BRISTOL EBINGER

PIMCO'S "BAREKNUCKLE" BET ON PRIVATE CREDIT

PIMCO is gearing up for a "bareknuckle fight" in private credit, bracing for market shifts that could emerge as soon as this year.

With its legacy of successful contrarian investments, PIMCO's latest strategy focuses on distressed assets, eyeing the potential for high-value acquisitions as cautious investors look for the exits.

PIMCO's Strategy

European banks need to bolster their Mergers and Acquisitions (M&A) capabilities to stay competitive.

While the broader sentiment in private credit teeters towards optimism, PIMCO positions itself on the other side. They foresee a downturn that could lead to sharp declines in loan values.

This opposing stance isn't new for PIMCO.

It's a continuation of a long-held philosophy to zag when others zig, especially in times of market uncertainty.

> Christian Stracke (Executive Committee Member) succinctly captures their approach: "*We're getting ready to pick up the pieces when and if there's a shakeout*."

Whether his predictions prove accurate could highlight much more than the profitability or pride of elite financiers.

The shift of precarious corporate lending from investment banks to private credit funds means any significant distress in these loans may hint at a broader economic downturn.

With insurers and pension funds heavily invested in this asset class, the implications could have a far-reaching impact on the financial security of millions.

This readiness to capitalize on potential market distress sets PIMCO apart — a strategy that's as much about timing as it is about financial acumen.

On the flip side, firms like Blackstone and Apollo herald a "golden moment" for private credit, banking on sustained growth and stable returns.

The divide between PIMCO's cautious outlook and the bullishness of its peers emphasizes a broader debate on the future of private credit.

PIMCO's tactic, similar to hedge fund strategies, involves preparing for opportunities to acquire loans at a discount if and when the market faces a downturn. Their approach raises questions about the sustainability of current market valuations and whether a correction is on the horizon.

This proactive stance on navigating potential market distress showcases PIMCO's blend of vigilance and opportunism, setting a precedent for others to consider.

Market Outlook

A broader skepticism about the global economy's health underscores PIMCO's hunt for vulnerabilities in private credit.

With concerns that the US could slow and Europe and the UK might face hard landings, the stage is set for riskier assets to be tested.

Reliance on floating interest rates for private credit loans adds another layer of complexity. As borrowers grapple with increased interest costs, the sustainability of these loans comes into question.

Should interest rates remain high or only marginally decrease, many private credit portfolios could suddenly face difficulties.

> Experts like Chris Alwine from Vanguard signal mixed feelings about the future: "*We can see credit perform OK — not extraordinary outperformance — in the first half of the year...If we look beyond that, our concerns begin to grow.*"

The potential for windfall profits from bargain hunting amidst corporate distress should not dilute the sobering reality of the risks involved.

PIMCO's approach to preparing for a downturn highlights their willingness to play both offense and defense, a strategy that could prove advantageous when facing an uncertain future.

While some distress has been anticipated, the full scale has yet to unfold, suggesting that all we can do is sit back and observe.

Let the waiting and watching begin.