

Think Wealth Client Connect

In Conversation with Justin Muzinich - Why the US's safe haven status and private credit market remain intact

Willem Sels:

I am pleased to be joined today by Justin Muzinich, CEO of Muzinich & Co, a leading privately owned credit manager focused on both the public and private credit markets. Justin also served as US Deputy Secretary of Treasury from 2018 to 2021, with broad responsibility for US economic policy.

Justin, welcome. It's great to have you with us.

Justin Muzinich:

Thanks. Great to be with you. And thank you to HSBC for the great partnership.

Willem Sels:

Now, lots of things are happening, but let's start with the US dollar. During the conflict, the US dollar found some support. But there is that longer term downward trend. How pronounced and how long lasting will this be?

Justin Muzinich:

Fundamentally, I don't see the dollar's role in the world changing that much. I think the dollar will continue to be the world's reserve currency. When you look at reserve holdings by central banks, the dollar's share has decreased a little bit, but it's still 90% of transactions. Its share of global trade hasn't moved that much. And I think what really underpins that is a belief in the depth of US markets and fundamental belief ultimately in the quality of US institutions.

Willem Sels:

So you're talking about belief in the institutions. Let's talk about government debt, you know, because that has been growing. How concerned are you about this?

Justin Muzinich:

I think it's a real problem, for the US, the long-term deficit in the US since about World War II is 4% of GDP, and we're now running at about 6% or 7%. So 50% higher, if not more. One way to address them will be through productivity growth. If there's no growth, the US is going to have a problem. I don't expect it to be priced into markets anytime soon. But over time, it will matter.

Willem Sels:

If the US doesn't grow out of its debt. You know, is there a risk that it loses its safe haven status? And what would be the impact on markets?

Justin Muzinich:

In the same way that I don't see the dollar losing its reserve currency status, I don't see the US losing its safe haven status. I think if, at some point, there is concern about US debt, and deficit are more priced into markets, I think the government would react to that because it would be really too difficult for the country to lose that status.

Willem Sels:

And turning a little bit to the private markets now, private credit has seen a lot of headlines. How

concerned are you about this, and is this systemic or is it very idiosyncratic?

Justin Muzinich:

Private credit markets are fascinating. I think they got way too crowded, over the last five years. When we started in private credit a decade ago, there were many, many fewer players in the space. And like most things in finance, you know something's working. Everyone piles in and everyone tries to raise these huge funds. It got too crowded. Returns came down risk went up. And I think it's healthy that there is a correction. I don't really think it's systemic. What we saw in 2008, in 2020, when I was at Treasury, for these sorts of crises to become systemic, they normally have to start affecting the banking system or the short-term financing markets. And those have to shut down to really pull liquidity out of the system overall. And that doesn't feel to me like what is happening now. I will say the private credit markets are very diverse. A lot of the problems are concentrated in the upper mid-market. There are lots of parts of the private credit market that don't do that, where I think the risk-return is still very good.

Willem Sels:

So that's comforting. But nevertheless, you know, as government debt is growing, how do you look at the relative status of corporate credit in the public markets?

Justin Muzinich:

Well, that's a fascinating question. Government debt around the world is increasing, as I said, including in the US. The corporate sector, on the other hand, has been fairly responsible, if you can think about what CFOs and CEOs have been through over the last five years. You had the Covid shock. You had inflation. You had Russia, Ukraine. You now have another war that has made CFOs and CEOs fairly conservative. So when you look at the corporate landscape, debt is generally well contained. And in fact, personally, I mean, I would be much more comfortable owning a portfolio of broadly diversified corporate loans, which is analyzable, where, decisions are being made rationally than owning a broad portfolio of government debt, where politics get involved, where you're not sure rationality always prevails.

Willem Sels:

Well, thank you, Justin, for giving us that context, that nuance, and also talking about, you know, the belief in the institutions plus the productivity growth, which sets us up still for some upside in markets, probably. Thank you.

Justin Muzinich:

Thanks for having me.
Great to be with you