



## Barings' global credit approach

**A turbulent market scenario may create opportunities, but as Barings' investment team discusses here, they are staying disciplined and seeking to deliver value through this tricky period.**

Insurance company clients are finding private credit to be a useful diversifier. This highlights the value in having a breadth of experience and access to the broad range of opportunities that a firm like Barings can offer.

For an established player such as Barings, a global approach across fixed income, including high yield, provides potential opportunities across capital structures and currencies. That flexibility may be difficult to replicate in regional or benchmark-constrained mandates.

Barings' insurance heritage – owned by MassMutual and MS&AD – plus the balance-sheet discipline embedded in its investment philosophy, are core drivers behind the firm's global fixed income offering, which spans investment grade, high yield, emerging market debt, structured credit, and various private debt offerings.

"There's been significant growth in the private credit landscape," Trevor Slaven, Barings' global head of asset allocation and

multi-asset portfolio solutions, said.

"We're seeing that growth in direct lending, in portfolio finance, in infrastructure, in investment-grade asset-based finance or asset-based finance (ABF).

That, in and of itself, could potentially represent a meaningful market in the years ahead. "The economic divergence that we're seeing today, the corporate investment boom that we're seeing in AI and all the infrastructure around that at the same time that the labour market is relatively softer compared to recent periods.

And to me, embedded in this kind of macro landscape may be an opportunity for security selection, finding potential winners, but also looking for opportunities and ways to manage exposure to those weaker segments."

Another benefit of a well-resourced research team is managing credit risk.

While high yield typically exhibits lower duration than other fixed income segments, defaults and drawdowns remain a key consid-

eration.

At the same time, Barings' ownership structure enables long-term thinking and innovation.

This matters in an environment where income remains attractive but dispersion is rising – with global reach, deep fundamental research, disciplined risk management and cross-platform insight seemingly more important than ever.

"We operate a global platform," Orla Walsh, managing director and portfolio manager in Barings' Global Private Finance Group, said.

"Which means that we can see broadly and deeply across all of these markets. And I think, from a franchise perspective, the US market is also well-established.

We have incumbency, we've got scale in that market, we've got a long track record there, and a diversified portfolio to boot." Having the global view provides a dynamism that is helpful for portfolio construction, says Walsh, "to be able to tilt what's happening in developed APAC, what's happen-



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ing in Europe, what’s happening in the US, and having a holistic view.”

ABF is gaining increasing attention for the range of investment exposures it may provide. Jim Moore, Barings’ head of private placements and asset-based finance, explains that ABF is not a well-defined market.

“Anything from three to five trillion to 30-40 trillion, and what’s included, it really runs the gamut. Either way, it may represent a sizable opportunity,” he said.

The way Barings thinks about ABF can be boiled down to residential, consumer and commercial asset finance.

And within that latter category, beyond traditional commercial ABS, there are whole business securitisations, equipment finance such as aviation, but also things like infrastructure and fund finance.

“On the hard collateral side, think homes, planes, trains, automobiles, and on the financial asset side, think receivables, royalty streams, and other financial assets such as student loans,” Moore said.

“Another aspect of ABF is it

spans a wide range of risk and return profiles. Anything from triple A to equity. “So think low 100 spread over treasuries for triple A, give or take, potentially higher returns for the equity portion. From an investor perspective, exposure can be tailored based on individual investment objective and risk tolerance.”

With so much political volatility affecting markets, put alongside the fact that spreads are, across all credit markets, at or near their historical lows, there’s a need to be cautious and disciplined when looking at these various credit opportunities.

The rapid growth of private credit raises questions about too much capital chasing too few quality deals. Looking across markets in general, Moore’s view is that investors may not be fully compensated to go down credit stack right now.

“Look at BBB to A differentials, it’s just squeezed in. And I think a lot of that may be due to strong demand from the liability side of insurance, reinsurance and that annuity game where there’s a bit of a chase on yield, absolute yield,”

Moore said.

Under the circumstances, Barings is adopting a balanced growth approach. “Doesn’t mean we’re not buying,” Moore said. “We’re just not fully comfortable given the data that we see going down the credit curve.

That may change over time, but at the moment, we want that extra shock absorber to the extent that that consumer continues to deteriorate.”

The good news for disciplined and well-resourced managers is that reliable data in this space can be immensely helpful.

“We use loan-level data across our portfolios. We’ve got to use it. It may provide early warnings from a defensive perspective, whether that’s credit ratings or potential frauds. It also helps Barings on the offensive side, guiding them on where they want to originate,” Moore said.

Slaven added that there is so much talk about the ABF space right now. “It’s generally viewed as a potential diversifier to direct lending, and that’s how insurers and other clients may be incorporating it,” he said. ■