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Secured bonds grab larger share of the market

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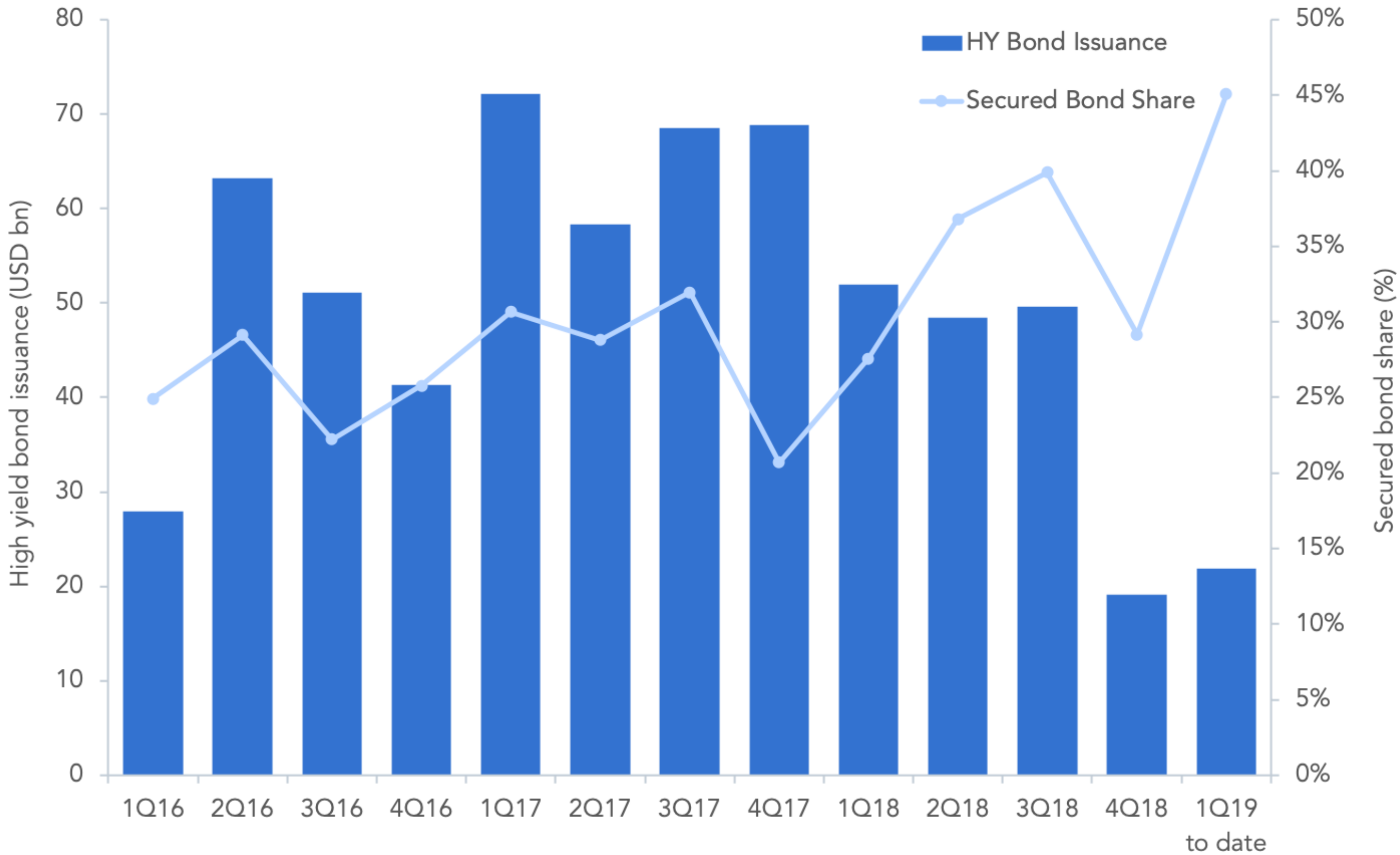

Source: Debtwire Par

Since the high yield bond market reopened in January, issuance has been marked by a sharp jump in the share of secured bonds. So far, in 1Q19, USD 13bn of secured bonds have priced, representing 45% of overall high yield bond volume, up from 34% last year. In some cases, not only have borrower's favored secured bonds over unsecured bonds, but also over leveraged loans. Dun & Bradstreet increased the size of its secured bond financing at the expense of both the leverage loan and unsecured bond components. Commscope increased its secured bond at the expense of its loan. TransDigm, on the other hand, upsized its secured bonds and reduced the size of its originally planned unsecured bonds.

The impetus for the shift toward secured bonds is that investors are seeking more protection following the market volatility in 4Q18 and concerns around continued US economic expansion in the future. Also, the Federal Reserve's pivot to a more dovish interest rate policy has reduced the attractiveness of floating rate loans to some investors. A further positive note for the bond market lately and supporting recent issuance is that high yield bond fund flows have reversed course, with USD 8bn added so far this year, according to Lipper data. This followed a difficult 4Q18 when a hefty USD 20.7bn exited.

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