SS&C Intralinks®

2021 DCM Investor Survey

What's Ahead for the Debt Capital Markets?

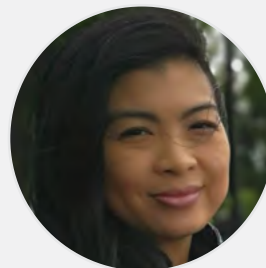
Editor's note

We are pleased to present the *SS&C Intralinks 2021 DCM Investor Survey*, produced in association with Institutional Asset Manager. In this debut edition, we set out to understand investors' plans concerning their debt portfolios for the coming year.

As markets sway and uncertainty continues to reign, we surveyed a diverse group of 106 investors active in the debt capital markets (DCM) from across the globe. The aim was to understand their outlook, concerns and factors influencing their sentiment and decision-making process around debt instruments over the next 12 months.

The respondents were a mix of institutional investors, asset managers, family offices and investment banks. Nearly half were C-level executives. Broadly speaking, we learned that investors have faith in debt capital markets even in these turbulent times. As a potential debt default cycle looms on the horizon, those hungry for yield will be seeking opportunities, provided they are highly discerning and have the appropriate risk appetite.

We hope these insights will prove useful as you navigate your business through the challenges of a fast-changing post-pandemic environment.



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Executive summary — Page 3 →

Survey methodology — Page 4 →

Preparing for the storm — Page 6 →

Caution up ahead — Page 10 →

Muted returns — Page 12 →

Importance of relationships — Page 13 →

Shift into private assets — Page 14 →

Technology and the market — Page 16 →

Monitoring and control — Page 19 →

Opportunity in crisis — Page 20 →

Conclusion — Page 23 →

Executive summary

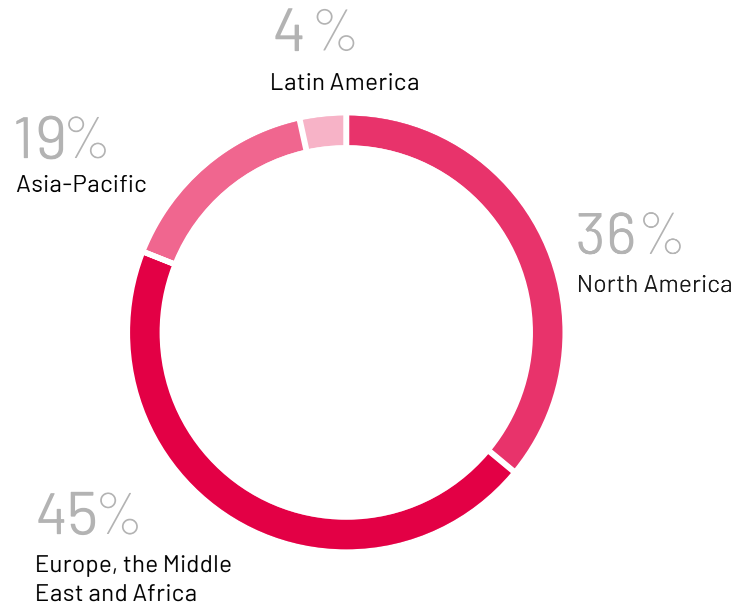
- Fixed income remains a preferred asset class among institutional investors. This is evidenced by the fact that the majority of investors in the survey either increased or maintained their allocation to debt over the past three years.
- The debt portion of institutional portfolios appears to be the least negatively impacted by the pandemic. Only 15 percent of investors decreased their allocation in reaction to this unprecedented event. This is low, considering 34 percent reduced their equity holdings.
- Investors' primary use of debt instruments is in plain vanilla bonds. Asset-backed securities and private debt round out the top three sub-asset classes of choice.
- Outside of their portfolios, investors are most concerned about financial risk, cybercrime and credit issues. These considerations are reflected in their call for better tools for reporting and compliance.
- Most investors are encouraged by the technology employed by banks/issuers in DCM transactions. They cite being able to communicate efficiently with issuers and viewing deal documents quickly and securely as key to the transaction process.

Survey methodology

The survey canvassed the opinions of 106 investors.

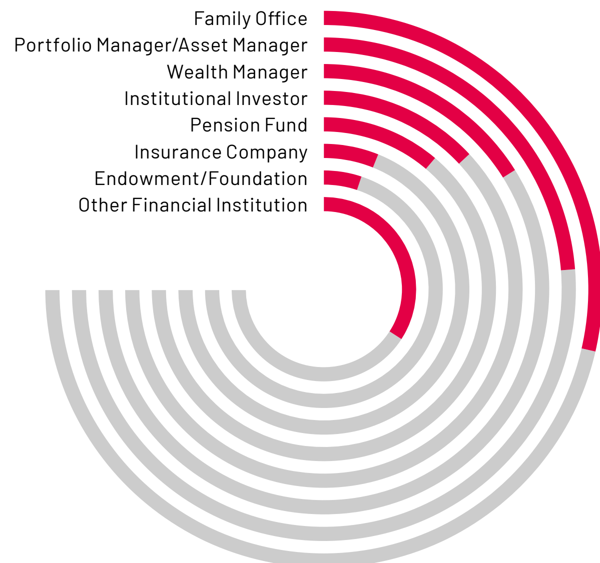
Respondents by geography

DCM investors from around the globe participated in the survey.



