Derisking Portfolios in a Challenging Market

The financing earmarked for recovery and the needs of corporations create significant opportunities in the private debt space. However, one should remain careful and disciplined in a challenging market

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We haven't seen a liquidity crisis or exploding default rates; is it fair to say the private debt market is doing well?
Indeed, prospects are looking good, with significant demand for financing from companies, either to rebound post-crisis or to address areas of underinvestment highlighted by the health crisis – in digital infrastructure and supply chains, for instance. The need to reduce debt is also driving interesting asset disposal opportunities. In contrast, financing remains constrained, as banks focus on managing their own portfolios.

That said, it's important to be aware of the divergence taking place in the markets between the best credits, where competition is fiercer than ever – driving pre-emptive offers and shorter evaluation periods – and more complex applications in the areas of tourism, events, or other sectors where visibility remains poor in the short term. Particular caution will be called for when state aid to companies runs out, as default rates will rise accordingly.

Is a company's ESG positioning also a criterion in choosing between credits?
Extra-financial analysis has always played a key role when it comes to investing in illiquid assets, as it's important to avoid taking on long-term risk. The rapid development of environmental, social, and governmental (ESG) themes, however, means that methodological rigor is increasingly necessary. We closely consider the relevance of selected ESG criteria with respect to each company, its sectors of activity, and the measurability of its commitments in order to forestall attempts at greenwashing.

When we undertake a transaction, we study ESG both in terms of risk management and support for change, working with companies to select criteria for improving their trajectory.

You speak of the market as challenging – does this have an impact on investors' strategies?
Opportunistic investors seized on the window offered by market dislocations, favoring turnaround and restructuring strategies. As of now, yields have returned to their pre-crisis levels and valuations remain high. There is a flight to quality reflected in more conservative investments in segments where risk-adjusted return appears consistent with investors' objectives. Investors are protecting themselves from a potential deterioration of the situation as government support winds down, especially by looking to senior debt strategies, in which Amundi has extensive expertise.

Thierry Vallière is Global Head of the Private Debt Division and co-Chairman of the Investment Committee at Amundi. **Amundi** is Europe's largest asset manager by AUM and ranks in the top 10 globally, managing more than €1.8tn of assets. Amundi Real Assets (ARA) brings together capabilities in real estate, private debt, private equity, and infrastructure. It has 220 specialists managing more than €60bn of AUM.

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