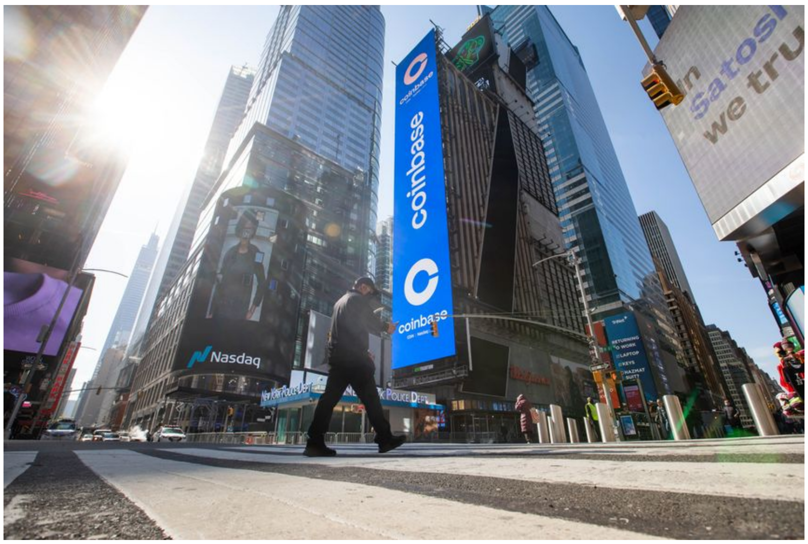
https://www.wsj.com/articles/junk-debt-sales-soar-toward-record-year-11632043982

CREDIT MARKETS

Junk-Debt Sales Soar Toward Record Year

Issuance of bonds and loans from companies with speculative-grade credit ratings has already hit a one-year high



Cryptocurrency exchange Coinbase Global, which began trading on Nasdaq in the spring, sold junk bonds for the first time this past week.

PHOTO: MICHAEL NAGLE/BLOOMBERG NEWS

By Sebastian Pellejero

Sept. 19, 2021 5:33 am ET

The $3 trillion market for low-rated companies' debt is having its best year ever, powered by a rebounding economy and investors' demand for any extra yield.

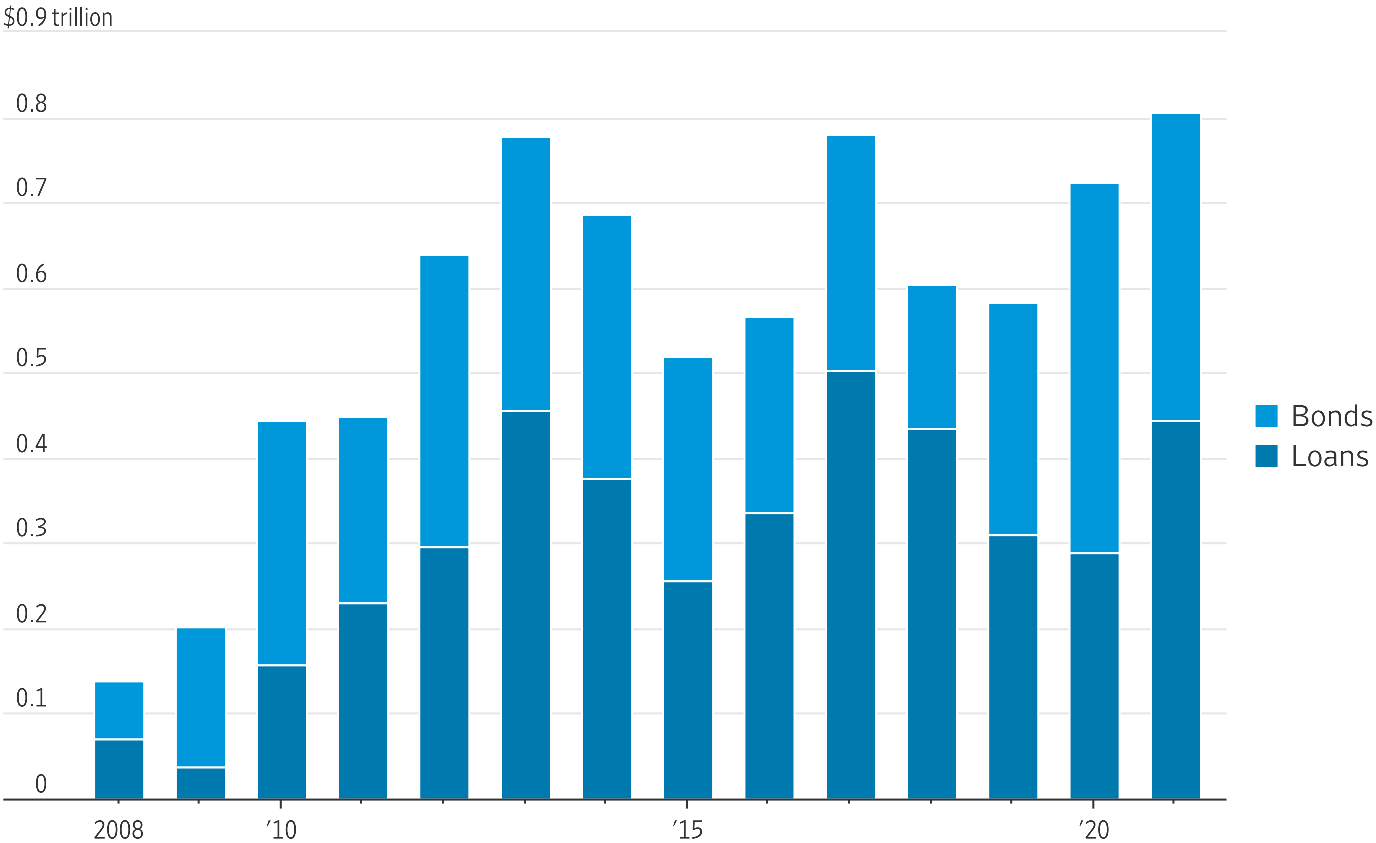
U.S. companies including Crocs Inc. CROX **-1.67%** ▼ and SeaWorld Entertainment Inc. SEAS **-1.10%** ▼ have sold more than $786 billion of junk-rated bonds and loans so far in 2021, according to S&P Global Market Intelligence's S&P. That tops the previous high for a full year in data going back to 2008.

