

Private Debt Investor

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PUBLISHED: 13 March 2025

NEWS & ANALYSIS

Oaktree's Hobbs: Market rout could 'ignite' M&A

At PEI's NEXUS conference, the firm's head of sourcing and origination says volatility in public equities could result in better pricing of risk

There is a potential bright spot for private markets around the pounding that public equity markets have been taking: it could stimulate the long hoped for return of M&A.

That's according to Oaktree's head of sourcing and origination, Milwood Hobbs Jr, who spoke with Private Debt Investor's Americas Editor, Robin Blumenthal, at PEI Group's NEXUS 2025 summit in Orlando, Florida, which ran from 10-12 March.

"The one good thing about volatility...is that valuations probably come down a little bit," he said. "Not only does it stimulate M&A, but it brings a little bit of what I call rational behavior in the market." In such markets, "you can price risk, and what you find is a lot of folks in this market are not accustomed to pricing risk, and they freeze".

Given that private equity sponsors have \$4 trillion of dry powder to deploy and that private credit has an abundance of liquidity, "capital is really the commodity", he said, noting that the availability of capital could lead to a focus on whether risk is being truly priced.

"Everyone will decide, based on existing positions... how to deploy capital more judiciously in a more volatile market." He added that in today's market, "you have to be very



smart on asset selection".

Hobbs noted that "the consumer is a little winded, a little tired", now that the \$2.5 trillion of savings they enjoyed during covid is "all gone". At the same time, higher interest rates have created "some stress on the underlying cash flows of businesses". He said that a lot of debt that was coming due in the next couple of years has been refinanced, which will sharpen the focus on a pickup in M&A.

At the same time, the longer there

is pressure on equities, the more time chief executives will have to get comfortable with reduced valuations.

Hobbs also commented on Oaktree's orientation. "No one really cares about the 15-plus strategies you may have on your platform," he said. "What they do care about is, 'Can you solve my issue?'"

Hence, he said, Oaktree has "migrated to a capital solutions provider that looks at a situation and figures out, 'Can we solve that on behalf of our clients?'" ■