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Lower rated borrowers send high yield bond pricing higher in October

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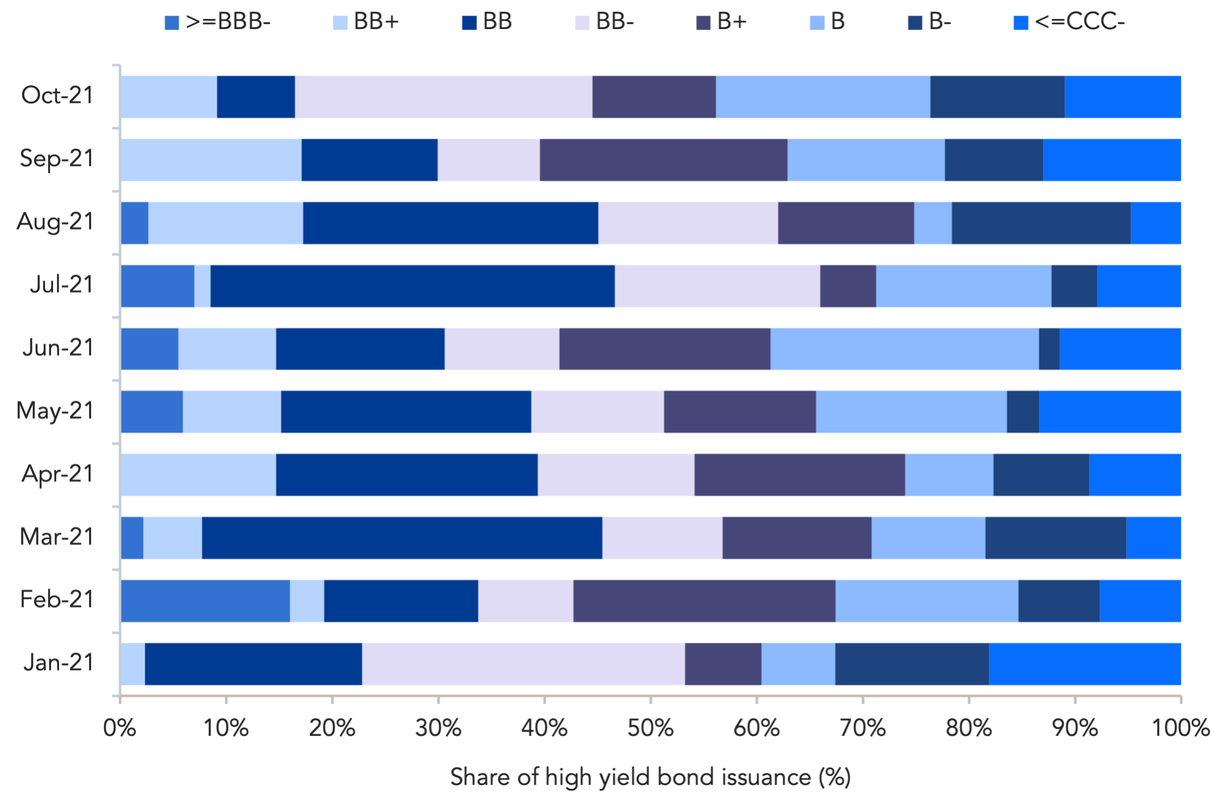

Source: Debtwire Par

High yield bond issuance slowed in October, falling to its lowest level this year at just USD 20.9bn – marking the lowest monthly issuance total for high yield paper since the onset of the coronavirus (COVID-19) pandemic last March. With the waning of the Federal Reserve’s corporate high yield bond buying program put in place to provide liquidity and stabilize markets as the pandemic took hold and the global economy came grinding to a halt last spring, borrowers have begun to turn to alternative funding sources.

In another reverse from recent trends, pricing on new high yield bond issuance ticked up in October, to an average yield to maturity of 5.09% as a greater share of lower rated issuers came to market. This represents the highest average yield on high yield paper since the first quarter figure of 5.18%. It was secured issuance that led the climb higher, with yields increasing to 5.64% from the 5.15% average in 3Q21, while unsecured notes likewise saw price appreciation, albeit at a more modest pace, with yields climbing to 4.88% from 4.53% last quarter.

With 44% of monthly issuance attributed to borrowers rated B, B- and CCC+ or lower – the highest proportion this year – pricing was driven higher. **Weatherford International** led the way, with a USD 1.6bn senior unsecured note offering due 2030, pricing at 8.625% and par. While the B3/CCC+ rated notes represent the higest coupon offered during October, proceeds will be used to redeem the company's existing 11% notes due 2024, representing a significant cost saving. **Oregon Tool**'s USD 300m senior secured paper due 2029 also helped drive pricing higher this quarter, with the coupon on the company's Caa1/CCC+ rated notes landing at 7.875%. Proceeds, along with a sizeable USD 1.05bn loan portion, back the company's buyout by Platinum Equity from American Securities and P2 Capital Partners.

(Past performance is no guarantee of future results.)