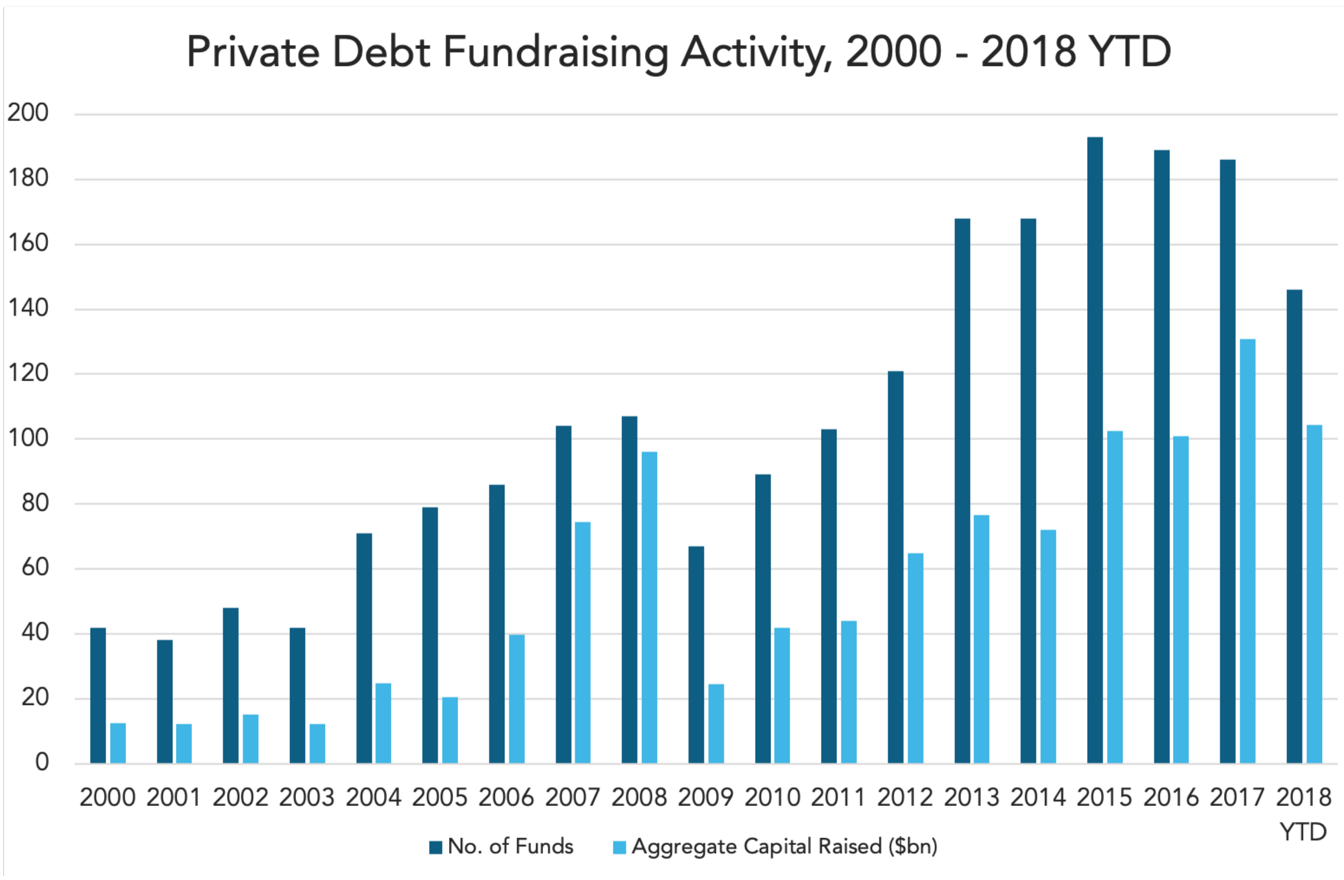
Private Debt Intelligence – 12/17/2018

THE LEAD | December 19, 2018

Are We on the Precipice of a Private Debt Crash?

Chart



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Private debt funds can act like a bank, providing loans to businesses are that are too small to go on the bond market, but which are also too big to solely rely on loans from their local credit union. This important financial model has led to the booming growth of direct lending within the asset class. However, some are concerned about the capital is pouring into the industry, expanding the once niche market perhaps past its stretching point.

2017 was a banner year, as 186 funds secured a record $131bn. 2018 also has shown itself to be a strong year for private debt fundraising, with 146 funds closing as at the beginning of December and raising an aggregate $104bn. This puts average fund size in 2018 to $796mn, a slight increase from 2017 when average fund size stood at $783mn.

Before 2017, average fund size hadn’t crept past the $700mn mark since 2007. In 2007, 104 funds raised $75bn, bringing average fund size to $753mn. In 2008, average fund size ballooned to $979mn, right before the private debt market tumbled in 2009.

Looking at top-level fundraising levels can look worrisome, because as at first glance, 2017 and 2018 look similar to the 2007-2008 period – right before private debt fundraising came tumbling down in 2009. However, fund managers are showing they can spend their capital, as deal activity continues to steadily rise. Furthermore, performance for younger funds remains strong, as funds with more recent vintages have generated returns similar to, and in many cases, higher than older funds.

Although many investors are expecting an equity market downturn, it looks to be too early to tell if the private debt market will see a crash like the one in 2009. The private debt market is still doing well and will continue to be so in the upcoming future, but nonetheless could be poised for some troubling times.

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