Introduction:

MIM’s Private Securities ended the year on a strong note with $15.5B in origination. Spreads have closely followed the public markets, with premiums to publics holding steady despite strong demand from investors. Structural protections have held steady despite other sectors which have experienced some structural weakening. With a good start to 2020, and a strong pipeline, MIM believes 2020 volume will remain strong. Despite the uncertainty driven by Coronavirus and the very low rate environment, MIM seeks to continue underwriting well structured new transactions with appropriately priced for the current environment.
Corporate Private Placement Market

A strong year of issuance in the Private Placement market:

Q4 issuance was preliminarily estimated at $20.8 billion vs. the $29.7 billion seen in 4Q 2018. Preliminary full year 2019 volume is reported at $84 billion, vs. the $101 billion in 2018. These numbers are still being accumulated and revisions are expected to add to this total. Issuance was met with healthy investor appetite and deals were oversubscribed and competitively priced. REITs and Utility/Energy were the most active sectors in 2019.

2019 corporate private placement issuance was led by activity in North America, which accounted for 63% of total issuance. European volume (primarily the UK), was 23%, Australia was 11%, Latin America was 2% and Asia was 1%. USD made up 81% of 2019 issuance with Sterling at 9%, followed by Euro (5%), Canadian Dollars (2%), Swiss Francs (2%) and Yen (1%).

Ratings and delayed fundings:
BBB-rated companies (NAIC-2) comprised 59% of issuance with A-rated (NAIC-1) names responsible for 41%, in-line with historical averages. Delayed fundings continued to be utilized by issuers in the private market, with 30% electing to extend funding dates.

Spreads and Treasuries: Over the year, yields on the 10-year and 30-year Treasuries tightened 77 bps and 63 bps, respectively. Corporate private placement spreads closely followed the tightening of public corporates. As a result, overall origination yields trended lower for the year.

MIM Corporate Private Placements: MIM circled $8.5 billion in 2019 across 194 transactions, of which $2.0 billion was during the fourth quarter. The 2019 transactions averaged a MA3 (internal rating) credit quality, 14 year weighted average life and an average UST equivalent spread of +158 bps. MIM transactions were primarily issued out of the US (66%), the UK (17%) and Australia (9%). Issuance by sector was driven by REITs, Utilities, and Consumer Cyclical, with REITs and Utilities driving the higher average rating.

Outlook for 2020: MIM sees a slowdown for 2020 relative to 2019. Risks are to the downside and a recession in 2020 cannot be ruled out given the ongoing impact of the Coronavirus. We see additional potential risks emerging from it being an election year in the U.S. The expectations of a continued low-rate environment could drive steady private placement debt issuance by companies through 2020, which we expect to be met with strong investor demand, as the asset class may benefit from structural protections that are favorable in a downturn. MIM’s investment strategy remains the same, driven by our focus on credit, structure and pricing. We are in continual contact with our borrowers, understanding their credit performance, business objectives and relevant sector themes, as well as creating new business opportunities where appropriate.

2019 Origination by Country of Risk*

2019 Origination by Sector*

Source: MIM, Private Placement Monitor

*Includes origination activity on behalf of the MetLife general account and unaffiliated investors.
Infrastructure Market

2019 Overview: The global infrastructure capital markets issued $75 billion in 2019, up from $55 billion in the prior year. Total infrastructure funding, including bank financings, was estimated at $657 billion, slightly higher than prior year. Within the total infrastructure market, Energy was the largest sector in the market representing 26% of the overall volume followed by Transportation (24%), Renewables (21%), Power (15%), Telecom (6%), Social infrastructure (4%), and Other (3%). Activity remained focused in EMEA (38%) followed by North America (30%), Asia Pacific (20%), and Latin America (11%).

Americas. In 2019, we saw increased momentum by U.S. states and municipalities to procure core infrastructure projects via the public-private-partnership (PPP) model. A federal-level infrastructure plan has been stalled and we do not expect progress on the initiative until after the November 2020 elections. Approximately 56% of MIM’s 2019 origination activity was in the Americas. Leading sectors included Power and Energy, Transmission, Transportation, and Social infrastructure. Canadian activity was muted in 2019, driven by challenging supply and heightened demand resulting in a reduced relative-value proposition on many trades MIM was pursuing. Social unrest in Latin America is being monitored closely, however Latin America continues to be a growing region and we continue to explore well-structured opportunities in countries such as Chile, Peru, Columbia, Mexico and Uruguay.

EMEA. MIM continued to see strong origination activity in EMEA for 2019. EMEA accounted for 37% of total activity, 21% of which was in the U.K. While concerns around Brexit stalled activity early in the year, deal flow recovered in the second half of the year. Key sectors included airports, roads, ports, rail, utilities, and social housing. Europe, not including the UK, accounted for 14% of activity and was focused in ports, energy, social infrastructure and transportation. We continue to see a strong pipeline of activity in the region for 2020.

Australia. Australia’s infrastructure activity was strong and accounted for nearly 7% of MIM’s activity. Deals were well diversified in core infrastructure sectors such as ports, airports and rail. MIM participated and ran multiple trees for the first time for an Australian PPP transaction at the bid stage and we continue to see more opportunities to participate in that market. Outlook 2020: After a record 2019, MIM sees strong momentum continuing in to 2020. MIM will leverage its relationships with sponsors, agents, and advisors to try and develop and execute on a very full pipeline for 2020. While the first quarter is usually slower, MIM is engaged on a number of opportunities globally within the Energy, Transport, and PPP space.

MIM Transaction Activity: MIM circled a record $7.0 billion across 85 transactions in 2019 with $2.7 billion in the fourth quarter. The 2019 transactions averaged a MBaa1 (internal rating) credit quality, 15.6 year weighted average life and an average UST equivalent spread of +198 bps. MIM transactions were diverse by geography and sector as illustrated further below.

Source: MIM, Private Placement Monitor
*Includes origination activity on behalf of the MetLife general account and unaffiliated investors.
Summary

Given the current environment that changes not only daily, but often intra-day, MIMs broad resources (including sector specialists, public market traders and analysts, and sovereign specialists with local expertise) are proving to be very valuable. MIM continues to feel that corporate and infrastructure private placements is a prudent strategy to help protect against a potential future credit downturn. Because we have never compromised our underwriting standards for both credit and structure, we believe the portfolio is well positioned in this uncertain environment.

Endnotes

1 Represents assets originated by MIM on behalf of MetLife general accounts and unaffiliated investors. There can be no assurances that such origination volume will be achieved in the future. Actual results may vary. Origination is defined as all commitments made during the period, some of which will be unfunded.

2 MetLife Investment Management, Private Placement Monitor.

3 Private Placement Monitor

4 Credit quality assessments were performed internally by MIM’s Corporate Private Placement team and have not been verified by independent sources. Any internal ratings (i.e., MetLife ratings) presented in this document were developed internally by MIM. Such ratings are not recognized ratings used by other investment managers or funds, including those investing in the sectors in which MIM invests. Other ratings, including those published by an independent credit ratings agency, may be more relevant in evaluating creditworthiness or may present the credit quality of issuers or assets in a more or less favorable manner than such internal ratings do. MIM’s internal ratings are subjective; MIM has an incentive to assign internal ratings in a manner that more closely meet investor and/or yield expectations, or otherwise provides an advantage to MIM. Accordingly, such internal ratings should be viewed as one factor among other factors for evaluating creditworthiness, and you should make your own determination as to the weight you place on such internal ratings. Please contact MIM for additional information on how such ratings are derived.


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