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US corporate bond yields near 2013 peak

Joe Rennison in London

Yields on lower-quality US investment-grade corporate debt have risen to their highest level since the market rout of 2013, as investors demand a higher premium for owning bonds sold by companies.

Ahead of the Federal Reserve shifting borrowing costs higher as early as next month, investors are increasingly discerning about companies with lower investment grade ratings.

In Moody's index of bonds rated Baa the average yield has climbed to 5.51 per cent this week, the highest since September 2013 and up sharply from a low of 4.29 per cent in January.

Companies have issued record amounts of debt across US capital markets this year, with the expectation of further deals ahead of the Fed's policy meeting next month. The onslaught of supply has put pressure on prices, which move inversely to yields.

Roger Webb, senior investment manager at Aberdeen Asset Management, said a further $100bn of bonds could be issued before the end of the year.

While lower-quality IG paper has come under sustained pressure, the yield on a popular Barclays index for highly rated debt fell during October, from a peak of 1.62 per cent to 1.46 per cent.

David Riley, head of credit strategy at BlueBay Asset Management, said this suggested that investors were rotating out of lower-rated corporate debt and into highly rated bonds. In a bid to maintain returns while holding more creditworthy assets, investors were holding longer-term debt, he added. Companies have issued record amounts of bonds maturing in more than 20 years, offering investors a chance to access higher yields. "For a lot of US but also global credit investors, that is the trade-off they are looking at at the moment," said Mr Riley.

For Mr Webb the increase in yields of lower-quality IG bonds presents an opportunity, although there are idiosyncratic risks associated with specific companies such as Glencore, which is rated Baa2 by Moody's.

"The expectation of a more constructive environment in 2016 does lead us to want to have more risk in the portfolio than before," he said.

US market activity tends to slow ahead of the Thanksgiving holiday at the end of November, but large mergers and acquisitions will require funding in the coming months.

AB InBev is expected to raise money for its takeover of SABMiller in 2016. Dell's purchase of EMC and Visa's buyout of its former European arm will also entail big debt offerings.

Banks are expected to have to raise significant sums to comply with new capital rules.

The Moody's Baa index is just shy of the peak of 5.58 per cent in August 2013 near the end of the "taper tantrum", when yields rose sharply as investors anticipated that the Fed would start winding down its asset purchases.