"The Best Place to Be" (Third of a Series)

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A dictionary of Latin words, called the "Thesaurus Linguae Latinae," was begun in 1893 by a team of German researchers. So far their successors have reached the letter R. With extraordinary luck and effort, "zythum" (an Egyptian beverage) will be reached *circa* 2050.

For a so-called "dead language," that seems like a lot of work for little gain. But turns out over 200,000 K-12 students are studying Latin in the U.S., not far behind the number of Mandarin learners. And about half of English words are derived from Latin. "Covenant" for example, comes from the Latin meaning "fantasy." OK, maybe not.

Still, this usefulness of things ancient brings to mind how private credit has become more relevant than ever as we head into 2020. Derived from commercial lending, which traces its roots back to Greece four millennia ago, private credit took on new meaning post the Great Recession.

These non-traded, non-public, non-correlated secured assets behaved as their managers said they would. When asset prices around the world collapsed at the end of 2008, middle market loan values held relatively firm. Both defaults and losses were better than for the larger, liquid names because their holders were patient.

Today, in the modern world, investors are faced with contradictory signals. On the one hand, the economy has shown clear signs of strength. November's impressive labor report of 266,000 job gains went a long way to easing fears of an imminent recession. Public equity indices set record highs. And the Treasury yield curve un-inverted.

But with buoyant markets brought fresh bubble fears: Are prices overinflating? Are valuations headed for a bigger fall down the road? And won't terms and structures continue to weaken as direct lenders compete to put money to work? *Ad infinitum.*

Over on the more liquid side of the street, the pendulum may be swinging back, at least modestly, to risk-on. CLO managers spent the year in a flight-to-quality strategy loading up on strong single-B and double-B names. Since the majority of flow consisted of weaker credits, that left vehicles with unused cash.

As our *Chart of the Week* (courtesy Refinitiv LPC) shows, secondary BSL prices are beginning to firm. That could signal a tad more interest among institutional investors in the higher yielding end of the larger credit spectrum.

Will this alter the technical landscape on leveraged lending going into next year? And will that impact the competitive dynamic with direct lending? *Et cetera.*

It's too soon to say, but the dominant theme of unitranche financings done away from BSLs is unlikely to change. Leading credit managers will keep raising multiple vehicles (cargo pants!), boosting holds to provide sponsors with one-stop executions. And political uncertainty will likely increase volatility as we approach year-end 2020.

Next week we wrap up this special series, and our 2019 publishing calendar, with a look at what risks private credit investors face from the *status quo*.