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CREDIT MARKETS

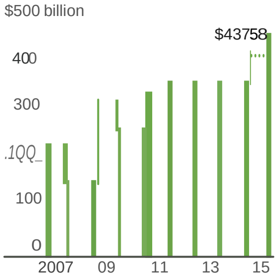
Investors Scoop Up Companies' Bonds

Record pace of $438 billion of new debt purchases has been set for the year through Tuesday

Hot Streak

Corporate-bond issuance is off to its fastest start to a year, led by a wave of debt sales backing large health-sector mergers.

U.S. corporate-bond Issuance -



Top five U.S. acquisition-related corporate bonds In 2015

Issuer	Sector	Date	Deal value, in billions
Actavis	Healthcare	March 3, 2015	$21.00
Valeant Pharmaceuticals	Healthcare	March 13, 2015	1010
Merck	Healthcare	Feb. 5, 2015	80 0
Zimmer Holdings	Healthcare	March 10, 2015	7.65
Georgia Wor dwide	Leisure and recreation	Feb. 9, 2015	49 5

*Through March 24 of ch year
Source: Dealogic

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By MIKE CHERNEY

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Investors are scooping up U.S. corporate bonds at a record first-quarter pace, as companies tap the market to finance a wave of big health-care acquisitions.

Investment-grade and junk-rated companies combined have sold $438 billion of new bonds this year through Tuesday, according to data provider Dealogic. That tops the $384 billion of deals at this time in 2013, which previously had the most bond sales for the period. Bond sales related to corporate takeovers are roughly $87 billion, an all-time high for a start to the year.

The deal volume shows how investors are willing to bet on corporate bonds even as the Federal Reserve plans to begin lifting interest rates from near zero. Higher rates typically push down prices of existing bonds. Meanwhile, companies are eager to lock in low borrowing costs.

The surge is a "combination of investors willing and wanting to participate, and issuers seeing the debt markets as a very attractive way to finance the acquisitions they want to do," said Mark Bamford, global head of fixed-income syndicate at Barclays. "The transactions have been overwhelmingly well received by investors/'

The four biggest U.S. corporate-bond sales tied to acquisitions have come from health-care firms this year, reflecting an increase in deal making as companies seek to expand their businesses. Actavis PLC raised $21 billion for its purchase of Allergan Inc., Valeant Pharmaceuticals International Inc. raised $10.1 billion to buy Salix Pharmaceuticals Ltd., Merck & Co. raised $8 billion to buy Cubist Pharmaceuticals Inc., and Zimmer Holdings Inc. raised $7.7 billion to buy Biomet Inc.

The $21 billion bond sale from Actavis ranks as the second-biggest global corporate bond on record after Verizon Communications Inc.'s $49 billion offering in 2013.

Tessa Hilado, chief financial officer for Actavis, said the company received investor orders for more than four times the bonds available. "You don't really know what the demand is until people start placing their orders," she said. "I would say we were pleasantly surprised."

Bond sales related to corporate takeovers are roughly $87 billion, an all-time high for a start to the year, with investor demand strong for Actavis's $21 billion offering. *PHOTO: JUSTIN SULLIVAN/GETTY IMAGES*

Overall, the first quarter this year is already the second-busiest on record for U.S. corporate-bond sales, running behind only the second quarter in 2014, when companies sold $455 billion of bonds, according to the Dealogic figures. The previous first-quarter record was set last year, when $409 billion was sold.

Even amid ample supply, U.S. corporate bonds have performed well. Debt from highly rated companies have returned 2.57% for the year through Tuesday, according to Barclays data, reflecting price changes and interest payments. That tops the 1.81%

return for U.S.Treasurys.

"I can't see anything on the radar that's going to slow things down materially," said Brandon Swensen, co-head of U.S.fJXed income at RBC Global Asset Management, which oversees $44 billion in the U.S.and has been buying new corporate bonds.('We think rates are going to remain low."

Last week, bond markets rallied when the Fed said economic growth had "moderated somewhat" and indicated some hesitancy in raising benchmark interest rates.

U.S.Treasury yields have fallen over the past15 months, as investors flocked to haven assets amid concerns about global economic growth and geopolitical tensions.U.S. corporate bonds are pegged to Treasurys, so lower Treasury rates mean companies pay less interest on their bonds.A10-year Treasury note was yielding1.92% late Wednesday in New York, down from about 3% at the end of 2013.

Samantha Palm, a portfolio manager who oversees the $196 million Parnassus Fixed Income Fund, has been buying newly issued corporate bonds, in part because of her view that companies will benefit from a growing U.S.economy.Her fund has more corporate bonds than its benchmark index and has been focusing on debt of health-care companies.

"You've got an aging population and a growing, global middle class all going to be demanding more health-care options," Ms.Palm said.

To be sure, a boost in benchmark rates from the Fed later this year would increase corporate-borrowing costs and could slow the pace of bond sales.But if the pace continues, it would be the fourth record-setting year in a row for U.S.corporate-bond sales, based on Dealogic figures.

"The Fed is now becoming more explicit about the desire to raise rates at some point in the future," Ms.Palm said."Companies see this as possibly the last opportunity this cycle to issue at exceptionally low rates."

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