

FUND FINANCE FRIDAY

A Few More Reasons to be Bullish on Fund Finance Growth

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Recent financial data have sown seeds of uncertainty about the broader economic outlook. From our vantage, the current environment still favors an outlook for significant growth in 2019 in fund finance. Here's why.

- **Public-to-private capital flows remain strong.** Over the past 12 months, public equity funds (mutual funds and ETFs) have registered outflows of nearly \$260 billion, according to ICI data. A small portion of this money rotated into fixed income funds (about \$20 billion). We suspect a major share of these flows are explained by a migration out of public markets into the private investment vehicles.
- **The macro backdrop supports further private capital inflows.** Mixed domestic economic data suggest the potential for near-term volatility that would favor longer-term investment vehicles. All coming in March, we've seen a disappointing U.S. non-farm payroll report, a downgraded growth forecast from the ECB for the euro zone and a scaled-back OECD global growth forecast. Rising uncertainty may be a positive for private funds vis-à-vis the daily mark-to-market dynamic of public investment vehicles.
- **The flat curve.** The ten-year Treasury now yields less than one-month LIBOR. In this environment, bank lending should be concentrated on the front end of the curve.
- **Fund finance is not a lot of things.** Perhaps one of the most helpful factors favoring fund finance in the competition for bank capital may be the things it's not. Specifically, fund finance is not consumer, corporate or real estate debt. U.S. household debt is higher now than at the height of the prior peak, and finances look particularly stretched in auto and student loan categories. In the same vein, non-financial corporate debt to GDP is hovering near an all-time high. Not surprisingly, the trend has been toward tightening bank lending standards in consumer, commercial and industrial, and commercial real estate. Fund finance presents an alternative to these traditional bank assets.

Putting these factors together, we see a market that supports continued growth in fundraising, while we expect banks to be eager to extend credit in the sector.