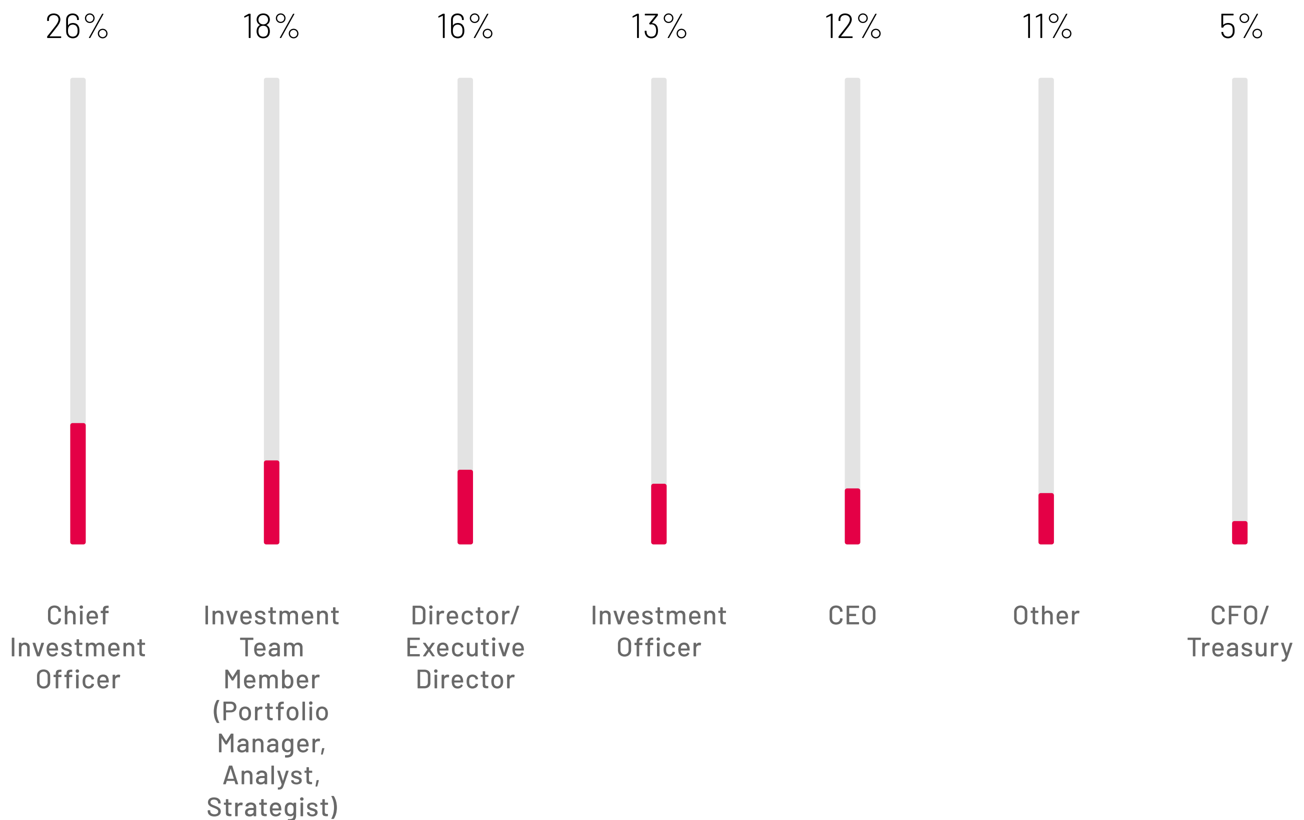
Types of investors surveyed

The survey captured the sentiment of a range of professionals engaged in the debt capital markets.



Survey methodology

Which of the following best describes your role?



Preparing for the storm

Amid pandemic woes and political uncertainty, different sectors of the debt capital markets have experienced mixed fortunes. Of the various asset classes in the space, some have demonstrated resilience in the turmoil while others have struggled.

Corporate debt issuance rose throughout 2020 as companies sought to secure capital to see them through the COVID-19 crisis. This meant investors had the opportunity to invest in investment-grade debt at attractive valuations, and thus deployed their capital.

On the other hand, issuance in the U.S. leveraged loan market lagged, recovering only in the third quarter of 2020. However, total issuance in the space remains muted with year-to-date institutional volumes at 10-year lows.[1] The U.S. institutional leveraged loan default rate is expected to increase to 3 percent in 2020.[2]

"Many borrowers are being hyper prudent and pre-financing what is needed in late 2020 and into 2021. There is a far greater risk of the market snapping wider rather than continuing to tighten. This is why we're seeing issuers take advantage of what are very constructive markets ahead of the latter stages of the year," comments David Carmalt, managing director, head of debt capital markets at Lloyds Banking Group.

With regards to "snapping wider," Carmalt expects less liquidity in debt capital markets.

Over a quarter of investors (26 percent) confirmed that they had increased their allocation to fixed income within the past three years. The majority (57 percent), however, registered no change in allocation, though this does not preclude changes within the fixed income portfolio itself. On average, debt investments account for 16 percent of institutional investor portfolios (Charts 1 and 2).

Chart 1. What percentage of your portfolio is currently allocated to DCM assets?

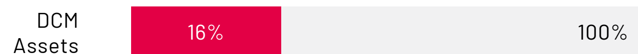
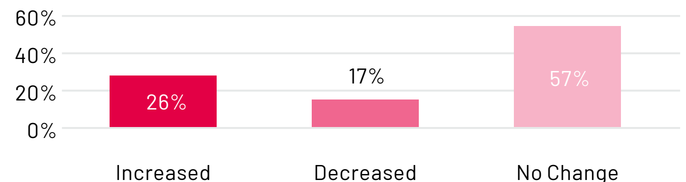


Chart 2. How has your alloction to debt capital markets changed in the past three years?



[1] As of September 2020, S&P Global Ratings

[2] Fitch Ratings

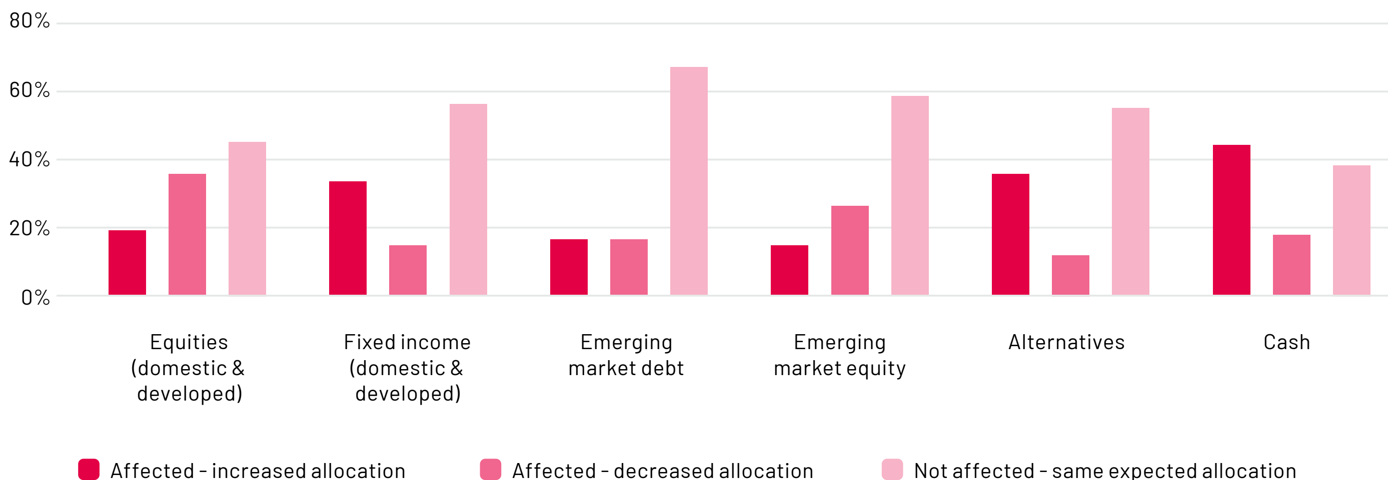
The broad fixed income category also appears to have been resilient among the investors surveyed. Fixed income has been one of the least negatively affected asset classes in terms of portfolio allocation. Only 15 percent decreased their fixed income holdings, whereas 34 percent lowered their equity investments over the same period (Chart 3).

