

Financing the Growth Economy



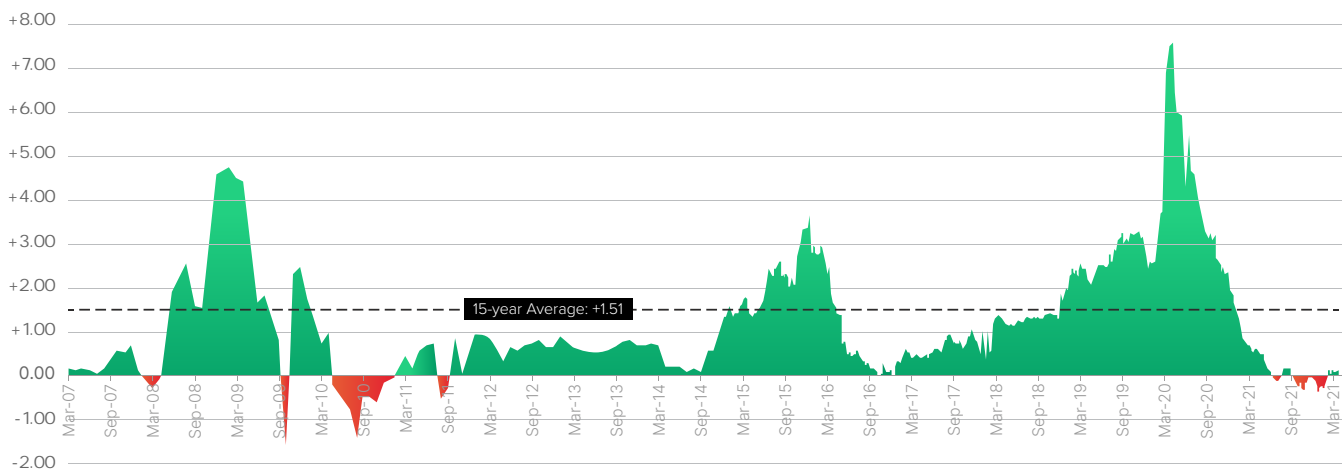
In our previous 2021 whitepaper, we highlighted that “Growth Economy” loans (e.g. telecom, IT, financials, healthcare) represent 43% of the leveraged loan market compared to 64% of the equity market.¹ This means private credit investors are generally underweighted to Growth Economy assets and overweighted to the “Old Economy” (e.g. manufacturing, consumer goods, real estate). In this whitepaper, we dive deeper into the credit side of Growth vs. Old Economy sectors by exploring price volatility and market growth among levered loans. Historical performance indicates that private credit investors who overweight loans to Growth Economy businesses may experience higher growth, lower volatility and superior investment performance.²

Loan Pricing Volatility

In periods of market distress, Growth Economy loan prices have traded significantly better than Old Economy loan prices. Throughout the past 15 years, Growth Economy loan prices have averaged +1.51 points higher than Old Economy loans (i.e., an average price of 97.01 for Growth Economy loans vs. 95.50 for Old Economy loans). Amid the volatile markets of 2008-09, 2015 and 2020, the average Growth Economy loan pricing advantage increased to +2.91 points. In the latest April 2022 YTD market disruption, which featured a rotation away from

high-growth equities into more traditional value stocks, Growth Economy equity industries in the S&P 500 fell -16.9% on average, while Old Economy equities fell by -1.7%. Yet in the loan market, Growth Economy loan prices fell only -1.0% during the same time period, outperforming a -1.4% decline in Old Economy loan prices. This divergence supports our view that Growth Economy equity investors have been absorbing the recent contraction in valuations, while loan investors have largely been insulated.

Difference in Weighted Average Loan Bid Levels, Growth Economy vs. Old Economy³
 (positive value indicates higher average bid level for Growth Economy loans)



Leveraged Loan Market Growth

An analysis of levered loan par value over time shows that the Growth Economy credit market is also growing faster, in addition to being less volatile, than Old Economy loans. While historical pricing levels suggest that Growth Economy levered loans demonstrate less volatility than Old Economy assets, in the five years since 2017, total Growth Economy outstanding par value has grown at a 10.7% CAGR, which is a +2.0% faster growth rate than Old Economy loans.

