MetLife Investment Management’s ("MIM") private placement team had a record origination year, boosted by a very strong fourth quarter, originating $14.7 billion of private debt including $9.6 billion of corporate and $5.1 billion of infrastructure private placements. Deal flow was broad-based across sectors and geography. While spreads in the public market widened dramatically during the final months of the year, private premiums remained relatively flat. MIM believes origination in 2019 will build on the strong 2018 volume. The pipeline is building nicely in the first quarter, and there is evidence of more issuers entering the private market. Demand for corporate and infrastructure private placements remains robust. Portfolio managers have been allocating more capital into the asset class as a safe haven against the volatility in the markets.

Corporate Private Placement Market

A strong year of issuance in the Private Placement market: 2018 was a strong year for private placement volume. Although final volume numbers are still being tabulated for the industry, we expect volume to be in line with 2017’s $60+ billion. Issuance continues to be met with healthy investor appetite and deals were oversubscribed and competitively priced.

2018 corporate private placement issuance was led by activity in North America, which accounted for over 60% of total issuance. European volume (primarily the U.K.) was about 20%, Australia was ~8% and Latin America was nearly 3%. The U.S. Dollar made up nearly 80% of the quarter’s issuance with Sterling at 9%, followed by Euro (~6%), and Canadian Dollars (2%).

Issuance was relatively balanced across ratings: BBB-rated companies (NAIC 2) comprised approximately 60% of 2018 issuance with A-rated (NAIC 1) names responsible for 40%. Continuing with the theme of flexibility, 34% of deals had a delayed funding.

Spreads and Treasurys: Private spreads, which tend to lag public spreads widened approximately 20bps over the year. Treasury yields on the 10-year and 30-year peaked in the fourth quarter to over 3.20% and 3.40%, respectively, then declined 40 bps to end the year essentially flat.

MIM 2018 Origination by Country of Risk

Source: MIM

MIM 2018 Origination by Sector

Source: MIM

Outlook for 2019: MIM’s outlook for private placement issuance in 2019 is positive. The U.S. consumer remains healthy and corporate profits continue to grow. The view is tempered by risks including a potential U.S. trade war with China, yield curve inversion, a Fed mistake as the hiking cycle comes towards its end, and a loss of business confidence. Further, Brexit negotiations with a risk of no deal or a stalled/disruptive process presents a downside risk to Euro area growth. We anticipate continued strong demand in corporate private placements and infrastructure deals as these deals benefit from structural protections that are favorable in a volatile market.

MIM Transaction Activity: MIM circled a record $9.6 billion in 2018 with $2.7 billion during the fourth quarter. The 2018 transactions averaged a MA3 (internal rating) credit quality, 14.4 year weighted average life and an average U.S. Treasury (UST) equivalent spread of +146bps. MIM transactions were diverse by geography and sector as illustrated further below.
Infrastructure Market

2018 Overview: The global infrastructure capital markets issued $42 billion in 2018, down from $59 billion in 2017, primarily the result of lower deal size, with several large deals in the prior year. However, total infrastructure activity including bank financings was a record in 2018, with $532 billion of transactions, up roughly 16% from the previous year. Renewables was the largest sector representing 31% of the total market followed by transport (28%), power (14%), energy (11%), telecom (10%), environment (3%), social (3%), and other (~1%). Activity remained focused in EMEA (44%), Asia Pacific (25%), North America (21%), and Latin America (10%).

Following the politically energized midterm elections in the U.S., 2018 ended with debate on the federal budget. The market expects infrastructure to be back in focus after the issues surrounding the government budget are resolved. Despite the uncertainty on the federal level, the U.S. market continues to see an increased role of public-private-partnerships (PPP) procured by states, municipalities, and public authorities for transportation and social infrastructure projects. The market will also continue to watch any developments after the historic wildfires in California. Brexit and any impacts to the infrastructure market from the U.K.’s withdrawal from the European Union will also continue to be monitored. Even with macro political uncertainty, Europe remained active in infrastructure with transactions in the transportation, social housing, and renewable sectors.

The infrastructure debt market saw several large deals including wind projects and road assets across the globe during the year. Investors continue to have interest in core essential Latin American infrastructure assets that provide attractive relative value and diversification. Activity has involved strong investment grade jurisdictions including Chile, Mexico, Peru and Columbia, some of which have recently announced significant infrastructure initiatives. Australia and New Zealand had strong issuance in 2018 and MIM was granted exclusive access to several social infrastructure and utility transactions as a result of our focused direct marketing efforts. We anticipate continued issuance in the transportation, port, and utility sectors in Australia.

Outlook for 2019: MIM’s outlook for 2019 continues to remain strong after a record origination in 2018. MIM will continue to leverage its direct relationships with issuers, sponsors and bankers to support the 2019 pipeline.

MIM Transaction Activity: Despite the overall market seeing less volume, MIM circled a record $5.1 billion across 62 transactions in 2018 with $1.6 billion in the fourth quarter. This compares to $3.8 billion across 47 transactions in 2017. The 2018 transactions averaged a MBaa1 (internal rating) credit quality, 15.7 year weighted average life and an average UST equivalent spread of +181bps. MIM participated in several unique transactions including some large PPP projects. MIM transactions were diverse by geography and sector as illustrated further below.

Summary

MIM continues to believe corporate and infrastructure private placements represent a safe alternative to traditional public assets given the well-structured transaction typically with financial covenants and/or security. As the credit cycle enters record territory, MIM believes an allocation to private placements is a prudent strategy to defend against market volatility and uncertainty of when the next credit downturn occurs.

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.
About MetLife Investment Management

MetLife Investment Management (MIM) leverages its size, scale and deep asset sector relationships to seek attractive, long-term investment opportunities for our institutional customer base. MIM provides investment management services in asset sectors including, but not limited to, fixed income, index strategies, private debt, real estate and structured finance.

Our investment methodology is based on a disciplined in-house credit research and underwriting process which leverages the deep expertise of our seasoned investment teams. Institutional investors can have access to MIM’s in-house investment capabilities, including deal originations, asset acquisition, rigorous portfolio monitoring, proprietary risk analytics and risk management. Our expansive global footprint, with strong capabilities in key markets, makes us well positioned to serve our clients’ investment needs.

For more information, visit: metlife.com/investmentmanagement

Disclosure

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