“That’s the 162”

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We admit to a weakness for sports metaphors, particularly baseball. Perhaps it’s how happenings in the national pastime so often mirror life. And the capital markets.

Our latest pearl of wisdom comes from Carlos Mendoza. After his star shortstop Francisco Lindor ended a slump with a game-winning home run, the NY Mets manager was asked about other hitters’ struggles at the plate. “We’ve got a few guys going through it. That’s the 162.”

That neatly captures the ups and downs of a 162-game season: the dog days of summer and the exhilaration of a September pennant race. It also mirrors 2024 in the deal making world. Everyone is running hard to manage a growing pipeline of promising investment and financing opportunities, while simultaneously preparing for whatever year-end surprises unfold.

This backdrop is illustrated by our *Chart of the Week*. Public equity indices have bounced around since early summer as economic indicators swing back and forth. At one end are worries that the strength of the economy and continued persistent inflation demand higher rate cuts. At the other are concerns the effects of eighteen months of 5% or higher benchmark rates are showing up in deteriorating job figures and production, presaging an imminent recession.

At press-time, analysts split between a 25 and 50 basis point cut at the Fed’s meeting this week. Some say the first move is less significant than the pace of future cuts. Put us in the second camp. Inflation and labor data vary week by week; only time will reveal a clear story.

In dozens of investor meetings over the past several months, not to mention media interviews and commentaries in this space, we’ve painted a picture of tamed inflation, slow but steady economic growth, and capital markets open for business. Focus less on daily headlines and more on long-term trends. Yes, the S&P has been oscillating all summer but look at its performance since January. Up 19% will get you a spot in the play-offs.

Long-term investors, particularly those in private capital, emphasize fundamentals. They ask how top managers deal with uncertainty. What economic signs do they watch? How will higher rates affect portfolios and deal sourcing? Will a recession result in worsening default and loss rates? What examples of successful workouts can you show to demonstrate the ability to withstand a prolonged downturn?

Besides navigating these choppy waters, leading direct lenders are still processing an inflow of deals. Do sponsors expect better financing conditions? Perhaps, although one investment bank reports some “have noted a materially lower conversion rate from LOI to close **and** are maintaining a high bar on the buy-side as they are hesitant to deploy capital too quickly…but also as they are reticent to have to then fund raise in this current environment.”

These are all good examples of the challenges issuers, investors, and managers contend with every day in private capital. That’s the 162.