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Leveraged borrowers jump at the opportunity to access debt capital amid market upturn

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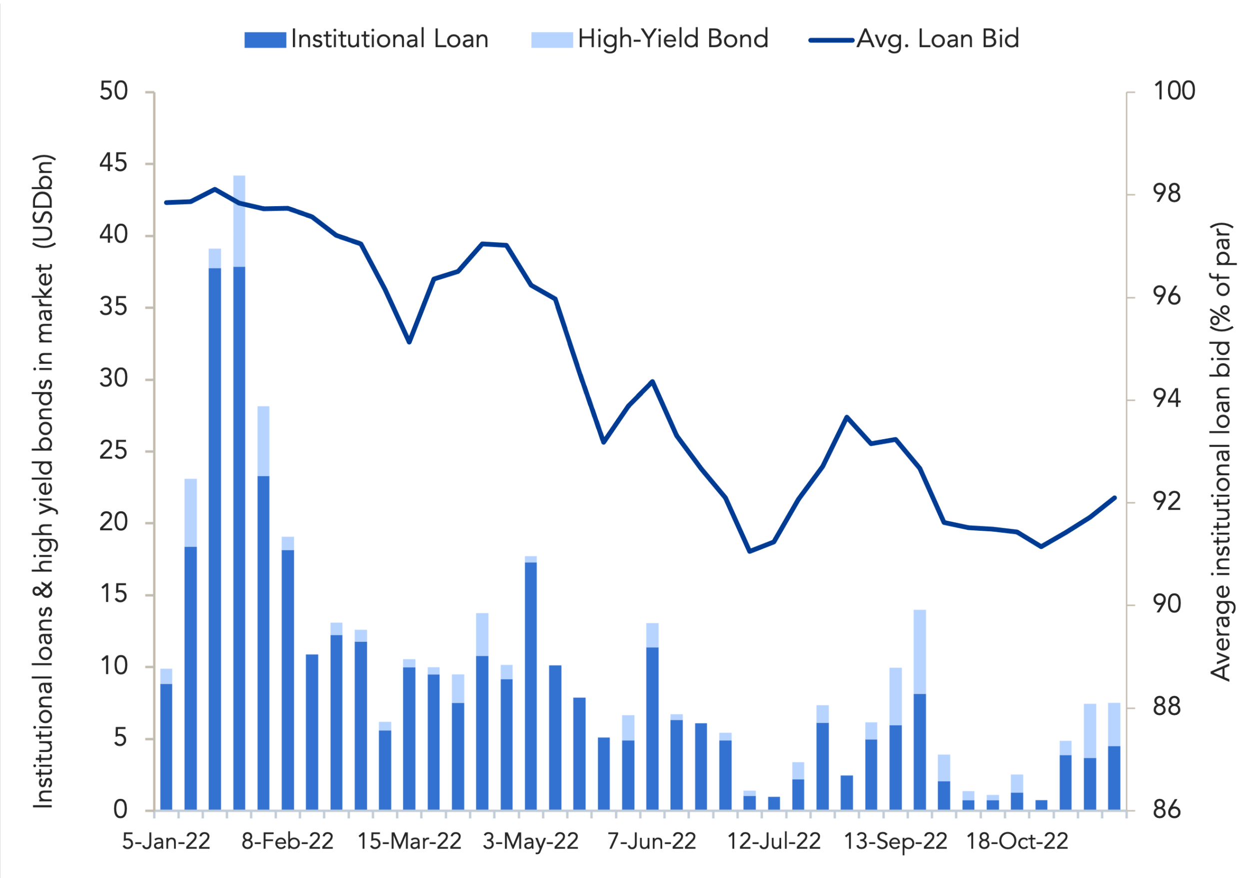

Source: Debtwire Par, Markit

Investors in the leveraged loan and high-yield bond markets rejoiced following a better-than-expected inflation reading last week that sent equity markets soaring. On Thursday (10 November) the US Bureau of Labor Statistics reported that core inflation slowed to 7.7% in October, well below estimates of 8% and an encouraging sign that the Federal Reserve's monetary tightening has been effective in slowing price growth. Many investors now expect the Fed to begin to reduce its interest rate hikes going forward, likely to 50 basis points (bps).

The long-awaited news sent equity markets soaring with the S&P gaining 5.5% on the day, marking the best day for stocks in the last two years. In the loan and bond secondary markets, reactions were similarly optimistic. Average bids on institutional term loans have swung up 95bps to 92.1 from an October low of 91.14. While the loan market reaction was more subdued than in the stock market, it marks an important turnaround following a decline of more than 2 points during September and October. Bonds have seen similar gains of late, with pricing moving up 266bps from the October low of 83.58. The fixed-rate instruments are generally more sensitive to interest rate moves, which has, to-date led to losses of 11.2% for bond investors, according to the ICE BofA US High-Yield Index.

Issuers have taken the opportunity to address any urgent financing needs, with the pipeline of deals in syndication bouncing up to USD 7.5bn this week from less than USD 1bn in the last week of October. While the figure falls well below the January pipeline, when USD 44bn of loans and bonds were working through the market, it does represent the busiest the market has been since September. With future rate hikes now expected to be tamer, and if secondary markets continue to be supportive of issuance, the trend should carry through to year-end.

One encouraging sign has been the return of the refinancing after months of negligible issuance. Following just USD 2.4bn of loan refinancing issuance in October, the November figure to-date has already surpassed USD 3bn, with an additional USD 3bn currently in the pipeline. This would mark the highest level of refi issuance since May, when USD 5.5bn was issued to refinance existing debt. On the bonds side, USD 6.6bn of issuance this month has already surpassed the October total of just USD 2.4bn, with refinancings accounting for USD 4.6bn of the monthly total.

(Past performance is no guarantee of future results.)