What goes up must come down

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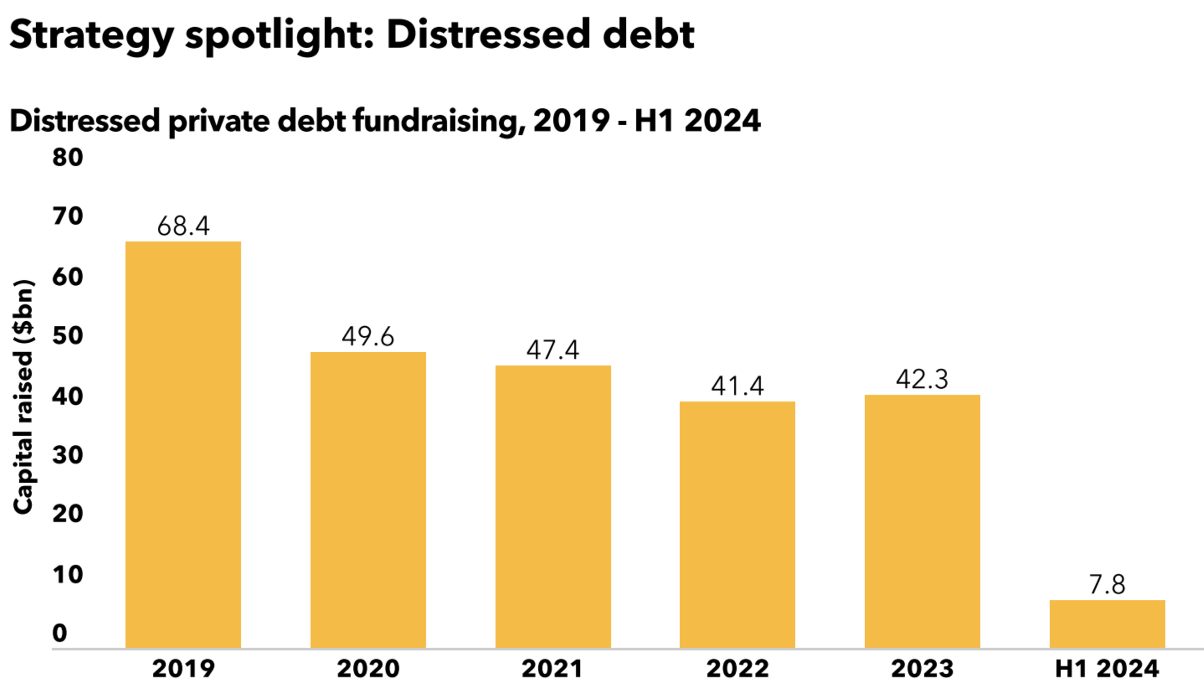

With the interest rate environment once more the talk of the town, private credit is hoping for some pressures to be eased.

Hot on the heels of our Private Debt Investor New York Forum last week came news that the Fed was slashing rates by 50 basis points – a bold move that was 25 basis points higher than many attendees at our event were predicting.

It will be interesting to say the least to see what effect this has on the private credit market. For one thing, it means fixed rate loans have suddenly moved back into fashion after a period where the industry was celebrating the pervasiveness of floating rate. For another, it means pressure can be expected to ease on hard-pressed borrowers as interest coverage ceilings are suddenly less likely to be hit.

One other possible outcome is that distressed dealflow may be a little less of a talking point when our next New York event comes round in a year's time. Distressed fundraisers may have had a hard time of it lately (see chart) but a panel on the topic reflected that higher interest rates had seen some pain starting to become evident – including in some 2019-vintage leveraged buyouts, which, according to one panellist were typified by "aggressive" structures.

Perhaps the biggest impact of falling interest rates will be the expected shot in the arm it delivers to the M&A market. It was noted at the event that most new deals in the first half of this year took the form of refinancings and dividend recaps. However, even before the Fed's decision to cut rates, there was a feeling that deal pipelines were beginning to swell amid a growing sense that buyer and seller price expectations were beginning to meet in the middle.

Here's to a strong end to 2024 and full-on revival in 2025? Here's hoping.