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Private Credit

For those who are unhappy with the performance of their bonds, there are some viable alternatives. The U.S. Agg bond index is down more than 11% year to date through late June. The 20-year Treasury is down more than 24% this year. In fact, over the last five years bonds have lost more than 7%.

There are about 2,400 publicly traded companies that have annual revenue exceeding $100 million per year. When those companies need revenue, they issue bonds and pay interest to bond owners. There are another 18,000 private companies in this country that have annual revenue of more than $100 million.

When those companies need capital, they cannot issue bonds, so they often need to borrow from business development corporations. They typically must pay more interest than publicly traded companies. Additionally, their loans are typically floating rate loans. That means if interest rates rise, the lenders collect more interest.

By investing in private credit funds instead of bonds, investors cannot only receive more interest – currently about 7%-8% – but they also have much less interest-rate risk.

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While the typical bond is down significantly in 2022, many private credit funds are positive this year. One would think that to receive high coupons in the 7% to 8% range, you must have to take more risk.

The reality is that private credit funds tend to have the same volatility as investment-grade bonds and much less default risk than high-yield bonds. As previously mentioned, private credit has less interest-rate risk than traditional bonds because unlike traditional fixed-income securities, private credit funds make floating rate loans.

What is the downside? These funds are typically not as liquid as publicly traded bonds, which can be liquidated at a moment's notice. Most private credit funds offer only quarterly redemptions. However, when compared to the traditional types of bonds, private credit has performed well.

*Source Yahoo Finance, Hamilton Lane, Blackstone