Asset-price bubble well and truly burst. Now it's a waiting game

If last week's Primary Market Talk suggested investors might consider ploughing back into a market that had been showing signs of resisting the gloom, the accompanying caveat on timing ('potentially a bold call') played well against Monday's debacle.

No need to repeat Monday's extreme market moves; suffice it to say the price collapses were the first signs of markets turning disorderly as signs of fear, distress, horror, panic – choose your word – took over.

Market players just couldn't get over the coronavirus-oil combo. Coronavirus is serious. But on a global scale, it's worth pondering whether markets have succumbed to elements of hysteria. Analysts warning not just about a collapse in economic growth but a breakdown of law and order on the streets of Europe, the army on the streets (unless the military succumbs to mass contagion), national power outages, a breakdown of transportation, hand-to-hand combat to secure food and gasoline presumably played into base fears even if such eventualities are (hopefully …) at the outer edges of extreme.

As a healthcare Black Swan, faith in monetary policy to solve the situation always looked overdone. The US rate cut came and went. To little avail. Politicians now seem ever-more desperate for a co-ordinated fiscal response but what specific effects – even if such a thing can be achieved in short order – can governments hope to achieve while vaccines undergo clinical trials?

As for the oil price collapse, the impacts here are much more ambivalent and nuanced, given the massive benefits to energy consumers, be they companies or countries. Whether the positive impacts can offset the negative impacts of potential economic contraction is a tough call. The energy industry is a big employer in energy-producing countries, while producers need prices to stay at levels above where they went in Monday trade to stay solvent. That makes the depth of the fallout a question of time rather than immediate price action.

Regarding equity and bond prices, it's reasonable to ask: how long have elements of the financial markets been screaming that monetary conditions were doing nothing but causing massive asset-price inflation? And that at some point the bubble would burst and bring back a semblance of realism? For years.

As recently as mid-February, there were howls of protest that credit spreads had moved beyond anything reasonable on the returns spectrum against the (mainly macroeconomic) risks. Maybe this wasn't the context people envisaged for price rebalancing, but it was never going to go exactly to script. Prices nonetheless might look compelling here – if you don't buy the meltdown scenario.

Even in the depths of Monday's selling, there were signs that traders were looking to test the depth of conviction at the yield lows in US Treasuries. Monday may not have been day to probe too hard, but a bid will emerge. Last week's market was volatile, but even as fear was pervasive, a momentary let-up in the gloom showed that the bond market window can open very quickly for opportunistic borrowers.

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Two dozen North American high-grade corporate borrowers from a variety of industry sectors (petrochemicals, manufacturing, utilities, engineering, consumer goods, tech, mining) stormed the market between 3 and 5 March and raised almost USD 23bn – without appreciably paying up on credit spreads but benefiting from underlying US Treasury yields that were getting crushed. The World Bank priced a USD 3.5bn five-year on 5 March at MS+10bp and saw demand of more than USD 4bn from 80 investors.

Meanwhile, around a dozen bank and insurance companies sold almost USD 20bn of bonds. Among them chunky senior insurance trades from Cigna and Prudential Finance and a debut outing – a USD 4.25bn four-tranche senior and subordinated combo – from Truist Bank, the sixth largest bank in the US resulting from the merger of BB&T and SunTrust. Elsewhere, no surprise that in Europe, the focus (albeit scant) in the primary FIG sector was covered bonds.

Summary of FIG debt issuance 3 March to 9 March

EUROPEAN BANKING GROUPS

Commerzbank priced a EUR 1.25bn 10-year mortgage covered bond on 6 March at MS+8bp against a EUR 1.65bn book. The minimum size set ahead of marketing was EUR 1bn. Guidance emerged at MS+10bp.

Eika Boligkreditt priced its EUR 500m seven-year Norwegian covered bond on 5 March at MS+11bp, equivalent to a negative -0.237% yield. Books went above EUR 1.2bn Pricing came 1bp through revised guidance; initial guidance had been MS+15bp area.

Luminor Bank priced its no-grow EUR 500m five-year Estonian covered bond on 4 March at MS+25bp, with demand above EUR 1.6bn from more than 70 investors. Pricing came 5bp through MS+30bp area guidance.

Oma Savings Bank mandated underwriters on 4 March to arrange roadshows commencing on 9 March 2020 ahead of a potential euro-denominated sub-benchmark fixed-rate mortgage covered bond backed by prime Finnish residential mortgages.

NON-EUROPEAN GROUPS

US insurer **Aflac** priced a four-tranche JPY 57bn (roughly EUR 488m) senior unsecured offering. The trade was split into a JPY 12.4bn due Sept 2025 with a 0.30% yield (wide end of 0.28%-0.30% guidance); a JPY 13.3bn 10-year at 0.55% (wide end of 0.53%-0.55% guidance); a JPY 20.7bn 12-year at 0.75% (wide end of 0.73%-0.75% guidance) and a JPY 10.6bn 15-year at 0.83% (tight end of 0.83%-0.85% guidance). A 20-year (1%-1.02% guide) was dropped.

Bank of Montreal priced a USD 1.5bn three-year bail-in-able FRN on 5 March at SOFR+68bp. The issuer had gone into the market with a minimum USD 1.25bn deal.

Cigna priced a USD 3.5bn three-tranche senior unsecured bond on 4 March, split into a USD 1.5bn 10-year at T+142bp (the tight end of T+145bp +/-3bp guidance; IPTs +165bp area); a USD 750m 20-year at T+157bp (tight end of T+160bp +/-3bp guidance; +180bp IPTs) and a USD 1.25bn 30-year at T+177bp (the tight end of T+180bp +/-3bp guidance; +200bp IPTs).

Haitong Securities priced a USD 670m in five-year bonds on 5 March at a yield of 2.107% (T+142.5bp). Books closed above USD 4.4bn. Pricing was at the tight end of T+145bp +/-2.5bp final guidance. Initial guidance had been T+180bp area.

Key Bank sold a USD 700m in three-year senior unsecured on 5 Mar at T+65bp guidance. IPTs were T+85bp area.

Prudential Financial priced a three-tranche USD 1.5bn bond on 5 March split into three equally-sized tranches: a no-grow six-year green bond at T+90bp (tight end of T+95bp +/-5bp guidance; T+120bp area IPTs); a 10-year at T+120bp (tight end of T+125bp +/-5bp; T+150bp are IPTs) and a 20-year at T+145bp (tight end of T+150bp +/-5bp; T+175bp area IPTs). Some of the proceeds of the longer tranches may be used to refinance PFI medium-term notes maturing through 2021.

Standard Bank of South Africa priced its debut green bond on 2 March a USD 200m 2.875% 10-year private placement. The deal, Africa's largest green bond and South Africa's first offshore green bond, was placed exclusively with the IFC.

Truist Bank, the sixth largest US bank holding company (resulting from the merger of SunTrust and BB&T) printed a USD 4.25bn four-tranche co-mingled senior unsecured and subordinated deal on 4 March. The offering was split into three senior unsecured tranches (a USD 500m three-year FRN priced at SOFR+73bp; a USD 1.25bn three-year fixed-rate at T+58bp; a USD 1.25bn five-year fixed at T+78bp) and a USD 1.25bn subordinated 10-year at T+123bp. All tranches priced at the tight ends of respective guidance ranges (which were set at +/-2bp). The FRN had emerged with IPTs of +97bp area; the three-year fixed at T+180bp area; the five-year at T+100bp area; the subordinated tranche at T+150bp area.

(Source for raw bond data: Bond Radar (www.bondradar.com); bank and media sources

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