

## US junk bond market drought breaks

*First high-yield issuer since mid-December looms*

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by: [Eric Platt](#) in New York

A drought of US high-yield bond sales showed signs of ending on Thursday with the first deal looming in nearly three weeks.

The market had been shut for the longest period of time since 2011, as gyrations across global equity markets damped risk appetite from an investor base that suffered losses in 2015.

Speculative grade US companies — those rated double B plus or lower by one of the big credit agencies — have not sold new bonds to investors since the middle of December, the longest stretch without a new junk offering since 2009, according to Dealogic data.

Microsemi, a US semiconductor group, is the first to test investor appetite with a sale of \$450m worth of notes.

The inaugural junk deal of 2016 is expected to price on Thursday, according to a person familiar with the matter, which would take the period without a sale of new high-yield bonds to investors to 24 days.

[Portfolio managers](#) say concerns have been exacerbated by recent weakness in equity markets, which has seen nearly \$250bn wiped off the valuation of S&P 500 companies, lacklustre economic reports and a flare in geopolitical tensions at the year's start.

"Risk appetite is very low," said Kapil Singh, a portfolio manager with DoubleLine Capital.

"You have a lot of issues that have caused high-yield investors to be risk off. There aren't buyers stepping in when there had been sellers, or the buyers had been far below the last trade. People have been spooked, and rightly so. There is a lot of macro economic angst."

Companies have been sidelined as portfolio managers braced for potential redemptions at the end of last year. US junk bonds slid 4.5 per cent in 2015, the worst performance since 2008, according to Barclays Indices.

The data exclude a \$440m bond offering from Kraton Polymers, a deal that was pulled in December amid [difficult market conditions](#), to fund its \$1.4bn acquisition of Arizona Chemical.

While underwriters on the deal converted the bridge loan to a bond earlier this week — technically marking the offering as the first completed US junk deal of 2016 — the banks continue to hold the Kraton bonds and will wait to syndicate the offering in the coming weeks, according to three people familiar with the transaction.

Investors say they expect the calendar of new junk issuance to gradually build and several portfolio managers have said they are beginning to nibble on high-yield bonds after [significant price drops](#).



A number of debt packages to fund mergers and leveraged buyouts are already in the pipeline with issuance expected to fund Dell's [\\$63bn takeover](#) of EMC and Western Digital's [\\$19bn acquisition](#) of SanDisk.

However, those mammoth deals are not expected to close for several months with smaller deals likely to first test the market in the next few weeks.

“The near-term pipeline of high-yield bonds to finance M&A deals is relatively light right now,” said Marc Warm, head of US high-yield capital markets at Credit Suisse. “It is good news that in a market that is this volatile, there’s not much paper that must to come to market and create more volatility.”

The high-grade US market, which reopened with \$16bn of [new issuance](#) on Tuesday, went 19 days without a new bond sale, according to Dealogic.

Portfolio managers put the dormant period down to the timing of the December meeting of the Federal Reserve, with companies choosing to issue ahead of the central bank’s much anticipated decision.

[eric.platt@ft.com](mailto:eric.platt@ft.com)

Twitter: [@ericgplatt](https://twitter.com/ericgplatt)

