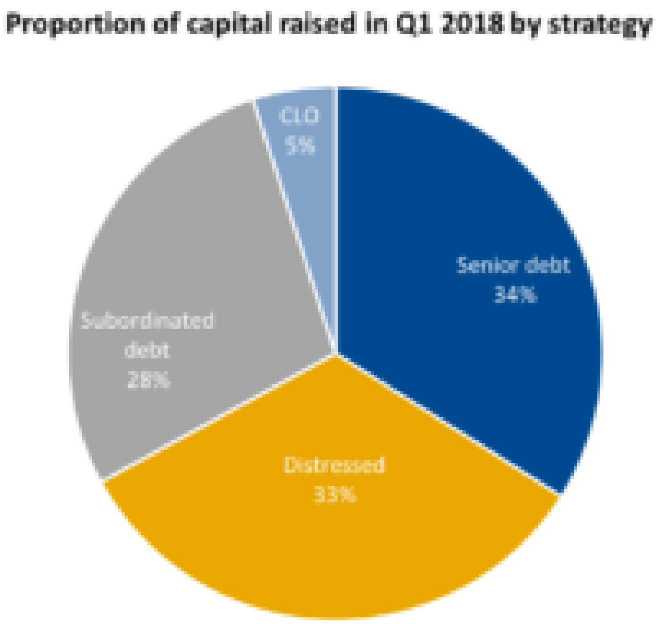
Two market views

Private Debt Investor | May 2, 2018



Managers may be putting resources and strategies behind a bearish view of the market.

Senior debt and distressed debt fundraising totals were neck and neck in the first quarter, according to *PDI* fundraising data.

Private debt funds closed on $37.1 billion in the first quarter, and those targeting the top of the capital structure rounded up 34 percent of the total, while vehicles targeting troubled companies collected 33 percent.

That these strategies collected the most should not be surprising, given the perceived safety of senior debt along with the bearish views many hold in the market. But the data may show a divide among managers: those that think the credit cycle still has steam left in it and those that think credit cycle is close to running on empty.

Senior debt has a large portion of the capital collected for a while now, and even in a downturn, senior debt will provide better recoveries than mezzanine debt simply because the former is higher than the latter in the credit pecking order.

The rise of distressed debt's fundraising total though portends that managers believe a downturn is on the horizon, though in fairness, many have maintained that for a while. Pontificating on the state of credit markets is one thing, but marshalling a firm's resources to collect hundreds of millions, if not billions, of dollars shows managers literally putting their money where their mouth is.

And who could blame them? The deal market has significantly deteriorated over the past year, a market source told *Private Debt Investor*. Once a borrower-friendly term gets slipped into one deal, the attorneys that worked on the deal will slip said provision into another client’s deal and it will “spread like wildfire”.

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