The record issuance marks a notable rebound from March 2020, when investors' worries about widespread bankruptcies and defaults sent prices for low-rated debt slumping.

Now, low interest rates and a stimulus-fueled economic rebound that has supported companies with weaker credit ratings have boosted the appeal of riskier debt.

Junk bonds and so-called leveraged loans are typically issued by companies with significant debt relative to their earnings, making them more sensitive to the economy's trajectory. Economists surveyed by The Wall Street Journal expect the U.S. to grow around 6% this year and 3% in 2022.

Sales of junk bonds and leveraged loans, yearly



Note: 2021 data are as of Sept. 14
Source: S&P Global Market Intelligence's LCD

Analysts and investors expect bond and loan sales to each set full-year records. With rates low, companies are taking advantage of investors' demand to refinance higher-cost debt, lowering their interest costs and pushing off repayment.

In the junk-bond market alone, U.S. companies have issued more than $361 billion of bonds with speculative-grade credit ratings through Sept. 14, according to S&P Global Market Intelligence's LCD. That is the second-most junk bonds ever sold in a single year and on pace to surpass 2020's $435 billion record, analysts say.

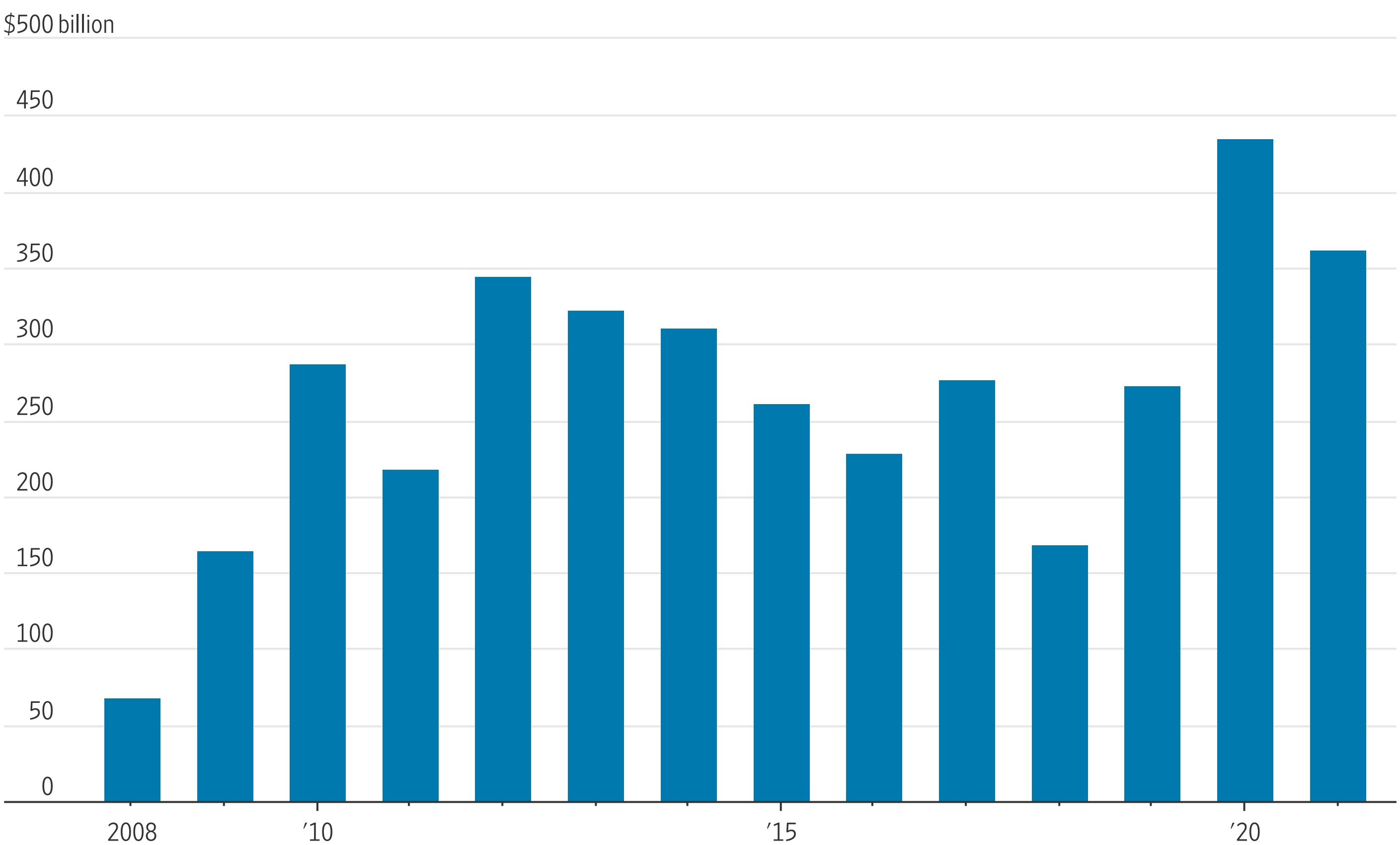
Even if U.S. growth has peaked, any expansion should still support junk bonds, said Mark Durbiano, senior portfolio manager and head of high yield at Federated Hermes, which manages more than $645 billion in assets. He is recommending that clients hold more junk bonds than benchmarks.

