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Junk May Slam Into $1 Trillion Wall as Maturities Hit Record

by Emma Orr

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- Moody's says markets may be less receptive to refinancing
- CLO demand for speculative debt has been on the wane

A record $1 trillion of junk debt will mature by 2021, leaving high-risk companies to hunt for new cash at a time when markets are likely to be less welcoming, according to Moody's Investors Service.

Speculative-grade companies have $1.06 trillion of debt maturing between 2017 and 2021, with the bulk of it, $933 billion, coming due after 2019, Moody's said Wednesday in a report. New issuance is likely to rise in the second half of this year to start addressing those maturities, analysts led by Tiina Siilaberg wrote.

Debt markets aren't prepared to absorb the maturities, according to Moody's. Demand for collateralized loan obligations, which bundle leveraged corporate loans into securities, has fallen from its 2014 peak, and credit ratings for both bank loans and high-yield bonds have deteriorated, according to the report.

"If liquidity dries up, the default rate will be significantly higher than the last time around," Siilaberg said in an interview. "Companies have more debt to deal with, and we've seen a lot of smaller companies take on substantial amounts of debt in a low-rate environment."

The backdrop includes potential changes in federal rules and macroeconomic conditions by 2019 that could make high-yield bonds less attractive. Tighter monetary policy, higher volatility, elevated valuations and unfavorable changes to U.S. tax law could all contribute to pressure on spreads and underperformance in the sector, according to a separate report from Pavilion Global Markets, the Montreal-based trading and research firm.

Leverage Risk

Companies with higher debt-to-earnings ratios, especially those with leverage greater than six times, are more vulnerable, according to Moody's, which said U.S. bank regulators may tighten the application of leveraged lending guidelines that are designed to curb risk.

More than 30 percent of the high-yield bonds coming due are rated Caa1 or below by Moody's, at least seven levels below investment grade. More than 8 percent of leveraged loans are rated Caa1 or below, up from 5.8 percent in the equivalent 2016 study. The telecommunications sector has the most debt coming due over the next five years with $81 billion.

The study covers debt rated by Moody's and uses information current as of November.