John Nugée, an independent consultant and lecturer, with an extensive background in advising official institutions, outlines how the behavior of institutional investors across the industry has changed concerning debt instruments.

"In general, investors have done three things. First, they have taken on more risk by investing in riskier asset types. Second, they have increased the complexity of the instruments they're using. So rather than reach for sub-investment grade bonds they've chosen things like collateralized securities to help generate returns. And third, in support of both of these changes, institutional investors are increasingly engaging professional asset managers either to manage their funds or to advise them."

According to the investors polled, the most prevalent debt investment vehicles in use are plain vanilla bonds (50 percent), asset-backed securities (33 percent) and debt private placements (31 percent). Read on for further detail on the appeal of private debt.

Chart 3. How have your allocation expectations been affected by the events of the COVID-19 pandemic?



Although Nugée speaks of a shift to collateralized assets, the intended move may not have fully materialized across the whole asset-backed spectrum yet. Collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), and commercial mortgage-backed securities (CMBS) are preferred by 13 percent, 16 percent, and 21 percent of the sampled investors, respectively (Chart 4).

The mix of asset classes currently held in investor portfolios is helping to mitigate their broader concerns around debt markets. The survey shows that their top concerns are financial risk (83 percent), business risk (82 percent) and credit issues (79 percent; Chart 5).

Chart 4. Which of the following DCM asset classes do you invest in?

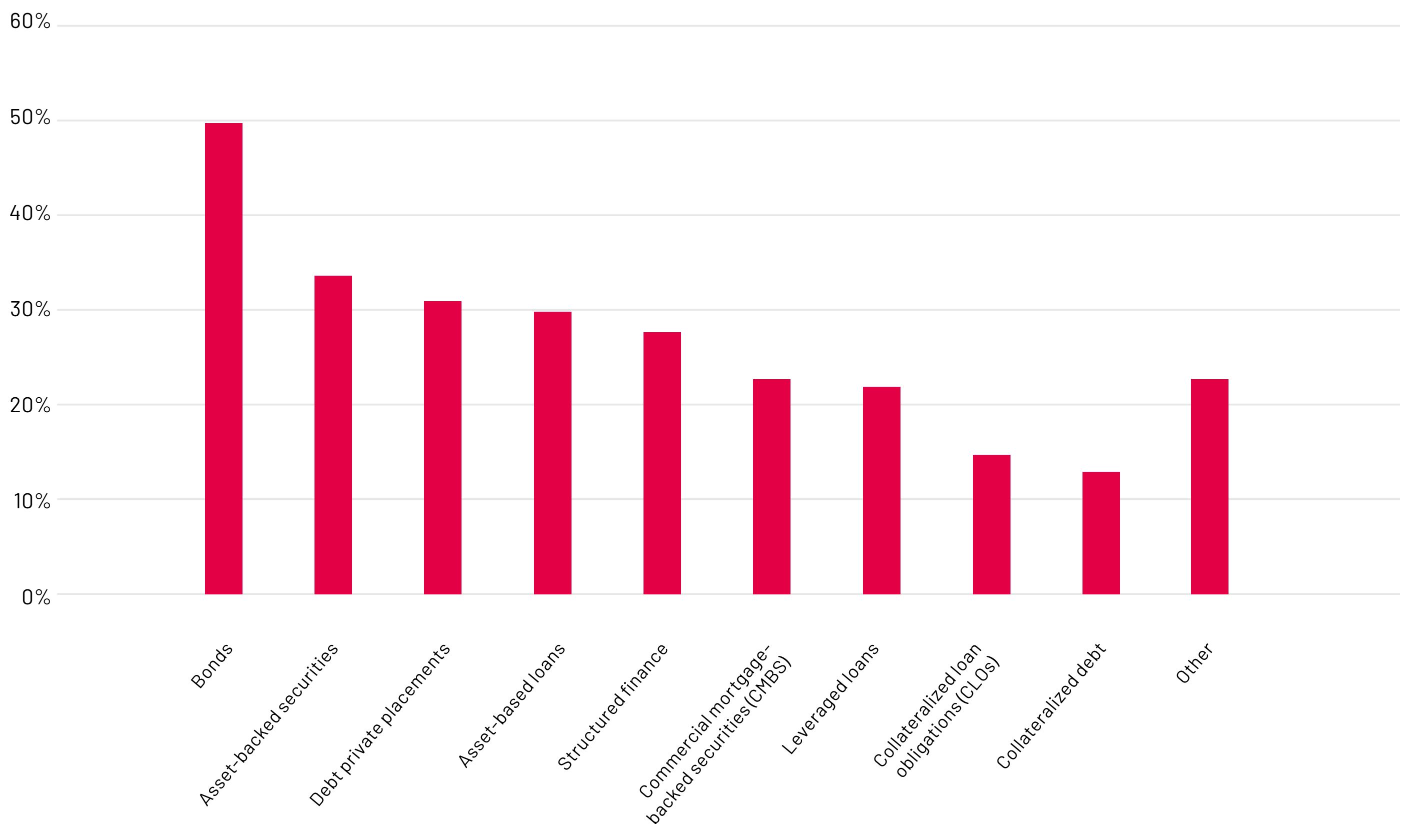
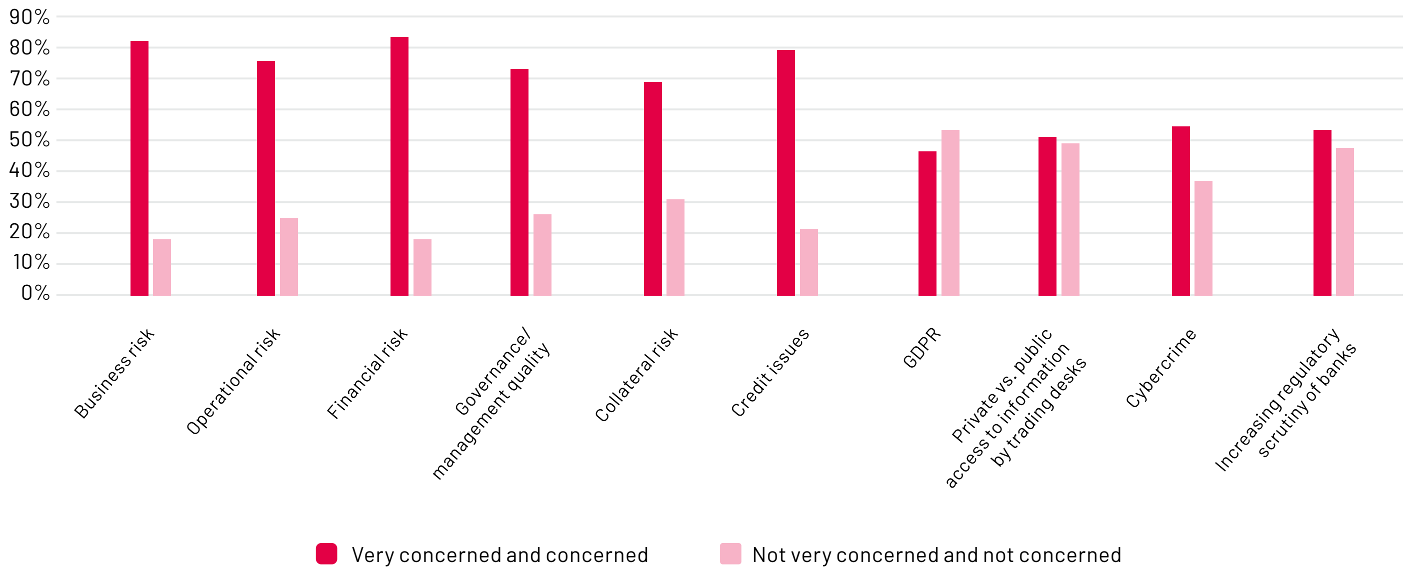


Chart 5. How concerned are you about the following in relation to DCM?



