Outlook commentary - Frederic Nadal, CEO

December 2022

THE ECONOMIC ENVIRONMENT

Three factors have largely dominated market volatility in the past 12 months; continuing rising fuel prices, supply issues and labour market shortages following the pandemic, and war in Europe created by Russia's invasion of Ukraine. This combination of events has brought a significant amount of volatility and uncertainty; however, it has also opened opportunities for the private debt market which we expect to see develop over the course of next year.

OPPORTUNITIES AND CHALLENGES IN 2023

These economic factors have caused a retrenchment from the banks previously underwriting debt packages to finance acquisitions by private equity sponsors. This leaves a door ajar for non-banking institutions which face a clear market-share opportunity in a more lender friendly environment. As economic headwinds continue and traditional lenders closely watch their exposure, this dynamic is likely to continue into 2023 with institutional investors seizing opportunities in private credit.

By market, European private debt continues to take market share from banks limited in lending capacity by European regulation. Limited capacity of European non-bank lending alternatives such as a High Yield market, Business Development Companies and private placement regimes also means that European businesses will continue to rely on private debt to fulfil financing needs. Such growth opportunities are also apparent in the US where a recent Investor Intentions survey found that almost 60% (57%) of respondents said they would be likely to increase allocation to private credit through pension funds.[1]

For private debt firms, what is important is experience-led investing approach based on how previous economic dislocations were navigated. Managers with a cross-cycle track record will be able to analyse investment opportunities and have the strategies ready to successfully navigate portfolios through this market volatility. For example, our own experience tells us that while an element of operating profit margin squeeze is inevitable due to higher costs, non-cyclical sectors such as healthcare, tech and industry services are likely to fare better during this time as opposed to retail and hospitality sectors.

NOW IS NOT THE TIME TO LOSE SIGHT OF MAKING AN IMPACT WITH ESG AND D&I INITIATIVES

In a more complex economic environment, it is worrying to observe some loss of focus on ESG by market participants. In fact, when private credit firms were recently surveyed about the most important non-financial consideration for granting a loan, just 4% listed ESG risk awareness/mitigation.[2]

Now is not the time to overlook the importance of ESG in our industry and the current market conditions provide an opportunity to double-down efforts in this area as a lender.

[1] PCFI Members report, US Investor Intentions H1 2022 Private Credit
[2] Alternative Credit Council, Financing the Economy 2022

A more lender friendly environment versus recent years places private debt firms in the driving seat when it comes to the ESG and D&I agenda, meaning we can structure terms to make a meaningful change. Ultimately sustainably led, socially conscious businesses do better in the longer term, and we mustn't lose sight of that while navigating the economic pressures of the day.

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[1] Cerulli Quantitative Update: Global Markets 2022 ranked Natixis Investment Managers as the 18th largest asset manager in the world based on assets under management as of December 31, 2021.
[2] Assets under management ("AUM") of current affiliated entities measured as of September 30, 2022 are $1,072.9 billion (€1,095.4 billion). AUM, as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of non-regulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.
[3] A brand of DNCA Finance.

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