High yield bond market activity cools in January as demand wanes

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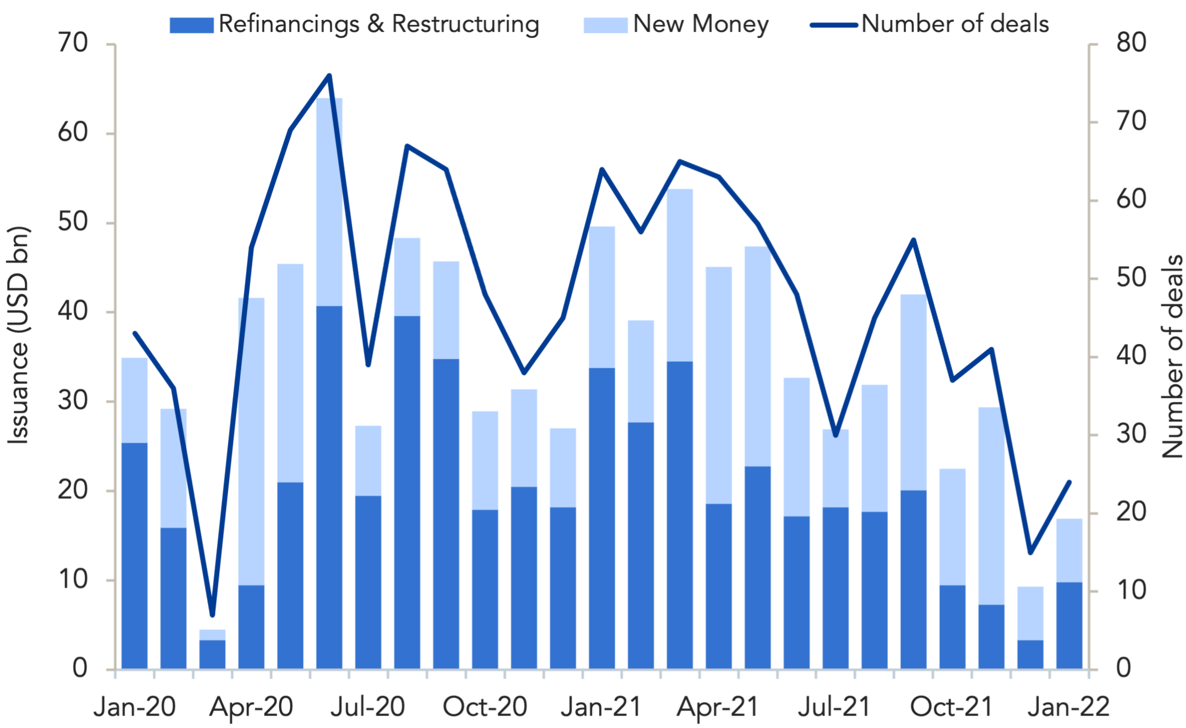

Source: Debtwire Par

The high-yield (HY) bond market has seen a muted start to the new year, with issuance of USD 16.9bn across 24 deals in January. While this represents an improvement over the December 2021 trough of only USD 9.3bn, the two-month span marks the lowest level of issuance since the coronavirus (COVID-19) pandemic largely shut down the market in March 2020, spurring the Federal Reserve's bond-buying program, which helped to drive record issuance thereafter.

With interest-rate hikes likely as early as March, and with expectations of a quarter- to half-point increase from the current near-zero levels, the fixed-rate asset class has seen primary issuance buffeted by macroeconomic headwinds, as demand for paper wanes.

In fact, it is mainly the lowest-rated tier of borrowers – those rated B- or lower – that have been tapping the primary market of late, accounting for 30% of January issuance. Pricing on such financing is typically more attractive given the additional risk, and junk-rated issuance can compete with other asset classes in terms of yield even in a rising rate environment. As such, the average yield-to-maturity on HY paper in January jumped to 5.62%, its highest level since 2019.

The expectation of interest-rate hikes has spooked many HY investors, with weekly fund flows turning negative to open the new year. Approximately USD 6.6bn of investment flowed out of the asset class in January, contributing to a drop in secondary market pricing from post-pandemic highs, in turn driving up yields. Bond yields measured by the ICE BofA US High Yield Index recently hit a high of 5.22%, surpassing the trailing 12-month average of only 4.29%, and landing well above the intra-year low of 3.92%.

(Past performance is no guarantee of future results.)