Introduction

MIM’s Private Securities business originated $6.2 billion in private placement debt during the first half of 2020 across nearly 100 transactions. This included $1.7 billion of investments originated on behalf of institutional clients. Despite COVID-driven economic uncertainty and associated volatility in the fixed income markets, we remained active throughout the first six months of 2020, serving as a key capital partner to our issuers. Our private placement debt origination for the first half of 2020 comprised $4.5 billion in corporate private placement debt transactions and $1.7 billion in infrastructure private placement debt transactions. This origination activity, which added 29 new credits, helped grow our total private placement debt portfolio to $91.2 billion as of June 30, 2020.
Corporate Private Placement Market

Private Placement Market
Driven by the market disruption from COVID-19, second quarter 2020 private issuance came in at a reduced $20.5 billion versus the $26.4 billion seen in Q2 2019. The private market had a two week stop in March, but then restarted in the second quarter following the public markets and ended the quarter with strong momentum. The average deal size for the quarter was $250 million across 82 issuers. This is compared to the 133 issuers in the market in Q2 2019. However, these numbers are still being accumulated and upward revisions are expected.

Second quarter 2020 corporate private placement issuance was led by activity in North America, which accounted for 78% of total issuance. European volume (primarily the UK), was 13% and Australia was 9%. U.S. dollars made up 96% of the quarter’s issuance with sterling at 2%, Canadian dollars at 1% and both Australian dollars and euros accounting for less than 1% each. Issuance was also strongly tilted to higher-rated names for the quarter.

Ratings and Delayed Funding
A-rated (NAIC-1) names were responsible for 58% of total quarter issuance, with BBB-rated companies (NAIC-2) comprising 42%. This is a reversal of typical issuance where BBB-rated companies account for the majority of issuance. The higher-rated issuance was similar to second quarter public issuance as higher-quality companies accessed the market for liquidity first, then slowly followed by their lower-rated peers. Delayed funding continued to be utilized by issuers. For the quarter, 22% of issues had delayed funding dates.

Spreads and Treasuries
Given the business shutdowns and the ensuing social distancing resulting from COVID-19, private spreads dramatically widened following public bond spreads, which peaked at the end of the first quarter. However, as the quarter progressed, second quarter private spreads tightened, again following the public corporate spreads. Yet the trailing effect of private spreads has allowed for wider private premiums through the quarter. Overall yields are challenged driven by low Treasury yields.

MIM Corporate Private Placements
MIM activity for 2020 year-to-date was strong with $4.5 billion in origination. Transactions year-to-date have averaged a 13-year weighted average life and an average U.S. Treasury equivalent spread of +236 basis points. MIM transactions year-to-date were primarily issued out of the U.S. (76%) and the U.K. (8%), and the more prevalent sectors were consumer non-cyclical, consumer cyclical, and electric utilities.

2020 Outlook
Given the unprecedented economic slowdown the global economy is experiencing due to COVID-19, MIM expects only gradual economic recovery once economies are restarted. MIM’s U.S. GDP forecast calls for -5.3% for the full year 2020. We expect company earnings to continue to be pressured in the third quarter, and the remainder of the year will be sector and recovery timing dependent. Despite the recent improvement in employment numbers, it seems likely that the U.S. will have a higher level of unemployment for some time. MIM will continue to work through amendments with our issuers and be constructive on their requests in light of this pandemic. In terms of new deals, we believe private issuers will come to market, and MIM will continue to participate in both club/direct deals, as well as agented deals, influencing pricing and terms due to our market position and sector specialist approach.

MIM YTD 2020 Origination by Country of Risk*

MIM YTD 2020 Origination by Sector*

Source: MIM, Private Placement Monitor
*Includes origination activity on behalf of the MetLife general account and unaffiliated investors.
Infrastructure Market²,⁴

The global pandemic continues to impact the infrastructure sector. Capital market issuance globally was $22.4bn for the first half, down nearly 40% from the same period last year. Bank financing continued to make-up the shortfall with total infrastructure issuance, including bank loans, estimated at $304bn, down slightly from $322bn in the same period last year. Energy was the largest sector this period comprising 25% of overall activity followed by renewables (21%), transportation (18%), telecom (17%), power (15%), and other (4%). Activity was focused in North America (37%), EMEA (35%), Asia Pacific (18%), and Latin America (10%).

Unlike the Global Financial Crisis in 2007, there has been ample liquidity available for issuers. Additionally, we have seen an increase in sponsor interest to support financing via mini-perm bank financing solutions due to lower cost of funds. Companies continue to proactively shore up liquidity, seeking operational efficiencies and delaying capital expenditures. MIM’s focus remains on supporting our equity partners through the pandemic and to ensure there is sufficient liquidity and structure to provide downside protection for lenders. These assets remain core, and essential to a functioning economy. Through June 30, 2020, MIM has seen amendment requests on 26 different issuers across the portfolio with a concentration in transportation assets.

2Q 2020 Sector Trends

Volume-based assets in the transportation sector such as airports and roads were impacted immediately and materially due to pandemic related shutdowns. Ports, while anticipated to also see meaningful declines, were more resilient as demand for goods continues to remain strong. On average, first quarter 2020 container volumes declined 15%, but have since seen a recovery. While regional reopening plans have supported a gradual recovery of volumes in transportation, it has been slow as the majority of business and leisure travelers continue to postpone travel plans. Passenger volumes in major airports in Australia remain 95% below 2019 levels. S&P predicts 2020 passenger volumes in Europe will be 55-70% below volumes in 2019.⁵ As regional shutdown orders have carried into July, MIM anticipates further stress on volume-based assets in the education and stadium sub-sectors. Generally, we feel there is sufficient liquidity to support debt obligations through the fall, and in the case of stadiums, there is strong implicit support from deep-pocketed ownership and contractually-obligated income flow.

Thus far, there has been minimal impact to availability-based assets and contracted/regulated assets in the power and energy sector. We continue to seek compelling investment opportunities in the sector.

MIM Activity

Consistent with a drop in overall market issuance, MIM’s first half 2020 volumes were lower than the same period last year. MIM was selective in its opportunities and participated in transactions that we felt provided strong structural protections and relative value. During the first half of 2020, MIM circled $1.7 billion across 23 transactions. The transactions averaged a 14.1 year weighted average life and an average U.S. Treasury equivalent spread of +232 basis points. MIM transactions by region and sector are illustrated further below.

2020 Outlook

Capital markets continue to see incredible issuance since reaching lows in March/April. MIM remains highly selective on new deal activity and continues to stay in close contact with sponsor relationships for potential financing opportunities. Heading into what is typically the quietest quarter for infrastructure deal activity, MIM has experienced a pick-up in deal pipeline. The most active sectors include utilities, social housing, power and availability-based transactions.

MIM YTD 2020 Origination by Country of Risk*

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


5 Source of this information is MIM issuers and MIM analysis.

About MetLife Investment Management

MetLife Investment Management (MIM), MetLife, Inc.’s institutional investment management business, serves institutional investors by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Capital and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building tailored portfolio solutions. We listen first, strategize second, and collaborate constantly as we strive to meet clients’ long-term investment objectives. Leveraging the broader resources and 150-year history of the MetLife enterprise helps provide us with deep expertise in navigating ever changing markets. We are institutional, but far from typical.

For more information, visit: metlife.com/investmentmanagement

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