Crisis in sovereign, commercial debt seen

By Walden Siew

DANA POINT, Calif., Dec 7 (Reuters) - The credit crisis that rocked U.S. residential mortgages and corporate credit markets may roil commercial real estate and sovereign debt markets next, senior investment managers said on Monday.

Now that the first two waves of the global credit crisis have largely passed, the next test will come in commercial real estate markets in 2010, and then government debt markets, particularly in the United States, where public debt has soared to $53 trillion.

"I think the next shoe to drop, which will be the world's biggest shoe, is the continued decline of the dollar and ultimately the breaking of the U.S. government market, which will set the other markets on another terrible path," said Steve Shenfeld, president of MidOcean Credit Partners, which started in 2003 as the private equity arm of Deutsche Bank.

"We think commercial real estate is a real problem," due to declining property values and future defaults, he added, during a conference on alternative investments on Monday.

Tim Grell, managing director of Strategic Value Partners, which has $3.5 billion in distressed assets, also saw a problem in commercial properties on the horizon and said "the amount of leverage in governments across the globe has a potential to drive inflation and everything else."

Asked about investment opportunities, managers said some of the best investments may come in leveraged loans, high-yield bonds and higher quality, senior secured pieces of collateralized loan obligations, or CLOs.

Brian Colgan, a managing director with MJX Asset Management in New York, where he helps oversee $4.7 billion in leveraged loans and high yield assets, said he was looking for credit opportunities outside the United States, including loan investments in Europe, particularly in the United Kingdom and other nations where the firm has studied European bankruptcy law.

Other managers said they are avoiding emerging markets entirely.

Rob Feingold, managing director of Babson Capital, said emerging markets may be too risky, unless a manager has an expertise in the local market.

He said he was avoiding investments in Mexico and other emerging market countries to focus on U.S. opportunities.

MidOcean's Shenfeld said despite the risks, "tremendous" opportunities remain in credit markets. "Credit is attractive, that's the takeaway," he said.

One concern, however, was a return to highly leveraged deals that led up to the credit crisis two years ago.

"Leverage is not coming back, it's back," he said. "We think the imprudent use of that leverage" could backfire for inexperienced managers.
(Editing by Leslie Adler)

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