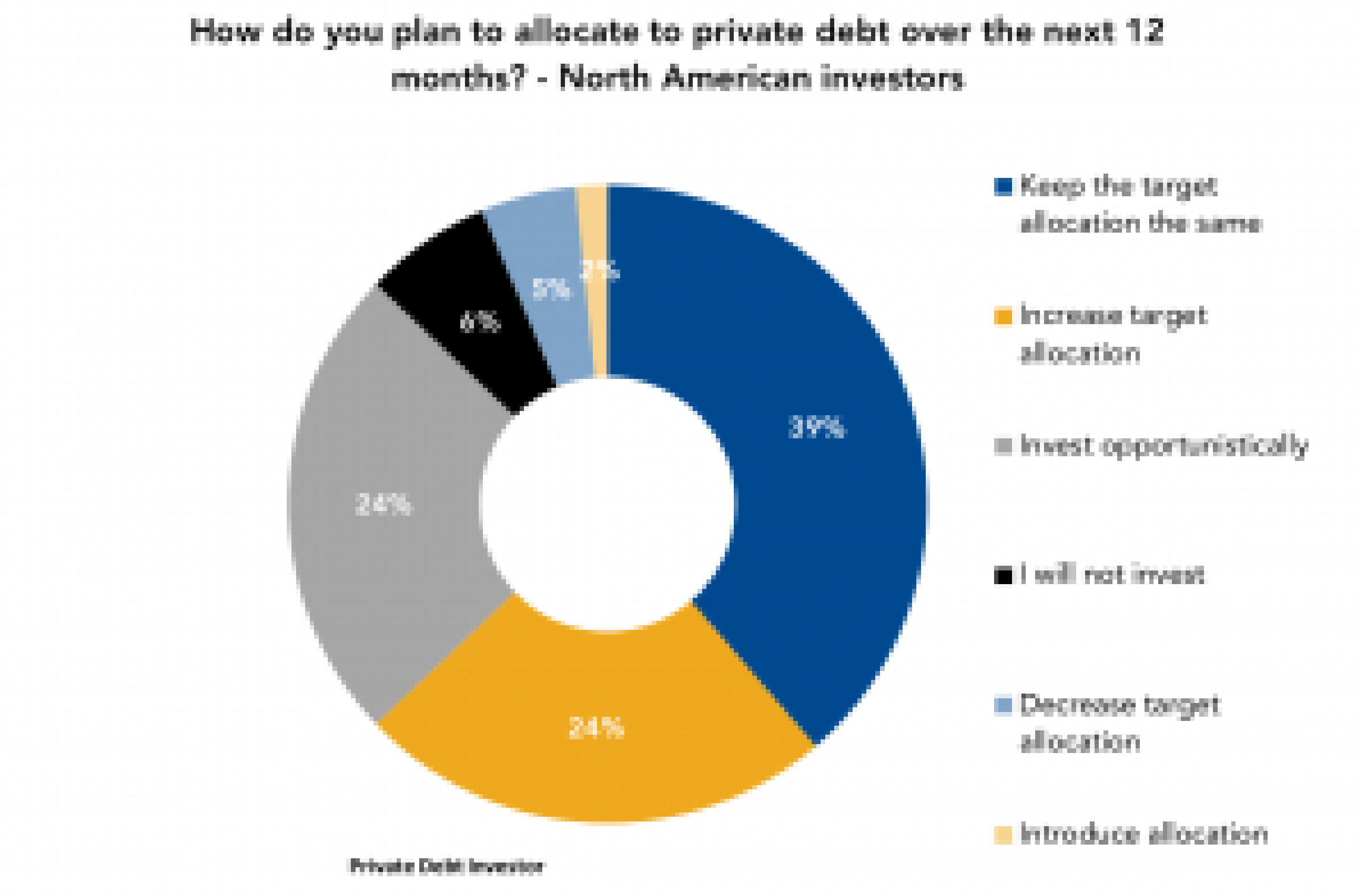

Worries over market valuations are being suppressed by investors still keen to embrace the private credit and private equity markets.

In our limited partner survey conducted recently, North American respondents told *Private Debt Investor* their biggest macroeconomic concern was "extreme market valuations". On a scale of 1-5, investors registered their unease on the issue at almost 4, with 1 being not concerned and 5 being extremely concerned.

Given private credit's reliance on private equity for deal flow, concern about valuations might easily be a deterrent, but North American LPs do not seem to be worried enough to divert resources away from either asset class.

In the same survey, 24 percent of LPs said they would introduce a private debt portfolio category and 39 percent said they would keep their allocation size the same. Only 5 percent said they would decrease their allocation target. For private equity, 11 percent said they would up their exposure to the asset class, while 71 percent would stay the course on their allocation. Two percent said they would trim it.

An apparent contradiction is that more than twice the number of North American LPs are less confident than more confident about private debt's performance in the coming year compared to the last 12 months.

Conversations with both GPs and LPs confirm this sentiment. I raised the issue with one LP: why all the excitement for private debt if there are concerns over private equity and loan market fundamentals? The answer was, blame the thirst for yield.

If the need for yield is winning out over concerns regarding market fundamentals, it is even more incumbent on credit managers to be disciplined in their dealmaking, though indicators aren’t necessarily favorable on that front.