"I think we're going to enter a period where we are going to see quite a lot of pain and defaults," comments Wayne Fitzgibbon, partner, Mercer, a global investment consultancy. "Most institutional investors I know expect this to happen and are being quite clever by getting ready for it. The upcoming default cycle could be really big and more significant than what we saw in 2008-09. But any crisis provides opportunities, especially given it is coming after a period in which it has been very difficult to sort the wheat from the chaff in terms of debt. As a result, we've seen a lot of interest in things like fallen angel and distressed debt strategies."

Although some professional investors are battening down the hatches, not all are ready to weather the storm. In the view of Jason Kennedy, CEO, Kennedy Group, "People are not listening to the noise around them so the markets and returns will continue along their current path. There will be a chain reaction at some point, but I don't know when that will be because it should have happened already."

This sentiment likely suggests the market may witness a sudden series of defaults.

Caution up ahead

Debt issuance in 2020 was significant in some parts of the market. For example, the amount of global debt from financial and non-financial corporates rated by S&P Global Ratings grew by 6 percent between January 2019 and April 2020 to USD 20.6 trillion. By mid-2020, total capital raised in the corporate bond market neared USD 6.4 trillion and is likely to reach record highs at year-end.

In terms of the debt securitization markets, certain areas struggled more than others. For example, the U.S. CMBS market witnessed significant defaults through 2020, quite close to the levels in 2013.[3]

Consumer asset-backed securities (ABS) fared better. For example, for auto ABS, defaults are lower than anticipated, and this segment is expected to account for more than half of the $170 billion 2020 full-year projection for US ABS[4]. Student loan ABS saw moderately active issuance, as underwriting standards appear to have remained high.[5] Credit card ABS was muted, though market analysts warn that performance may start to be negatively impacted as forbearance programs end.

Mark Hedges, chief investment officer, Nationwide Pension Fund, comments: "We're seeing opportunity persisting in some of the ABS markets. Credit risk transfer trades in the U.S. are one example, as are the cases where you've seen ratings migration."

Whichever their area of interest, investors should exert caution. Fitzgibbon says, "There has been very questionable issuance that some people have snapped up because it seems attractively priced. The flood of capital raising seen in recent months is attractive to investors, but they need to have the recognition that some of these companies could go under."

Brandon Laughren, co-founder and CIO of the Laughren Group, a single-family office, says, "At this moment, the only place I'm happy to increase allocations is in more esoteric, capacity-constrained, physical asset-backed investments like domestic shipping container leasing and inland barge leasing, with managers we already know. These strategies offer high relative yields and are vital to the movement of food, oil and basic goods."

Pensioenfonds Detailhandel (BPFD), the pension fund for the retail sector in the Netherlands, has a considerably

[3] Fitch Ratings
[4] S&P Global Ratings
[5] Federated Hermes

larger fixed income portfolio than the average investor included in the survey. Henk Groot, head of investments at BPFD, says, “We have a very simple portfolio with 60 percent of the total EUR 30 billion in fixed income, 30 percent in equities. We also have 10 percent in real estate and Dutch mortgages.”

Groot does not envision any major changes to the fund’s broad asset allocation and few shifts within fixed income sectors as well in 2021: “We invest in triple-A euro government bonds and there will be no changes to that policy. There will also be no change in our high-yield or emerging market debt exposure.”

The fund is exploring the potential of inflation-linked bonds, in light of the macroeconomic outlook, but no decision has been made. Groot comments: “I don’t foresee us adding inflation-linked bonds to our portfolio in the short-term, but it is a discussion we are having as inflation is something which is of high interest to us.”

A change the fund is planning to make is the integration of ESG into its non-sovereign credit portfolio. Groot notes: “This is not something that will change our allocation, but we will shift the way we construct our portfolio to integrate our focus on the United Nations’ Sustainable Development Goals (SDGs) into it. We have already undertaken this process within our equity portfolio and want to replicate it in the credit space.”

The ESG concept is something Jeffrey Glenn, senior vice president, co-head of portfolio management at Breckinridge Capital Advisors, believes will provide opportunity: “The rising popularity of green bonds confirms the growing enthusiasm among corporations to fund meaningful sustainability efforts through the capital markets. From an investor perspective, both green and social bonds expand the opportunity set of securities funding long-term environmental and social benefits.”

According to Nugée, although investors are making some moves within fixed income asset classes, the leap is usually one which remains close to home: “Everybody is trying to expand what they do, but it usually starts from where they are. No one is going to leap from their traditional investment space into substantially different investments.

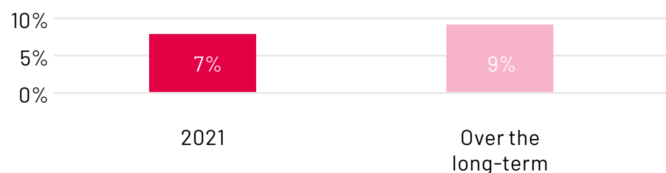
“Changes in allocations depend on the investor and the degree to which they are able to take on new ideas. Where they’re coming from also has an impact. For example, investors in Denmark have a long tradition of investing in covered bonds. They understand this market and will therefore be willing to look at those outside Denmark.”

Muted returns

On average, institutional investor return expectations for debt capital markets the coming year are positive, averaging at 7 percent.

Over the long-term, investors, on average, anticipate generating a return of 9 percent (See Chart 6).

Chart 6. What are your return expectations for your/ your organization's DCM allocations for...



Funds like the BPFD sit at the more conservative end of this spectrum with medium-term expectations for global high yield at 3.5 percent.

Groot says the anticipated return for local currency emerging market debt is much lower at 0.5 percent and EU bonds even have a negative outlook over the medium-term. Asked how this compares to equities, Groot comments: "We are still looking at equities more favorably and the returns look to be higher than on the fixed income side. We expect 4 percent over the medium-term or maybe a little more. Emerging market equities could return around 4.5 percent or more."

