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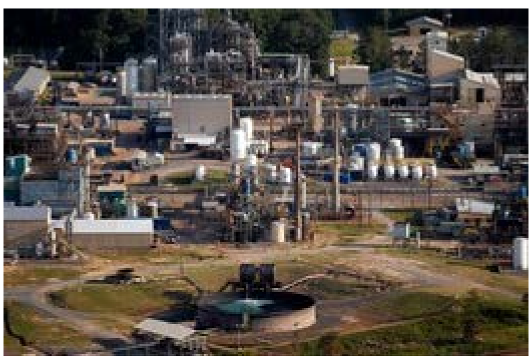
Junk Jumps as Bonds Boom

Investors Remain Thirsty for Income-Producing Investments

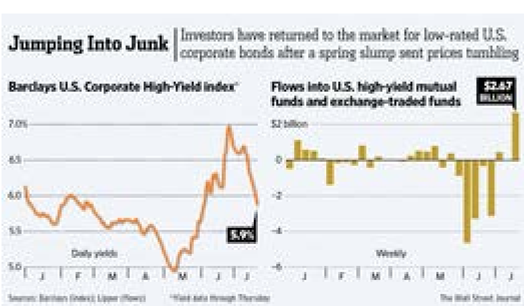
By KATY BURNE

Bonds issued by low-rated U.S. companies are making a sound recovery from their spring swoon, in the latest sign investors remain thirsty for income-producing investments.



ChicagoTribune/Zuma Press

A Chemtura Corp.-owned plant in Arkansas. The firm was one of 12 junk issuers on busy week for debt.



Yields on noninvestment-grade corporate debt fell below 6% at Thursday's close for the first time since June 4, hitting 5.89%, according to a Barclays index. While that is well above the 5% threshold the debt briefly pierced in a frantic early-spring rally, the milestone comes only weeks after yields on so-called junk debt neared 7%. Yields fall as prices rise.

Fueling the bounce: improved investor sentiment. The prices of Treasury bonds, to which corporate debt is tethered, have risen amid reassurances by Federal Reserve officials that the central bank is in no hurry to curtail its $85 billion monthly bond-buying program.

A more sanguine view about the pace of rate increases has sent funds back into riskier asset classes such as U.S. stocks, which this week touched new highs, and high-yield bonds. Junk-bond funds attracted $2.7 billion in net inflows in the week that ended Wednesday, the most since October 2011, said data provider Lipper. Defaults on low-rated companies remain low by historical measures, amid a steady if slow improvement in the U.S. economy and easy financial conditions.

The rebound is helping entice companies that were waiting for the market to improve to borrow. Dalip Puri, treasurer at Chemtura Corp. in Middlebury, Conn., said he "saw an opportunity to access the market this week and took it."

The Philadelphia specialty-chemicals company sold $450 million worth of eight-year bonds at a rate of 5.75%, its first such securities offering in two years. The sale was increased from a planned $400 million, and the rate was below the 6% to 6.25% suggested to investors earlier in the deal, a sign of strong demand.

Chemtura, which emerged from bankruptcy in November 2010, plans to use the funds to refinance existing bonds coming due in 2018 and to pay down a term loan, said Mr. Puri.

The company was one of 12 borrowers that took this week's U.S. junk-bond issuance over $5.3 billion, more than three times the prior week's volume and the most in any week since mid-May, according to Dealogic data.

Junk-bond exchange-traded funds took in $1.1 billion through Wednesday, their best week since 2007, Lipper said. Inflows are helping to reverse a pattern in June that saw successive weeks of multibillion-dollar outflows.

As the market retraces its steps, more companies are expected to borrow, meeting the fresh demand from investors.

"Issuers were backing off because the market was frozen in its tracks," said Gautam Khanna, a high-yield portfolio manager at Cutwater Asset Management, which oversees $30 billion in fixed-income assets. "Now, the tone seems to be improved."

The rally takes junk-bond yields back into unusual territory, as investors resume their search for income-generating assets at a time of near-record-low interest rates.

To be sure, the rally has taken hold so fast that some analysts see the potential for another selloff. Others say a return to higher, more-normal interest rates is inevitable and that those seeking funding should take advantage now of still-low rates.

"It's the calm before the storm...so if you have a [mergers-and-acquisitions] deal you need to get funded, you should definitely come now," said Martin Fridson, a high-yield specialist and chief executive of FridsonVision LLC.

He said that, even if junk-bond yields continue falling, the Fed stimulus that has enabled risky companies to borrow at ultralow interest rates and push off their debt repayments beyond 2016 won't necessarily last much longer.

Signs the Fed is on the verge of reducing its monthly bond purchases, rather than just discussing it, are likely to mean investors "will head for the hills," said Mr. Fridson. He said treasurers at low-rated companies that manage to borrow money this summer at 6% "will look like a hero a year from now."

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