FINANCIAL TIMES

Global debt binge eludes riskiest US companies

Issuance by groups at lower end of junk spectrum drops to lowest level since 2009

September 27, 2016

by: **Eric Platt** in New York

A global debt binge driven by record-low borrowing costs is bypassing risky US companies as investors reveal the limits to their desire for high-yielding securities.

Companies with some of the lowest credit ratings have sold less than $12bn of debt in the US this year, the slowest pace since 2009, a sharp contrast to the reception Wall Street has given the highest-quality companies, according to data from Dealogic.

“There is a search for yield but we are late in the cycle so the price for default risk needs to be higher,” said Sherif Hamid, a portfolio manager with AllianceBernstein. “That is a bit of investor discipline and a little bit fear.”

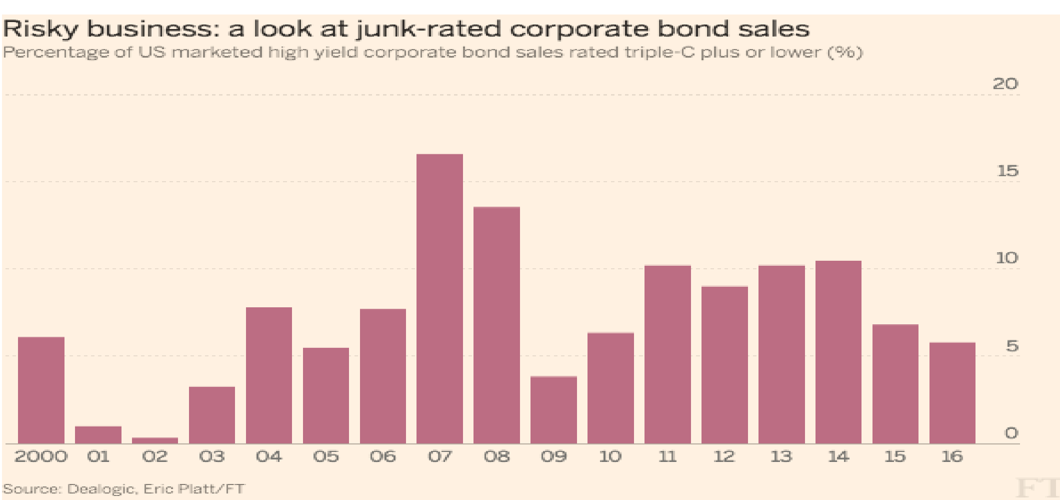
The drop in debt sales from groups rated triple-C plus or lower by S&P Global, Moody’s and Fitch — among the companies most likely to default on their obligations — comes as highly rated multinationals have never had easier access to credit.

More than $5tn of debt has been sold both by companies and sovereigns this year, the busiest on record, as central banks in Europe and Japan pump stimulus through markets in an effort to spur economic activity and rekindle inflation.

For companies teetering on the edge of default, the market remains closed, while those viewed as potential survivors have found some investors willing to lend, money managers said. Defaults have climbed but remain concentrated in commodity linked sectors.

While junk rated double-B rated companies pay less than 5 per cent on bonds, triple-C rated groups are paying nearly 11 per cent on debt to attract investors.

“The triple-C market, like the market overall, has been bifurcated,” said David Delbos, a portfolio manager with BlackRock. “Higher quality issuers have enjoyed very good [market] access, while for lower quality companies it has been tougher sledding.”



The credit market bifurcation also reflects concern that sudden market turmoil could once again shut the door on debt sales — as seen in February — and spur wider reverberations through equity markets, which are struggling with five consecutive quarters of earnings declines and high valuations.

“It is very market dependent,” Mr Hamid added. “It doesn’t take a whole lot of volatility to cause the markets to take a step back, particularly for this kind of riskier paper.”

Since the market’s rebound from the lows of February, Triple-C bonds have returned 24 per cent for 2016, far outpacing the gains from more highly rated junk debt, data from Barclays show.

The decline in issuance of fresh triple-C rated debt also stems, in part, from the drop off in leveraged buyouts, in which private equity firms fund their takeovers of companies in the debt market. It was a significant source of supply of riskier corporate debt and has not returned to the level seen before the financial crisis.

Sales by the lowly rated companies — which include $1bn from Argentine state-owned oil company YPF and $770m from indebted packaging group Ardagh Group — account for less than 6 per cent of overall high-yield debt sales, the lowest level since 2009.