In Carmalt's view, the continued compression in yields can make it difficult to be compensated for differential risk. "One return challenge for bond investors is in the concertina-ing of spreads, which makes differentiating between credit quality based on yield even more difficult. For example, in the European covered bond market, a number of years ago you would have been paid a reasonable premium for certain jurisdictions over more defensive ones. Now, with ECB buying programs and the official liquidity that has been pumped into the market, that spread differential has been compressed significantly."

This essentially means investors may not be being adequately compensated for holding riskier assets like Spanish bonds instead of German instruments, for instance.

The growing importance of relationships

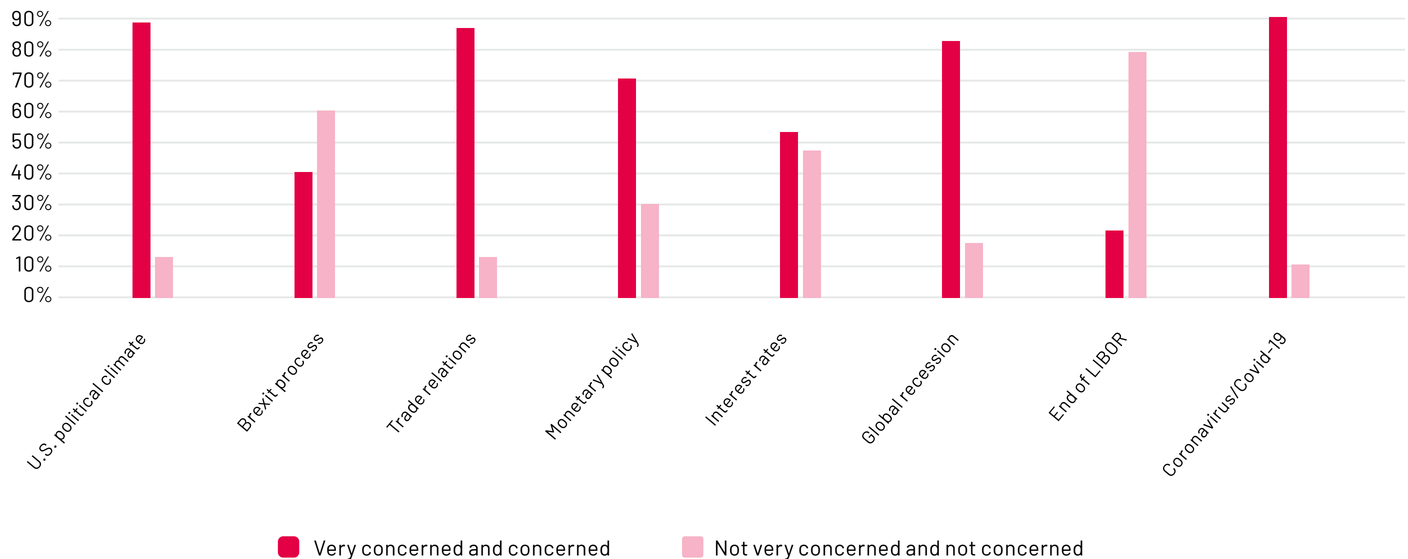
Investor concerns currently center around COVID-19 (90 percent), the U.S. political climate (88 percent) and trade relations (87 percent). Together with these pressures, industry commentators recognize the deep structural change which has occurred in debt markets (Chart 7).

Fitzgibbon notes: "Until 2007, corporate debt markets and even high-yield markets were remarkably liquid. There was a lot of transparency in pricing and everyone knew when something was trading, largely due to the fact that many investment banks were active market makers holding bond inventories. "Nugée says that following the global financial crisis, the uptick in regulation has meant intermediaries in the market can no longer hold large books of bonds.

"Before the crisis, debt markets were very transactional," he points out, "when you wanted to buy you found someone to sell and vice versa. In the last few years, however, debt markets trade by appointment.

"Relationships matter a lot more because you cannot just go to the market and expect the market to provide a bid for any asset you wish to sell."

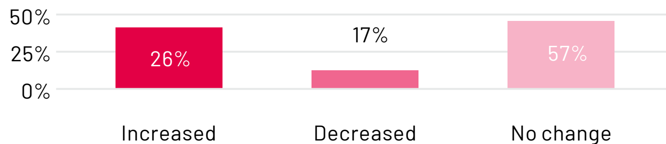
Chart 7. How concerned are you about each of the following?



Hunt for yield buoys shift into private assets

As they hunt for ways to generate returns, institutional investors are turning to private debt. Private credit funds are considered significantly attractive as 42 percent of investments registered increases here in the past three years (Chart 8).

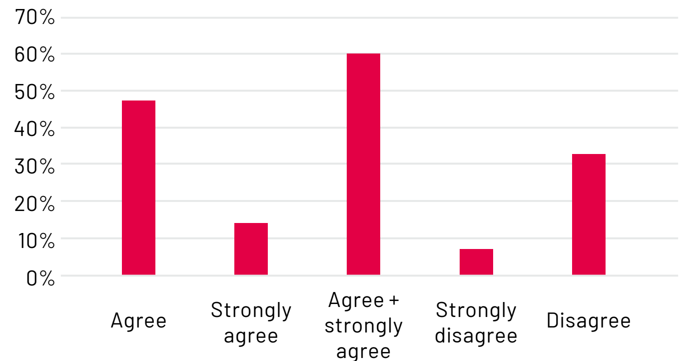
Chart 8. How has your/your organization's investment in private credit funds changed in the past three years?



Kennedy remarks, "I am definitely seeing a shift into private assets and even private loans as we try to avoid the big banks and get things done on the quiet where there is a greater profit margin. I'm seeing this happening more in Asia although it is now filtering through to Europe and the United States."

Other institutional investors we surveyed support this view as 60 percent agree or strongly agree they are participating more in private placement/direct lending transactions versus public securities (Chart 9). From his perspective, Laughren warns that in the current environment investors should not assume that private credit strategies will perform as they have in the past.

Chart 9. We are participating more in private placement/ direct lending transactions versus public securities



"Investors seem to forget that there are many strategies in private credit, not just those focused on financing sponsor-backed transactions (the largest part of the investable private credit market by dollar volume). It is vital to remember that if you are investing in private credit to diversify your overall portfolio, strategies that relate to sponsor-backed transactions only magnify your exposure to private equity as an asset class."

In Nugée's opinion, "Private debt is offering yield — the big trade-off with private investments is yield for liquidity. Although some private investments are secure and well-constructed deals, there is no doubt that as an asset class, it is considerably less liquid. This will appeal to some investors and not to others."