Mr. Durbiano's funds have targeted newly issued bonds with triple-C ratings—the lowest level before default—believing that some companies will see their ratings upgraded as the economy continues to recover.

"There are very strong and improving credit conditions," he said. "You've already seen it, and we think you're going to see it continue."

Junk bonds have returned more than 4.9% to investors this year through Wednesday, counting interest payments and price changes, according to LCD. Leveraged loans, which have interest rates that rise and fall with their benchmark, have returned 4.2%. Both beat the 0.05% total return on investment-grade corporate bonds and minus 1.4% for Treasurys. Triple-C-rated bonds have gained almost 10%.

Junk-bond sales, yearly



Note: 2021 data are as of Sept. 14
Source: S&P Global Market Intelligence's LCD

The rally in junk debt marks one sign of investors' retreating worries about the recent jump in inflation, which erodes the purchasing power of bonds' fixed payments and can drive the Federal Reserve to raise interest rates. The consumer-price index spiked above average yields on junk bonds earlier this year, upending the conventional logic of investing in bonds, which are typically prized for protecting investors' money.

The retreating worries have helped a record amount of new companies to enter the junk-bond market for the first time this year. Cryptocurrency exchange Coinbase Global Inc. COIN **0.81%** ▲ made its market debut this past week and excess purchase orders helped it borrow extra money while lowering its interest costs.

Other companies, sometimes backed by private-equity sponsors, are issuing low-rated bonds to pay for mergers and acquisitions, a key source of new market supply. ASP Unifrax Holdings Inc., a maker of specialty fiber products and inorganic materials owned by Clearlake Capital, sold $1.2 billion of single-B and triple-C-plus rated bonds this month to fund its purchase of Lydall Inc.

The company's lower-rated, $400 million note due 2029 recently traded at 104.250 cents on the dollar, implying a yield of 6.491%.

SHARE YOUR THOUGHTS

What is your outlook on junk bonds? Join the conversation below.

The extra yield, or spread, that investors demand to hold an ICE BofA index of junk bonds over Treasurys recently stood at 3.03 percentage points above Treasurys, when adjusted for options. That is just above this year's low of 3.02 percentage points hit in early July—the lowest level since July 2007.

Many companies have been using recent sales to extend the maturity on their debt, which lowers the yearly interest burden. The number of leveraged loans coming due between 2021 and 2023 fell to $56 billion, according to LCD, out of around $1.3 trillion outstanding. More than $80 billion of loan sales this year have been tied to deals meant to amend credit documents and extend maturities—the second-highest yearly total in data going back to 2012.

Signs that the pace of the U.S. economic recovery is slowing could still spark volatility in the near term, analysts said. Spreads tend to widen after economic growth and survey data peaks, according to a recent Deutsche Bank note.

Deutsche Bank analysts expect any short-term increase in junk-bond spreads to moderate by year-end and finish the year at 3.23 percentage points.

“This is still likely to be one of the lowest periods for spread volatility on record and will continue to help support the relative appeal of high yield to investors,” they wrote.

What's Happening in the Markets?

Analysis by finance reporters, selected by the editors

U.S. Stock Market Faces Risk of Bumpy Fall, Analysts Warn

Search for Yield Leads Bond Buyers to Unrated Debt

Stock Market Turns Cautious as ‘Defensive’ Shares Surge

Small-Cap Stocks May Be Pricier Than They Appear

Cash Is Flooding Into Short-Term Markets Like Never Before

Record Pace for Corporate Earnings Keeps Stocks Buoyant

Investors Are Betting That Inflation Won’t Last

Investors Are Buying American

Write to Sebastian Pellejero at sebastian.pellejero@wsj.com