



## PRIVATE CAPITAL

# Private Credit Quarterly Update

First Quarter 2022

## Introduction

MetLife Investment Management's<sup>1</sup> Private Credit Group manages over \$97.7 billion in assets as of March 31, 2022<sup>2</sup> and brings over 90 years of investing in the asset class. We offer exceptional access to investment grade deals due to our significant scale, long-standing market relationships, and sector expertise. Given our standing in the infrastructure and corporate private placement markets we often fund an entire deal or become the cornerstone of the deal, which can lead to larger allocations for our clients. Our investment decisions are informed by a team-based risk culture with a time-tested approach to managing risk, combined with proprietary research, and layered independent oversight. We have more than 50 seasoned industry specialists working together to develop customized portfolio solutions to help meet client needs.

## Corporate Private Placement Market<sup>3</sup>

**Private Placement Market<sup>3</sup>:** Q1 2022 private corporate issuance reached an initial total of \$21.4 billion, relatively in-line with \$22.3 billion for Q1 2021, as the current quarter will likely be revised upward given numbers are still being compiled. Deal flow was primarily driven by issuers opportunistically seeking financing opportunities ahead of anticipated rising rates as global economies continue to normalize, as well as more pronounced issuance in specific sectors including REITs and Consumer Non-Cyclicals. The average deal size for Q1 2022 was \$208 million across 103 transactions, similar to Q1 2021 that included 101 transactions with an average deal size of \$221 million. Issuance was led by activity in North America, comprising 74% of total issuance. European volume (primarily the UK) was 20%, Africa 3%, Asia 2%, and Australia 1%. USD currency made up 82% of corporate issuance, with GBP at 11% and EUR at 7%.

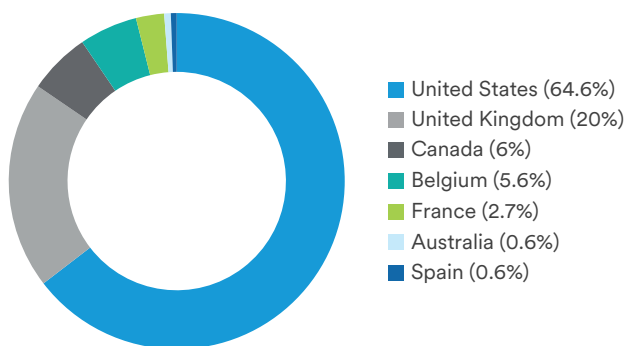
**Delayed Fundings<sup>3</sup>:** Delayed fundings continued to be utilized by issuers with 23% of Q1 2022 transactions having a delayed funding. We expect this trend to continue as private issuers approach the market for financing opportunities with concerns of anticipated inflation and the continued rise in interest rates.

**Spreads and Treasuries:** Private credit spreads, following public spreads, initially widened driven by increased inflation pressure and then combined with the crisis in Ukraine, but have partially tightened back given largely solid corporate balance sheets and continued strong investor demand. Private spreads have maintained a healthy premium over publics but have continued to contract some towards historic averages driven by strong demand for private assets. This was particularly seen with broadly marketed deals from agent banks.

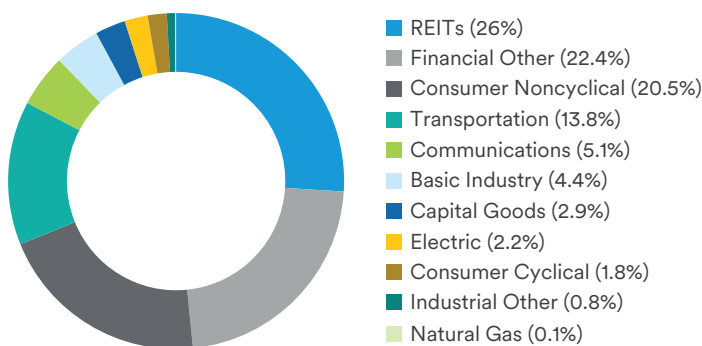
**MIM Corporate Private Placement Activity:** MIM's origination activity for Q1 2022 was strong at \$3.4 billion compared to \$1.9 billion in Q1 2021. MIM seeks to invest in both direct and club transactions which can help lead to larger allocations and more diverse deal flow. Origination extended across industries and subsectors, with REITs and Consumer Non-cyclical leading the quarter at 26% and 20% of MIM Corporate origination.