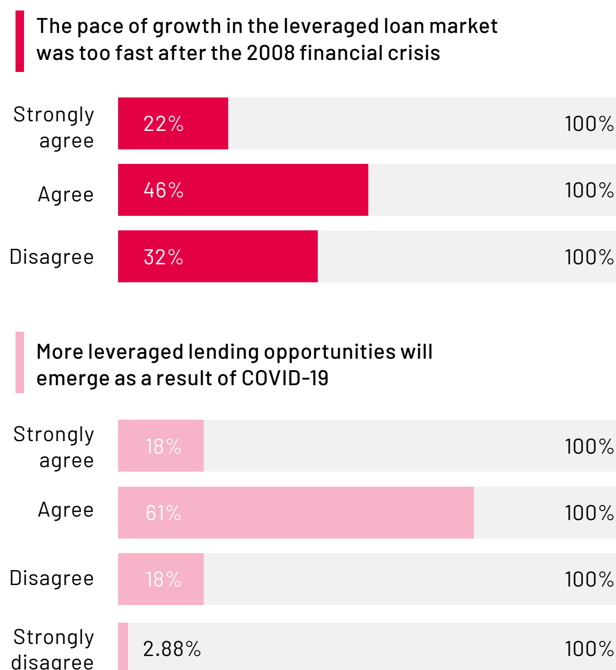
Some pension funds can tolerate this illiquidity, in return for a premium, as it can help them meet their long-term capital preservation and return objectives. Central banks and official institutions, like some sovereign wealth funds or development banks, on the other hand, are at the other end of the spectrum and cannot trade in their access to liquidity.

Although the BPFD does not plan to add significant allocations to private debt, Groot explains how the fund considers the asset class from an ESG perspective: "We have an interest in impact investing which is where we look at the private debt solutions available in the market and consider whether they fit our ESG criteria. But it's a very small allocation."

Groot adds that leveraged loans are not on the fund's list of asset classes and are not considered for investment. This is reflected in the survey which found respondents did not profess much interest in leveraged loans, although the outlook for the asset class is positive. A fifth of investors (22 percent) are concerned about the pace of growth within the leveraged loan space, but 18 percent think more leverage lending opportunities will emerge as a result of COVID-19 (Chart 10).

Outlining the way pension funds and other institutional investors may access leveraged loans, Nugée says: "Pension funds value the involvement of other people.

Chart 10. Do you agree or disagree with the following statements about leveraged loans?



They're definitely not going to get into direct loans. Rather, they would like to buy something which has somebody else's seal of approval; a package or creation. There's a great deal of comfort for an investor to have a leading market operator making sure all is in line and whom they can hold accountable."

This can be evidenced in the growth of outsourcing by pension funds and other institutional investors. For example, Hedges says, "We have done particularly well in a multi-asset structured credit fund. Rather than

picking one particular area, we gave one fund manager a mandate to look at all the various pockets of ABS and search for relative value between CMBS, CLOs, etc., across different points in the credit structure at different times. This generated a solid 10 percent return."

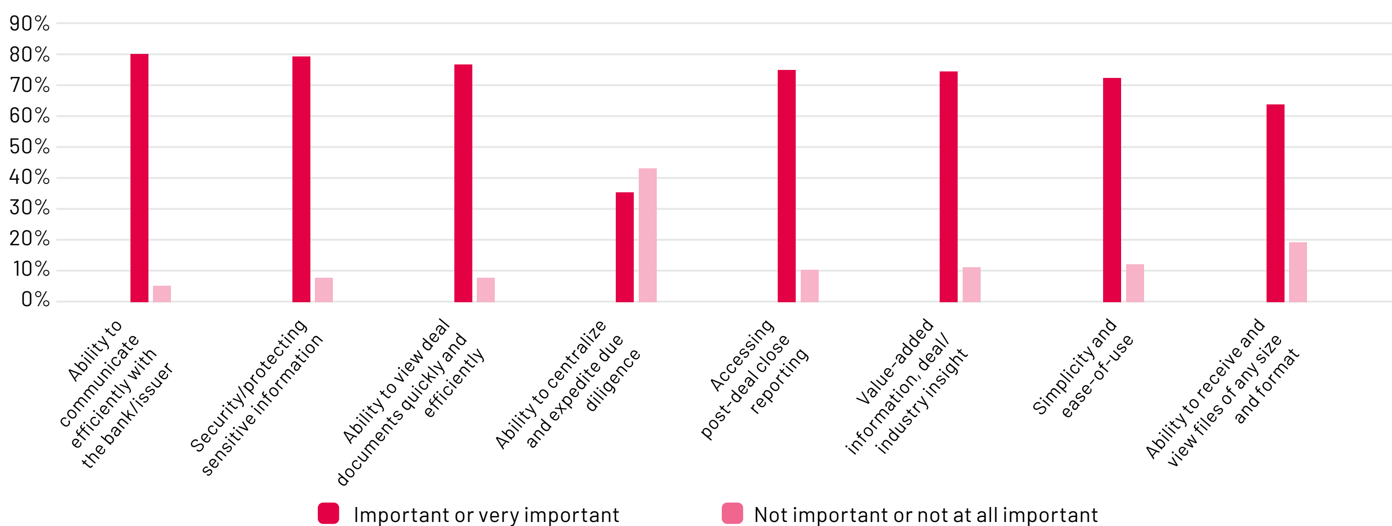
From the issuer's perspective, Carmalt has not witnessed a marked increase in private placement activity: "A number of issuers look at both public markets and private placements because they use the latter to diversify their investor base. There is less of that sort of activity happening this year because the public markets have been so buoyant and many issuers who would have used private placements as a diversification tool haven't really felt the need to do that."

Technology supports the market

Industry players and commentators have identified the increasing importance of relationships when investing in debt markets. The tighter grip regulation now has on liquidity in debt markets has led to deals being less transactional and more dependent on relationships between the buyers and sellers of debt instruments.

Echoing this, investors say efficient communication is critical when evaluating deals; 80 percent cited this to be important or very important.They also prize the ability to view documents quickly and efficiently with 79 percent saying this is important or very important (Chart 11).

Chart 11. How important are the following when evaluating DCM deals with a bank or issuer?



Carmalt agrees that communication is key: "Proactivity is the most important thing. The need to stay in front of clients has not gone away and that has been very challenging when it comes to COVID. As physical interaction is now very difficult, being on the phone or connecting over web-based platforms is even more important than before.

"You cannot build and sustain strong client relationships over email. This is a business which requires a significant element of personal relationship. It is this which engenders faith in your client base."

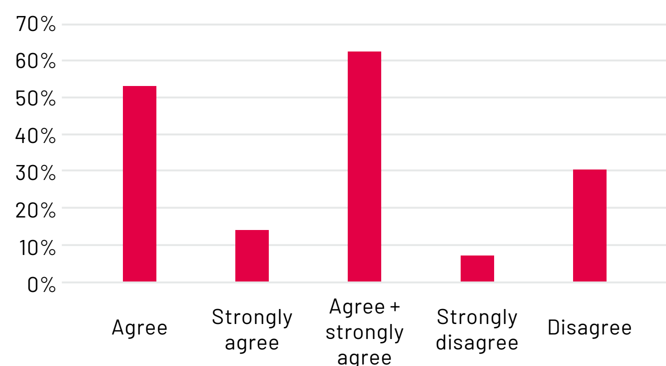
As investors and issuers were pushed to work remotely, technology solutions that enabled client relationships to continue seamlessly became invaluable.

