High Times (First of a Series)

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One of our faithful readers emailed the other day: “Hey, I noticed it’s been a while since you wrote about the high-yield market. Would love to get your insights on what’s going on there. Seems like a lot of activity recently. Trying to figure it out. Thanks.”

Help is on the way. For assistance, we recruited Matthew Fuller of LevFin Insights, our content partner for all things high-yield.

Matt, give a sense of that market from your perch. “From the perspective of high-yield investors, it’s a great time to be involved,” he told us in an interview this week. “We were pretty much shut down in March. Total volume was only $4 billion, which is very paltry. Zero deals for three weeks. That’s shocking, but one week shorter than December 2018, which marked the lowest volume since the GFC.

“Then in April it all came roaring back. We went from $4 billion to $44 billion. That was the most activity since March 2017. And while primary issuance was frothy, the secondary market went sideways.

What kind of returns have investors been getting? “Total market returns for high-yield during the roaring issuance in March was 3.8%,” Fuller said. “Not great, but ok. Kind of middling performance versus the primary comeback we saw last month.”

Why is that? “The snapback happened at the depths of the coronavirus crash. On March 23, the ICE BofA US High Yield Index was -20.56%. Today that return stands at -9.861% for the year to date (-0.731% for last week ended May 15).”

Back to the primary market, what deals are getting done? “The recovery started with rescues. Examples are Carnival Cruises, AMC, Cinemark, Hilton, and Norwegian Cruise Lines. Investors snapped them up. Look, with the ten year at 0.70%, it’s better than staying in cash. These deals are being 5-10x oversubscribed.”

There have been exceptions, Fuller said. The UAL issue of $2.25 billion was withdrawn earlier in the month when the initial high-single digit price talk widened to double digits.

What are issuers doing with the proceeds? “Almost all these facilities are for general corporate purposes to help bolster borrower liquidity. Ratings are generally strong single-Bs; triple-C issues aren’t common. But across the rating tiers there’s generally been higher quality names.”

It seems like activity has been very strong, considering the environment. “Volume has been $22 billion this month/May to date,” said Fuller. “Dominated by GCP deals in April and May, the market is now seeing signs of life for M&A and buyouts. Total issuance so far this year is in the $138 billion context, even with the three-week stall in March. That’s running about 30% hotter than this point last year, per LevFin Insights tallies.”

BMC Software was a good example of deals beyond GCP, Fuller told us. It was the first M&A issue since March 2.

? Next week: We continue our look at the HY bond market with more deal info.