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High-water Mark

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We instinctively knew making “Smooth Sailing” our commentary title last week invited retribution from the market gods. No sooner had we hit the “Send” button to our 50,000 subscribers when the latest round of tariffs on China was launched.

Having lived through countless market bumps, our editorial staff decided to press on regardless with our nautical theme. Spurred by another Greenwich Harbor tour over the weekend – via the 37-foot sloop *Chanterelle* – we assess the state of the market.

Sailing, more leisurely than motoring, allowed time to reflect on various maritime terminology we uncovered in our youth. *Plimsoll line*, for instance. Named after a 19th century member of Parliament who worried about overloaded ships lost at sea, it’s the bow mark delineating a ship’s maximum submersion level.

We considered this symbol during Monday’s equities sell-off. How much weight of uncertainty could the market bear? The move wasn’t surprising, given last Thursday’s ho-hum response to the Fed’s rate cut. It turned out not to be the final word from investors.

The real question, as one prominent economist told us, is whether this trade volley will be retracted down the road. Remember December? By April the market had recouped its losses. Depending on what happens next, the Fed’s next move might not be insurance against a slowdown, but a more vigorous whack at rates.

Private markets tend to take the long view. Asset managers, particularly private equity and direct lenders, have fortified themselves with long-term capital that’s insulated from market moves. Even in a sustained downturn, they can batten down the hatches and weather most storms.

Indeed, there are aspects of slowdowns experienced credit investors welcome. Spreads widen which can enhance overall returns. Also, a sustained slump can jettison the worst excesses of leverage and structures. Finally, fair weather lenders or those with little experience will get out of the water, helping the supply/demand balance.

With renewed volatility, can liquid credit buyers leaving the market be replaced by non-liquid funds? Even without the last 37 straight weeks of $34 billion exiting retail loan accounts, the prospect of lower interest rates and end-of-cycle worries can’t be helpful.

Yet this week Apollo Global Management used its considerable credit resources to provide $1.8 billion for New Media Investment Group’s acquisition of Gannett & Co. That’s one of the largest non-bank buy-out deals ever.

Is this a high-water mark for today’s leverage finance market, or just one more example of direct lenders stepping into the space left by regulated banks?

What we do know is as long as the circular function of *rate cut-tariffs-rate cut* persists, market seas will stay choppy. In that case, expect private capital to remain a safe harbor for investors and issuers.