In terms of the role technology plays in debt investing, Fitzgibbon highlights: "I don't think we've made particularly great strides in the way we analyze capital markets or the opportunities in various asset classes. That still lies ahead of us and we will probably need quantum computing to come into play before people take a different view of asset markets, asset allocation and investing more generally."

Glenn adds: "The role of technology within the debt capital markets has grown significantly over the last decade. Access to real-time data has improved transparency and provided market participants with better information."

Investors in the study are calling out for better reporting tools for compliance and reporting in the DCM space. A large majority (64 percent) say this is necessary (Chart 12).

Chart 12. We need better reporting tools for compliance and reporting in the DCM space



From an investor's perspective, Groot says the fund he works for does not feel this need, although he understands why some investors may feel this way: "At the moment we have enough tools from an asset management perspective to reach our goals.

"Although we are a relatively small organization, we are very technology-driven on the pension side and the asset management side. We want to be in control and want to know the details of all our investments if needed. We don't

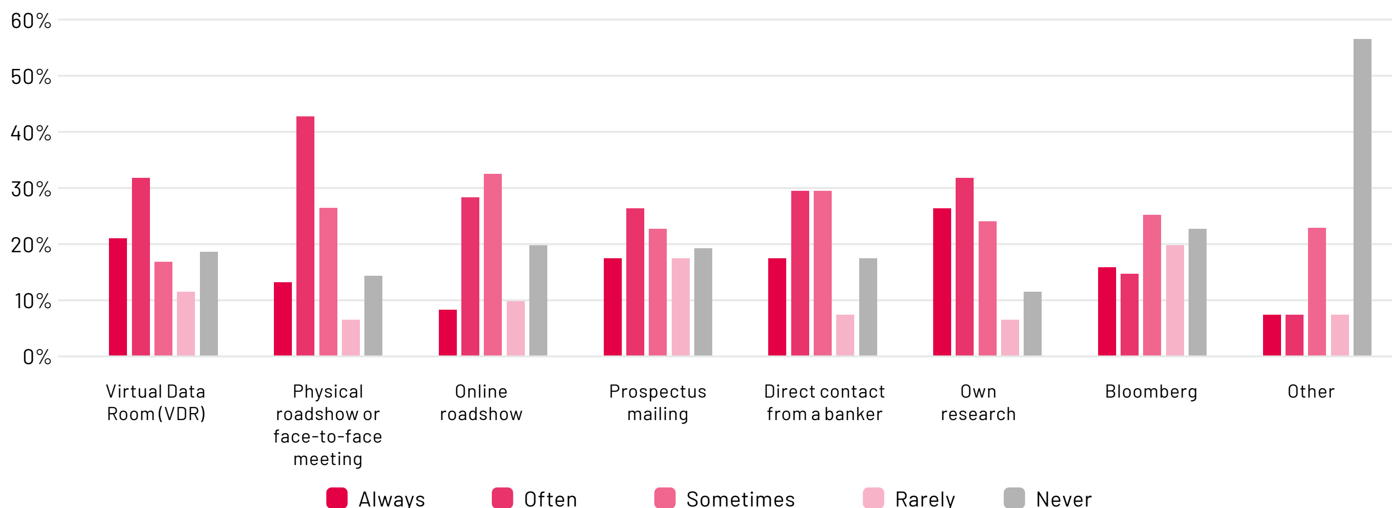
look at our portfolio on an asset by asset level every day, but if we need the information, we need to have the tools which allow for it to be available.

Groot explains that the fund depends on custodians and asset managers to provide reports and tools, which is why selecting the right partners is critical. "We have made some decisions to choose third parties that fit our requirements in terms of providing these tools. We do this more now than we may have done in the past. So, although we don't directly make deals ourselves, technology plays a big role in the way we invest to oversee and monitor our assets," he notes.

The fact that global debt markets continued to work during a global pandemic, with some sectors thriving, is extremely positive. Carmalt comments: "We've seen record volumes of issuance go through the bond market globally at a time when investors, legal teams, DCM teams, issuers and all the operations professionals are working remotely. This has been fantastic. Had it not worked for the banks, investors and broader constituents, it would have made the environment very challenging."

Currently, the primary way investors find out about deals is through their research (26 percent), with virtual data rooms (VDRs) coming in second (21 percent). For some investors, roadshows, either physical (13 percent) or online (9 percent), prove effective in learning about DCM deals (Chart 13).

Chart 13. How often are the following channels used to market DCM deals to you?

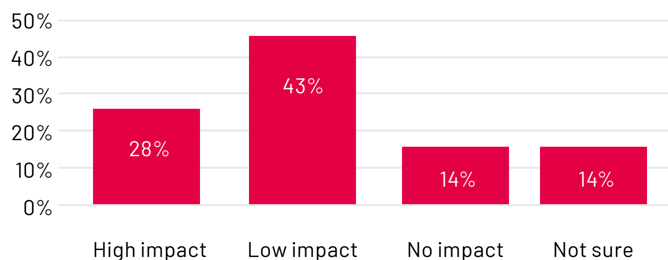


Monitoring and control

The 2008 financial crisis led to more regulation across financial markets globally. The debt space was no exception, as policymakers sought to stabilize financial conditions and seek to mitigate systemic risk. Examples include the SEC Rule 17g-5 on conflict of interest in the U.S. and MiFID II in Europe. The crisis also factored into the decision to end the use of LIBOR in 2021, though investors in this survey were not too concerned about that event.

Although over a quarter (28 percent) of investors say regulatory restrictions have a high impact on their DCM investing strategy, this signifies the majority are considerably less concerned (Chart 14).

Chart 14. What impact do regulatory restrictions have on your DCM investing strategy?



Nugée points out, "Regulation is clearly an imposition. But while there is a feeling that intermediaries have to obey regulations, asset owners are less familiar with the idea of regulation. Banks have been regulated for many years, but asset owners are not typically regulated, or many have been.

"Further, although the asset management industry has certainly been regulated around how it deals with customers, it has been less constrained in how it deals with the market, with buying and selling of debt and what it holds. The number of regulations that now apply to asset owners and asset managers is growing and both types of players are becoming much more regulated."

Although the majority of investors do not feel restricted by regulations when investing in debt, over half (58 percent) agree their organization is highly cognizant of new or emerging regulations, which could affect their DCM investment strategy.

In the Netherlands, pension funds are grappling with a change in the way they have to discount liabilities. The system is changing from one based on interest rates to one based on expected future returns.

