A League of Its Own

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We all have a few sad childhood memories. One of our lowest moments was coming home for Thanksgiving freshman year to discover our younger brother had traded away our baseball card collection. We had gifted him the shoebox full of Topps stars that summer, assuming he would prize it highly. Turns out he prized his friend's set of Hot Wheels® more.

This past heartbreak came to mind with news last week that an extremely rare 1952 Mickey Mantle had fetched $12.6 million at auction. Beyond the sentimental value, we've wondered over the years whether our lost contents might have included any similar gems (we recall a somewhat worn 1963 Sandy Koufax) that would have eased our retirement.

Covering the news, one sports reporter even coined a name for our anxiety: "Topps Transference Trauma." Compounding the feeling was recent data from collectibles firm PWCC showing the index of "professionally-graded trading cards" sporting a 1346% ROI since 2008. (See our *Chart of the Week*). Compare that to the S&P 500's 218% over the same period.

Digging further, we discovered that collectibles have enjoyed a run-up in valuations during Covid. On the same day the Dow lost 1164 points (May 19), the Phillips art auction house had their best evening sales ($225 million). As a Phillips' executive put it, the "two markets [finance and art] are not in lockstep." What's contributing to this trend?

We suspect it's the same tailwinds supporting alternative asset classes, including real estate, infrastructure, timberland, agriculture, and private capital; namely, their value relative to public equities, fixed income, and other liquid assets who have taken beatings in the last month.

Of course, trading cards and paintings carry their own cultural resonances. Popular sports figures and artists stand out in a world increasingly unmoored from simpler virtues. That perception is heightened by a sea change in the economy and markets (see our special series, *"The Great Unwind"*) that upends many past assumptions around value creation.

The pandemic brought people back home in many ways, including more attention to living spaces. Beyond house improvement there's enhanced appreciation for childhood memories and the things attached to them. The co-owner of a booming vintage toy business put it this way: "Let's be real, the pandemic was a grim time. You can find comfort in those memories."

Comfort from alternatives, and private capital specifically, comes from consistent returns, not the fortunes of Hall-of-Fame athletes, one-of-a-kind stamps, or hit-or-miss comic books. One astute observer of the space likens it to a horse race. "To make consistent premium yields in private credit," he wrote, "you don't have to pick the winner. You just have to finish the race."

That's good news for experienced managers offering investors the comforts of US middle market direct lending. It's not only sheltered from the worst of market volatility, it's unlikely to be traded away for whatever hot new toy comes along.