

Private Credit

There are two kinds of business that you can either invest in or lend to, publicly traded companies and private companies that are not publicly traded. In the U.S. there are about 3000 publicly traded companies with over \$100 million in annual revenues and there are over 22,000 private companies with over \$100 million in annual revenues.

Companies like Publix, Chick-fil-A, Staples, and Fidelity Investments are all private companies. When you invest in a public company, you can do so by purchasing shares of that company directly or indirectly through mutual funds. When you want to lend to a public company you can do so by purchasing bonds that the company has issued.

Private companies have a more difficult time raising money when they want to grow or expand because they can't issue bonds. After the 2008 financial crisis, regulators made it much more difficult for companies to obtain business loans from traditional banks. This has created a great opportunity for credit managers and their investors to supply these loans at very favorable terms.

Typically, the private credit funds are making secured floating rate loans to these companies Secured Overnight Funding Rate (SOFR) plus 6%. This means that private credit funds are earning over 11% on their secured floating rate loans made to profitable private businesses. The businesses who are taking these loans expect to make additional profits from the proceeds of these relatively short-term loans that will far exceed the interest costs.

When interest rates went up in 2022, bonds and bond funds lost significant value because bonds generally pay a fixed coupon. However private credit funds did not face the same fate because their loans float higher when interest rates increase. Private credit funds are currently yielding over 10% to investors which are equity like returns with far less volatility than stocks. This is why private credit has quickly become one of Wall Street's most popular investment classes in 2023. Alternative data platform Preqin projects investments in private credit will reach \$2.7 trillion by 2027 up from just \$250 billion in 2010.

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