**MIM's 2022 Outlook:** MIM's US GDP forecast calls for +3.8% growth YoY for the full year 2022. MIM's 2022 US inflation rate forecast is to peak mid-year and retreat to an overall 3.3%. MIM is projecting 10-year UST rates to climb to mid-year a high and then settle back down closer to 2% than 3% driven by slower second half economic growth. Despite the second half slowdown, with continued economic growth and still relatively low long rates, MIM predicts 2022 issuance to remain steady. MIM expects the market to remain competitive, with increased investor demand for privates. This may put some pressure on spreads and deal structures, however MIM expects the private market to remain disciplined overall. We continue to monitor the portfolio for persistent impacts of inflation. Thus far, issuers have been passing on higher input costs and resulting margins are holding steady. Balance sheets also remain conservative. MIM will continue to use our sector specialist approach and relationships in our efforts to uncover the broadest range of appropriate opportunities for our clients.

MIM 1Q 2022 Origination by Country of Risk\*



MIM 1Q 2022 Origination by Sector\*



Source: MIM, Private Placement Monitor

\*Includes origination activity on behalf of the MetLife general account, separate account and unaffiliated investors.

## Infrastructure Debt Market

As first quarter figures are still being compiled, we believe global infrastructure activity continues to reach new all-time highs. The Capital markets – which represents the majority of MIM's investible infrastructure market – had strong quarterly issuance as equity sponsors looked to private capital to finance infrastructure projects. The growing global demand to finance projects that provide essential services, the energy transition and the digitalization movement, all represent significant tailwinds for the asset class.

### Global Sector Highlights:

**United States:** The impacts from the \$1.2 trillion bipartisan infrastructure bill remains to be seen. The bill includes an allocation to transportation, power, broadband, water, and energy transition and we expect an increase in activity across all the sectors. In a recent evaluation, the American Society of Civil Engineers identified a \$2.59 trillion shortfall in government spending on infrastructure projects. While the bill will help bridge some of the shortfall, there is still a significant gap in US infrastructure needs. Equity sponsors continue to focus on core and core-plus infrastructure assets. Given the rising interest rate environment, we remain cautiously optimistic on new refinancing opportunities. Power, energy, public-private-partnerships, and digital continue to provide a strong pipeline for 2022.

**EMEA:** Activity in EMEA led MIM's origination this quarter, contributing roughly \$900 million of transactions. Transactions across the region have been very competitive with large oversubscriptions on bid books and significant scale-backs on final tickets. There has been strong activity in the digital space, with some mega transactions in fiber, as well as some M&A opportunities in wireless communications. Transportation and transportation-related names have

returned to the market, with the obvious exception of airports who continue to seek extensions of the covid-related waivers. Looking ahead, we expect a strong pipeline of issuance in digital, power, transportation, and energy assets.

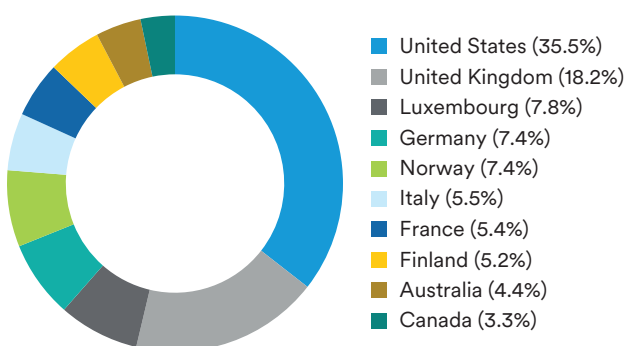
**Latin America:** After a very active 4Q21, 1Q22 was quiet in terms of new transactions, consistent with the peak vacation season. The pipeline picked up in mid-March with several renewable transactions in Chile, alongside midstream and M&A related opportunities. We are also seeing port and rail transactions in Peru, Colombia and Uruguay. Governments remained focused on advancing PPP programs and continue to decarbonize their matrixes, with a strong emphasis in expanding renewables. Conversely, the political situation remains noisy in places such as Chile (far left-leaning constitutional assembly), Peru (potential impeachment of President) and Mexico (push for Electricity reform).

**Australia:** Infrastructure new issue activity remained slow to start 2022, primarily due to Covid and lack of M&A activity. We expect a handful of transactions to launch in the coming months.

