# Munich’s key talking points

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Read PDI’s Report: Golden age talk tempered by concern over recent vintages

*Stress, pricing pressure and resilience were among the characteristics of private debt referred to in the German city.*

This week, Private Debt Investor was hosting its annual Germany Forum in Munich. You can read here about our coverage of the so-called ‘golden era’ and whether the label is justified or not. Below are some of the event’s other talking points:

An idiosyncratic market: Returns have been good, boosted by rising base rates. But there is some stress starting to appear in certain markets, especially those where consumers have pulled back from discretional spend. Signs of underperformance will come through in the years to come – but it takes a while.

‘Traditional’ downturn: Following some extraordinary episodes – most notably the covid pandemic – private credit is now facing more conventional economic stress which is putting pressure on margins, top-line growth and the cost of finance. Are current strong returns masking problems down the line? Quite possibly – but the positive for investors in that eventuality would be the ability to see clearly who can deliver sustainable returns and who has been riding the wave.

Germany’s resilient too: A presentation on the macroeconomy laid bare the woes being experienced by the German economy with an energy price spike and inflation higher than experienced elsewhere in Europe, together with an automotive sector facing competitive pressure from China. But those with German companies in their portfolios said there were few signs of stress – because, in common with private credit investors in all markets, most investments are in a handful of resilient sectors.

Pricing pressures: Managers “had it too good” in 2022 and today the market is functioning more efficiently. Lower M&A levels combined with a large amount raised capital have produced pricing spread compression estimated to be around 100 basis points over the last 12 months. But while spreads may be tighter, private credit continues to gain market share from the syndicated market as borrowers recognise and appreciate the greater flexibility of the product.