+1.51%

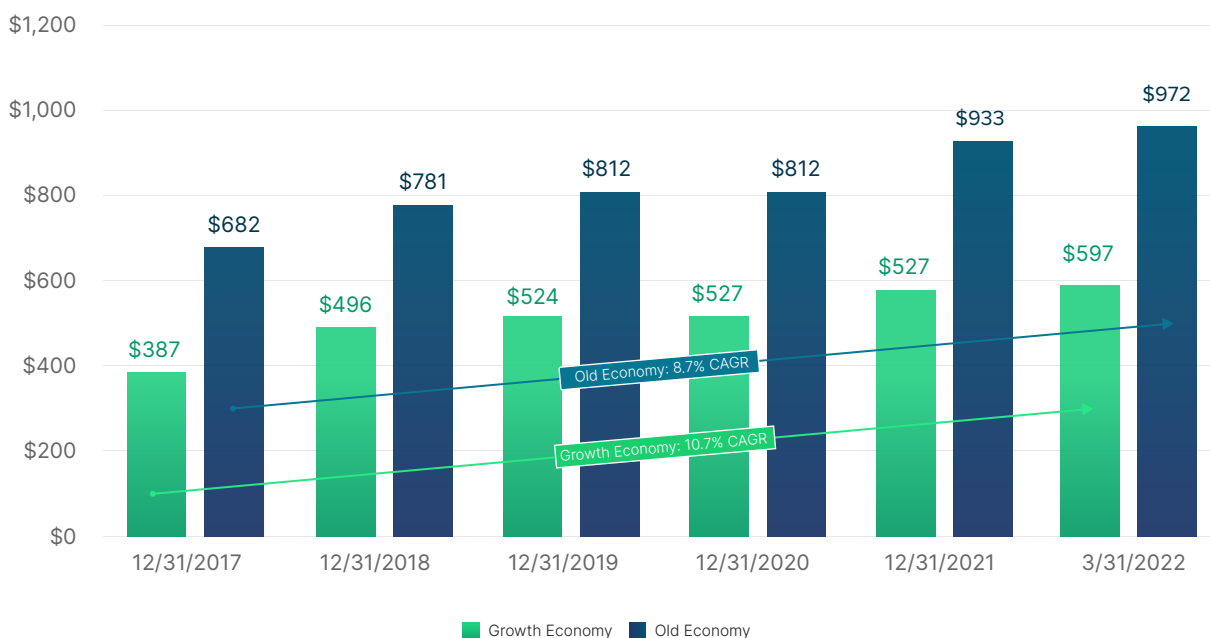
Higher 15-Year
Avg. Pricing Level

+2.0%

Faster 5-Year
Avg. Growth Rate

Growth Economy vs. Old Economy, U.S. Leveraged Loans³

Par Amount Outstanding, U.S. Leveraged Loans³
\$ in Billions



Conclusion

This historical analysis of levered loan pricing and volume suggests that Growth Economy loans are less volatile, especially in periods of market distress, and are part of a faster growing market. Investors may want to tailor their exposure to favored industries that exhibit these strong characteristics over the long-term, which may be difficult to achieve with the preponderance of managers offering diversified portfolios overweighted to the Old Economy. Digital credit offers private credit managers direct access to the Growth Economy and its supportive secular tailwinds.

A successful digital credit strategy requires the expertise of both a sector specialist and a traditional private credit manager. Large and growing demand from issuers in the digital realm, driven by significant infrastructure capital expenditures, allows private credit lenders with digital expertise to be well-positioned for rapid deal flow, proper assessment of sector-specific dynamics and generation of attractive risk-adjusted returns. The broader DigitalBridge platform has over two decades of private credit expertise combined with operational and investing experience, and has forged strong relationships managing mission-critical network infrastructure with some of the world's largest and most profitable companies.

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Footnotes:

1. Sources: S&P Leveraged Commentary & Data for Leveraged Loans, S&P 500 for Equities, as of April 29, 2022. Growth Economy sectors include Communications Services, Financials, Health Care and Information Technology. Old Economy sectors include Consumer Discretionary, Consumer Staples, Energy, Industrials, Materials, Real Estate and Utilities.
2. Past performance is not indicative of future results.
3. Source: S&P Leveraged Commentary & Data, as of April 29, 2022

* As of March 31, 2022



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