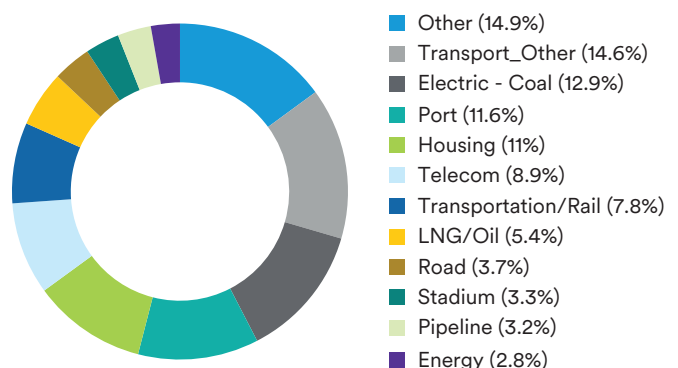
**MIM Infrastructure Debt Activity:** MIM had a record first quarter with \$1.55 billion of origination across 21 transactions compared to \$765 million in 1Q 21. The increase was driven by stronger direct origination and higher bank loan activity. MIM originated notably large transactions in clean energy, social housing and the port space.

**MIM's 2022 Outlook:** MIM is in active conversations with Sponsors and their financing/refinancing strategy as inflation and interest rates continue to increase. MIM expects a continued strong pipeline driven by opportunities in renewables, transportation, pipelines, public-private-partnerships, digital infrastructure, and energy transition assets.

MIM 1Q 2022 Origination by Country of Risk\*



MIM 1Q 2022 Origination by Sector\*



Source: MIM, Private Placement Monitor

\*Includes origination activity on behalf of the MetLife general account, separate account and unaffiliated investors.

## Private Structured Credit Market

### MIM Private Structured Credit

Despite significant market volatility in Q1, private issuers remained steadfast with continued strong issuance in part due to strong technical support from private credit investors. It is worth noting that this dynamic has served to keep pricing margins at relatively tight levels which are not fully reflective of the broader market volatility that caused public market spreads to widen. Given this pricing reset lag, MIM PSC declined deals that we felt did not offer attractive relative value when compared to public market transactions. Rapid rate moves also made spreads volatile from the time of pricing to the actual deal closing.

**Looking to 2Q 2022:** We expect strong investor demand for private assets to continue into Q2 and may limit spread widening. The US economy is expected to post modest growth in 2022 given low unemployment and healthy consumer and private sector balance sheets, however, risks remain. Widespread inflationary pressures in both goods and services, Fed tightening, and geopolitical uncertainty could weigh on markets and shift sector fundamentals more neutral. It remains to be seen if the pressures observed in the mortgage market due to rapid rate increases, spill over into broader market stress as firms are forced to refinance at significantly higher yields. Given the public equity market volatility, we continue to monitor private equity portfolio valuations. Although, we anticipate the performance of our alternatives financing portfolio to remain within our expectations as transactions are well-structured with low LTVs.

We anticipate origination opportunities in private structured credit sectors to be robust in Q2. There is a strong pipeline with over \$1 billion in deal flow across consumer, commercial, residential mortgage and alternatives financing sectors – including over \$350 million closed quarter to date. We have also observed manifestations of late cycle behavior on the margin with a small subset of deals getting pitched with more aggressive deal terms and weaker investor protections. The MIM PSC team continues to decline weak transactions and focus on deals we feel offer the optimal combination of strong structural features and attractive pricing.

**MIM Private Structured Credit Transaction Activity<sup>1</sup>:** MIM activity for Q1 2022 was \$107 million of committed investments.

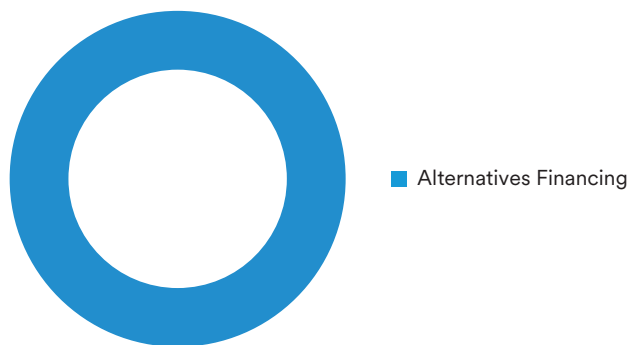
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- <sup>2</sup> At estimated fair value as of 03/31/2022. Includes MetLife general account and separate account assets and unaffiliated/third party assets
- <sup>3</sup> MetLife Investment Management, Private Placement Monitor

### MIM 1Q 2022 Origination by Rating\*



### MIM 1Q 2022 Origination by Sector\*



\*Based on total commitment size. Includes origination activity on behalf of the MetLife general account and unaffiliated investors.



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We are institutional, but far from typical.

For more information, visit: [investments.metlife.com](https://investments.metlife.com)

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