Groot discusses the way the BPFD is handling this and the influence of regulation in general: "We have a very good relationship with our regulator.The changes in the way

we need to discount our liabilities has had a major impact on our interest rate hedging strategy however we are well equipped to meet those requirements. It will have an impact on how we invest and how we hedge risk, but we don't feel the regulator is asking for too much."

He explains that this is also a reflection of the broader regulatory environment for pension funds in the Netherlands where the asset owners are not allowed to take on too much additional risk.

As a lead manager of bond issues, Carmalt has witnessed a steady increase in regulation since early 2000, which rose significantly from 2009: "The increase in regulation naturally adds time and focus to the business, utilizing much more resource than it used to, but clearly for good reason. Most banks have been able to adapt quickly and manage these additional requirements well.

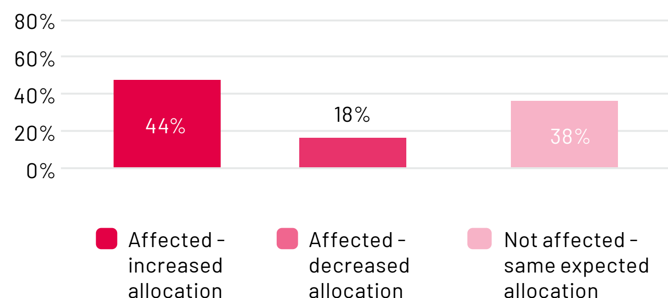
"While we may not see a material increase in regulation, I find it difficult to imagine any sort of relaxation of the rules. The focus on conduct and compliance and control functions is incredibly intense and I don't think that is going away any time soon. The regulatory environment is also very dynamic, shifting and adapting as new challenges raise their heads, and so the regulators and bond market participants are likely to always be adapting with them."

Opportunity in crisis

Throughout 2020, broader market conditions have been largely supportive of debt investing opportunities. Following a dip as the COVID-19 crisis broke out, the year went on to produce record levels in high-yield and investment-grade debt issuance as firms sought to raise capital.

Investors are concerned about several macro events on the horizon (refer to Chart 7). This is filtering through to their asset allocation in that over two-fifths (44 percent) have increased their cash holdings in reaction to the pandemic (Chart 15). However, most allocations to broad asset classes remain unchanged as investors continue to expect uncertainty going forward.

Chart 15. How have your cash allocation expectations been affected by the events/outcome of the COVID-19 pandemic?



Industry players envisage 2021 to be one of turmoil, which could also offer considerable investment opportunities across debt markets. Fitzgibbon warns: "There will be attractive opportunity for institutional investors who are prepared to accept the fact that they are going to lose some money to defaults. As a result of that default cycle, they will be able to buy a lot of debt: be that straight corporate bonds, active, tradable bank loans or private loans. I think they will see opportunities in all those debt instruments."

From a family office perspective, Kennedy is bracing himself: "In the coming year, I don't think governments will have as much liquidity to pour into the economy, making things a lot more difficult."

Another factor that may impact debt capital markets in the year ahead is inflation. According to the European Central Bank, the Harmonised Index of Consumer Prices (HICP) inflation is expected to increase from 0.3 percent in 2020, to 1 percent in 2021 and 1.3 percent in 2022. Though higher than present levels, these figures remain below the previous forecast of 1.7 percent expected for 2021 at the beginning of 2019. The U.S. Federal Reserve also expects a slow rise in inflation with median projections, as measured by changes in the price index for personal consumption expenditures (PCE), was 0.8 percent for 2020, 1.6 percent for 2021 and 1.7 percent for 2022.

According to Nugée, the high levels of government borrowing will put pressure on central banks to keep interest rates down even as inflation rises. In fact, in August 2020, the Chair of the U.S. Fed Jerome Powell announced it would be shifting its inflation policy to "average inflation targeting." This will therefore allow inflation to run higher to support the labor market and broader economy.

But low interest rates and rising inflation is not an auspicious outlook for fixed-income investors. Nugée comments, "It means financial repression. Real rates will go further into negative territory and you get the damaging combination of artificially depressed interest rates while inflation is removing the real value of your holdings."

The concern around this is that investors may end up holding instruments, both in the corporate and government bond space, which they are unable to sell. Fitzgibbon calls this "hidden illiquidity." He says, "When they need to sell, investors may discover the liquid assets they're holding are a lot less liquid than they thought. If you find you can't sell your publicly traded debt, this hidden illiquidity will become unhidden which will be a big problem for people not aware of it."

Considering the action investors should be considering in the face of this shift, Nugée notes: "Many pension funds have either extended up the risk spectrum or got out of fixed income altogether. However, as a group, they can't do too much of that as many have mandates which require them to hold a certain percentage of their portfolio in fixed income. There may come a point in the future when fixed-income investors finally decide that the negative real rate of return is just too high and they want to sell. This may be a time when governments will stop them from doing so and will use regulations to force pension funds to hold a minimum amount in government debt."

Although this does not paint a very optimistic picture for some parts of the fixed income arena, investors should not be deterred. Fitzgibbon recommends a buy-and-maintain corporate debt strategy in face of the impending upheaval: "This is appropriate for investors who have a 15-year horizon and are going to hold assets for that long. Such portfolios would have a low turnover of only 10-15 percent per year. As opposed to an active bond portfolio which usually has 90 to 100 percent turnover."

Investors may not be worried about bounces in liquidity as long as they have other ways of raising cash, should they need it.

Despite the tumult ahead, and the expected liquidity issues, Kennedy concludes, "There is always opportunity in challenging times. Out of chaos, smart people always make money. Within debt capital markets I expect more M&A, loan opportunities and convertibles. We'll also be boosting the conversion of debt into equity."

In Laughren's view, "I think by year-end the public fixed income market will better reflect the real depth of the economic downturn. In the next six to 12 months there could be a greater reckoning that the world has changed and the fixed income market could be forced to readjust to a dramatic extent. I don't expect a complete economic collapse, just a realization that risk assumptions should change, which means that opportunities are not going to be found in the same places they were previously."

"There is always opportunity in challenging times. Out of chaos, smart people always make money."

- Jason Kennedy, CEO, Kennedy Group

Conclusion

Although uncertainty is expected to persist, upheaval in debt capital markets also presents opportunities for institutional investors. Regardless of market conditions, investors in the space will persevere. They have shown faith in these instruments and a strong belief in the vital role they play in institutional portfolios.

Irrespective of any potential default cycle or liquidity crisis ahead, investors will need tools at their disposal to invest in fixed income. They have signposted the need for greater support in reporting and compliance, and also highlighted the growing role technology plays in the way they invest.

Relationships will continue to form the bedrock of debt investing, especially in the light of the growing allocations to private debt and more complex vehicles. As the prolonged period of remote working continues for the foreseeable future, investors, managers and issuers need, now more than ever, secure ways of consolidating those relationships. Because of this, clear and efficient communication between all stakeholders will be critical to success.

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