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Churchill: Private Lending Strong, High Yield Struggling

By SARAH COHEN | JULY 18, 2022

Private lending to middle-market PE firms and companies, during this time of instability in other loan markets, is still experiencing robust business, says **Randy Schwimmer**, Co-head of Senior Lending at **Churchill Asset Management**.

"At the moment, our pipeline is as strong as it's ever been," Schwimmer says.

Lenders dealing with syndicated or high yield bonds, on the other hand, have become more conservative with size of commitments and leverage, he says.

Private credit is funded by capital from institutional investors with long-term commitments rather than "fast money" from investors in retail mutual funds or collateralized loan obligations (CLOs) that often fund syndicated loans and high yield bonds, Schwimmer explains.

"Private credit supply and demand has been stable and growing all year," he says.

High yield and syndicated loans, in contrast, are struggling from exposure to companies in cyclical sectors focused on consumers, like housing, energy and food. "Anything related to prices of consumer brands, anything cyclical like housing," is challenging, he says.

Lending opportunities are strong for what he calls the "best" companies among private equity targets. "Best companies are businesses that performed well over the last three years," he says. "They're market leaders with strong free cashflow, experienced management teams, and partnered with the best private equity firms with deep knowledge in their industries."

Randy Schwimmer, Co-head of Senior Lending at Churchill Asset Management

Industries with continued strength include healthcare, business services, technology, logistics and financial services, he says.

"Assuming economic and market conditions stay reasonably stable, we're optimistic the second half of the year will be as good or better than last year for both issuance and investing," Schwimmer says.

Market sentiment has shifted numerous times this year, he notes, making predictions for lending activity challenging.

In January and February, the market was "constructively" adjusting to the **Federal Reserve's** decision in November to begin raising interest rates, he says.

Russia invaded the Ukraine in February, which accelerated inflation, hitting the energy and food sectors particularly hard and causing concern in the U.S. that inflation would be worse than projected.

In March and April, inflation was higher than anticipated, but the impact to the markets was seen as moderate, Schwimmer mentions.

"The Fed's 75 bps rate hike in June was a heightened move in a battle against inflation," he says. "Given the latest CPI data that shows consumer prices remain on the rise, however, that fight will continue and markets will remain unsettled. There is also a growing sense that a recession of some sort is growing more likely."

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