There may be trouble ahead

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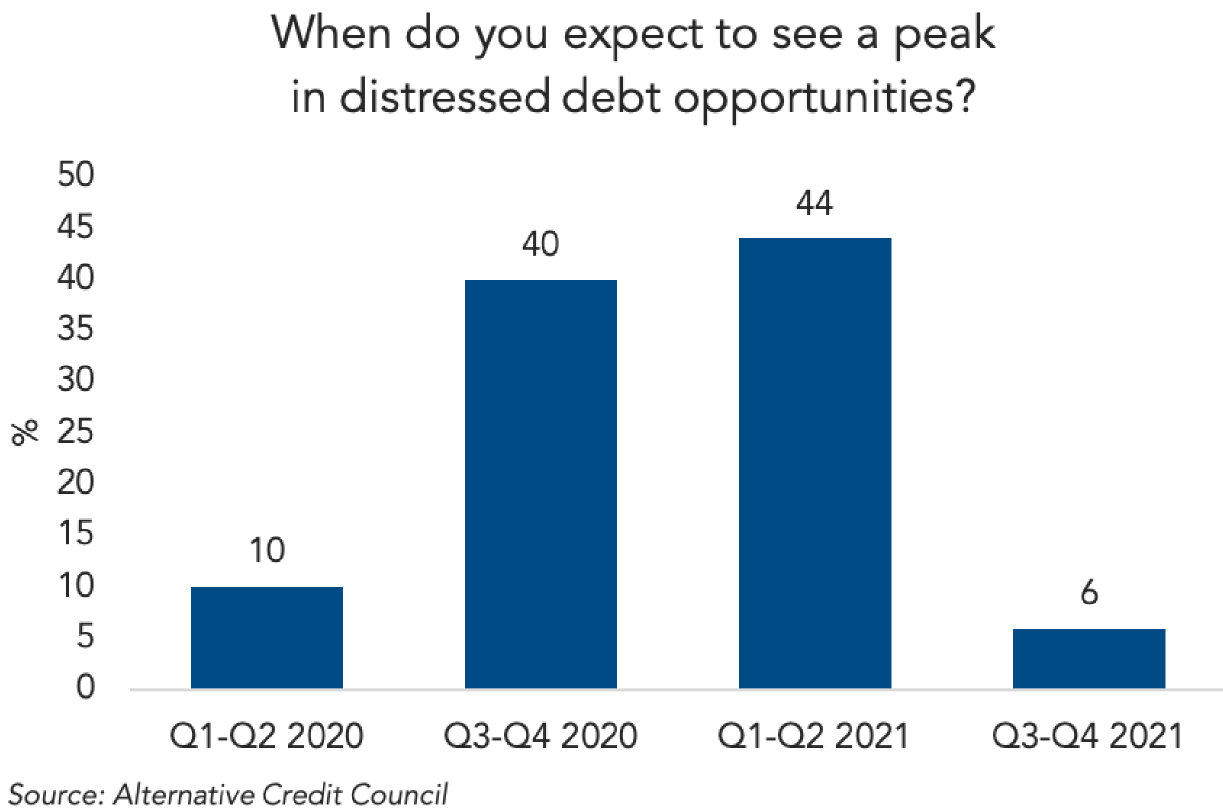

Investors have taken comfort from private debt's response to the crisis, but economic turmoil still lies in wait.

There are certainly some very different views in the market as to how quickly the next wave of distressed opportunity is likely to materialise. As we have reported previously in *Lead Left*, many think central bank interventions have served to prop up economies and individual businesses in the short term but that they have merely deferred distressed opportunities until later – effectively a can-kicking exercise, in other words.

However, a recent survey from the Alternative Credit Council ("Financing the Economy 2020") is in fairly sharp contrast to that analysis (see chart above). The vast majority of respondents felt that either the distressed cycle is peaking now or will reach a peak in the early stages of next year. Despite differences with regard to the expected timeline of the distressed cycle, the common denominator is that challenges most certainly lie ahead – despite the fact that many private debt managers and their portfolio companies have shown impressive resilience through the crisis to date.

What the ACC survey reveals is good news competing against bad news. The good news is the positive dynamics underpinning the private debt asset class. Investors have, by and large, been won over by private debt managers' response to the crisis – information requests have been met and, as a result, investors have gained in confidence. Furthermore, borrower demand is strong, the policy environment is largely supportive and the attractiveness of a high-yielding asset class in an environment of persistently low interest rates remains as compelling as ever.

But, as the ACC points out, “this optimism…is not blind”. Based on current predictions, few are under any illusions about the predicament that the economy finds itself in. As government support schemes are phased out, the depth of problems facing certain industries will be laid bare and managers who have successfully supported companies through the early stages of the crisis may find their toughest work and hardest choices are yet to come.