High yield bond issuers rush into action following Fed announcement

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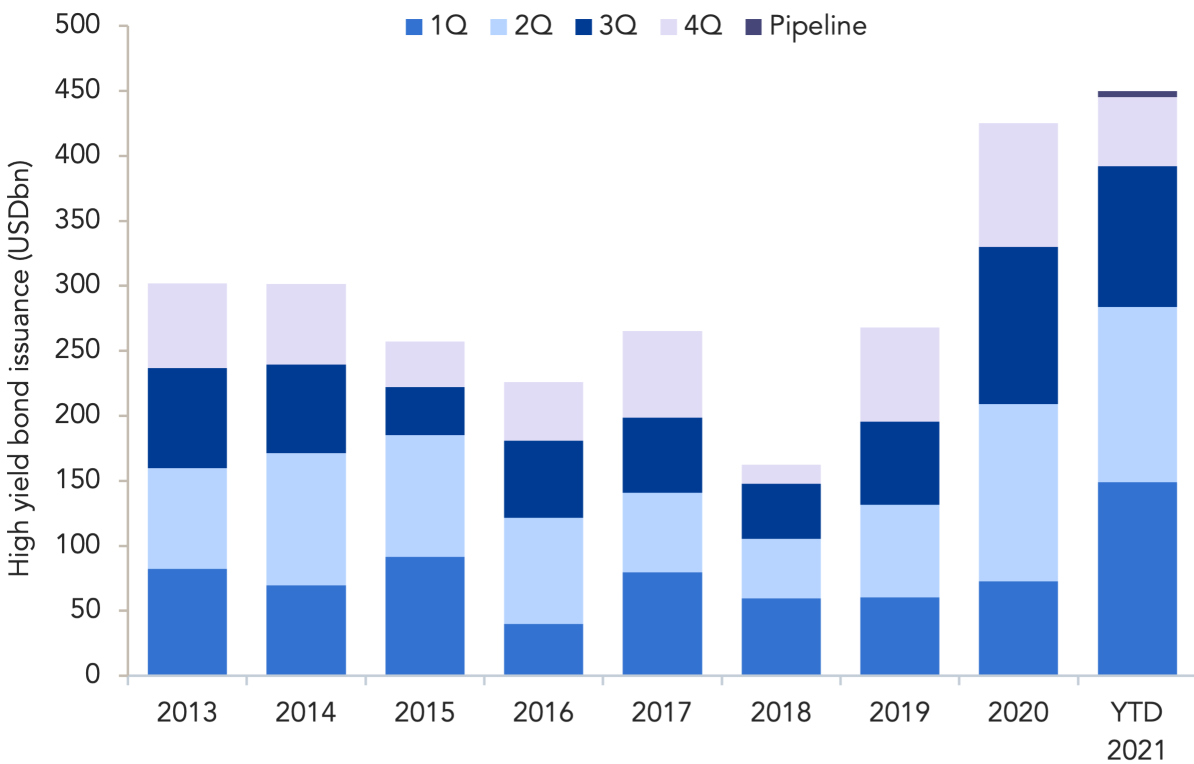

Source: Dealogic, Debtwire Par

High-yield (HY) bond issuers are jumping back into action, as more clarity emerges from the Federal Reserve around the tapering of its monthly bond-purchasing program. The Fed announced on 3 November that it plans to slow monthly bond purchases by USD 15bn each month from the current monthly level of USD 120bn. The decision is another show of faith that the US economy has moved past the worst effects of the coronavirus (COVID-19) pandemic and is growing at a healthy clip.

The Fed admits that current inflation levels, though still considered transitory, are elevated, and attributable to supply and demand imbalances relating to the reopening of the economy following the pandemic. Some senior officials have hinted at a potential rise in key rates by the end of 2022 if unemployment figures continue to drop as projected to 3.8% from the current 4.6%.

HY bond issuance of approximately USD 445.0bn in the year to date (YTD) has surpassed the full-year record set in 2020 in the wake of the coronavirus pandemic, marking the busiest-ever year for HY issuers. With support from the Fed and cheap financing available, as interest rates have been held near zero in an effort to prop up markets and create liquidity, borrowers have taken advantage of the circumstances to address capital needs.

Refinancing transactions have accounted for the lion's share of issuance over the past two years, as companies flooded the market to address near-term maturities and reduce their cost of debt, making up 65% of volumes in 2020 and 59% thus far in 2021. With yields on new paper at historically low levels, hovering around 5.0% on the year compared with last year's average of 5.9%, issuers with outstanding debt have jumped at the opportunity to reduce their financing costs.

After cooling throughout the summer, issuers appear to be in a frenzy yet again to lock in cheap financing, with over USD 39.0bn of paper pricing in through 16 November and another USD 4.7bn currently in syndication. While issuance has declined steadily each quarter in 2021, a late-year push may continue to drive the annual figure higher.

(Past performance is no guarantee of future results.)