

Market Outlook: The Definition of Insanity



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Investors should understand that the investment environment and the starting point for investments have a huge impact on their success, and the shorter your time horizon, the truer this is.

Albert Einstein famously said, “Insanity is doing the same thing over and over and expecting a different result.” I think another version of insanity is doing the same thing in a different environment and expecting the same result. So, if the environment for business and investing is going to be thoroughly different in the coming five or ten years from what it was in the last fifteen to forty years – as I believe – it’s folly to expect that the results will be the same as they were.

As I stated in *Sea Change* and the creatively titled follow-up, *Further Thoughts on Sea Change*, we went through an unusually long period of declining and ultra-low interest rates from 2009 to 2021. The result was the longest economic recovery in history, exceeding ten years, and the longest bull market in history, also exceeding ten years.¹ It was a great time for ownership of assets. It was a great time for borrowing money. And if you bought assets with borrowed money, you typically enjoyed a double bonanza.

But, in my view, that period is clearly over. As a result, I believe fixed income investing may be better positioned today in risk/return terms than equity investing. Liquid credit instruments currently offer yields in the high single digits,² and the yields on private credit are in the low double digits.³ These yields are highly competitive with the excellent historical returns on equities. (The S&P 500 Index has an average annual return of roughly 10% for the last 100 years.⁴) These yields also exceed most investors’ required returns and are considerably less uncertain than the returns on equity and other ownership strategies. In other words, they have a high probability of delivering what they promise.

I believe lenders and bargain hunters face much better prospects in this changed environment than they did in 2009-21. So how should investors respond? I think they should bear in mind a quote from the economist Paul Samuelson: “When events change, I change my mind. What do you do?”

ENDNOTES

- ¹ Bull market” refers to the performance of the S&P 500 Index.
- ² “Liquid credit” refers to high yield bonds and leveraged loans; ICE BofA US High Yield Constrained Index, Credit Suisse Leveraged Loan Index, as of May 31, 2024.
- ³ Based on Oaktree observations in the market, as of May 31, 2024.
- ⁴ Bloomberg, as of May 31, 2024.

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All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

As an asset class, private credit is comprised of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents. Because private credit usually involves lending to below investment grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

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