30 April 2015

# European High-Yield Bond Market Q1 2015 Wrap-up

**Special Comment**

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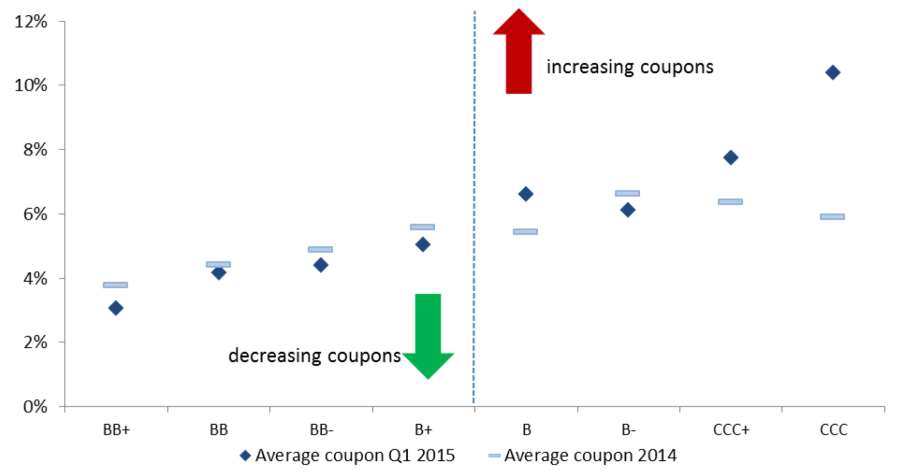
## High-yield bond market recovers in Q1 2015

High-yield bond issuance activities picked up significantly compared to Q4 2014 (+102% qoq), though lagging behind Q1 2014 volumes at EUR 25bn (-12% yoy). The high level of activity was bolstered by positive European macroeconomic developments and the ECB's quantitative-easing policy.

The market for European high-yield bonds has set a new record on the supply side with average maturities exceeding eight years. Moreover, American issuers have tapped the European high-yield market in increasing numbers, contributing 10% of the overall issued bond volume to become the fourth-largest issuer group.

More remarkably, Scope notes the continuing trend of higher investor scrutiny. While Scope sees that the average credit quality of issuers has improved to BB- (up from B on average in 2014), credit spreads continue to diverge, narrowing for higher-rated issuances and widening on the other end of the rating scale.

**Increasing credit-spread divergence between rating categories**




Source: Scope Ratings, Bloomberg, AFME

Scope states: issuance activities are all about yield. While corporates tend to lock in long-term maturities to benefit from the low interest-rate environment, investors are taking full advantage of the large supply of transactions, assuaging their appetite for yield by making loans to more stable corporates.

## Outlook

Scope expects liquidity in the European high-yield bond market to remain high due to the ECB's decision to embark on quantitative easing. However, investors are likely to determine the rules in the market.


### Analysts

**Robin Rouger**

+49 (0)30 27891-147

r.rouger@scoperatings.com

**Sebastian Zank, CFA**

+49 (0)30 27891-225

s.zank@scoperatings.com

### Business Development

**Dr Stefan Keller**

+49 (0)30 27891-240

s.keller@scoperatings.com

### Press

**Andre Fischer**

+49 (0)30 27891-150

a.fischer@scoperatings.com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### Scope Ratings AG

Lennéstraße 5

10785 Berlin

Phone +49 (0)30 27891-0

Fax +49(0)30 27891-100

Service +49(0)30 27891-300

info@scoperatings.com

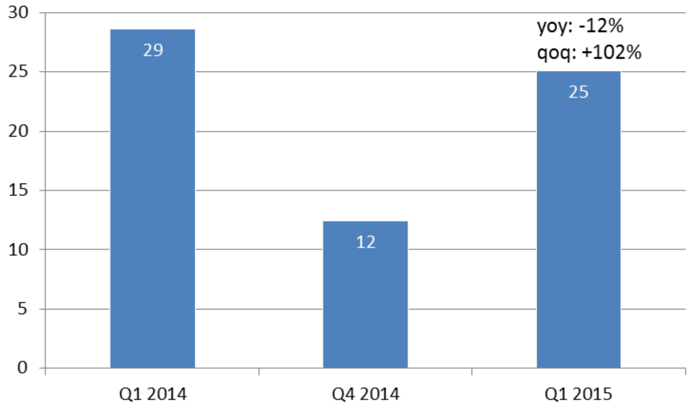
**www.scoperatings.com**

## Issuance volume below Quarter 1 2014 volume

**Issuance volume is close to, but below, Q1 2014**

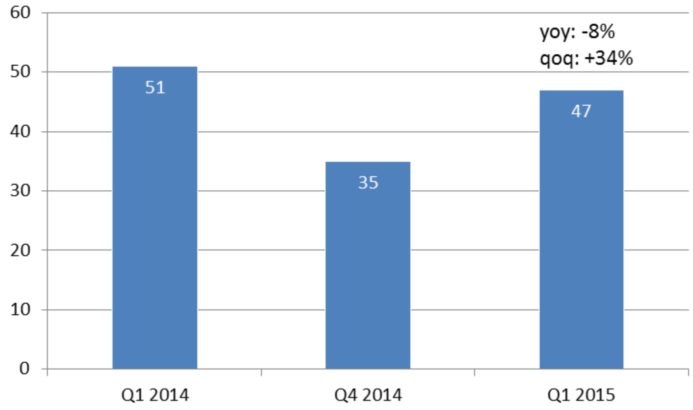
While the issuance volume of European high-yield bonds in Q1 2015 could not catch up with Q1 2014 records, the market has picked up strongly against a lame Q4 2014. With an issued bond volume of EUR 25bn, new Q1 2015 issuances were double those of the previous quarter (Q4 2014: EUR 12.4bn). Though no new records were set, the quarter-on-quarter increase is strongly related to fading macroeconomic uncertainties in Europe, intentions to finance mergers and acquisitions, as well as favourable interest-rate developments for bond issuers based in the United States.

**Figure 1: Issuance volume: yoy and qoq (EUR bn)**




Source: Scope Ratings, Bloomberg, AFME

**Figure 2: Number of issuances**



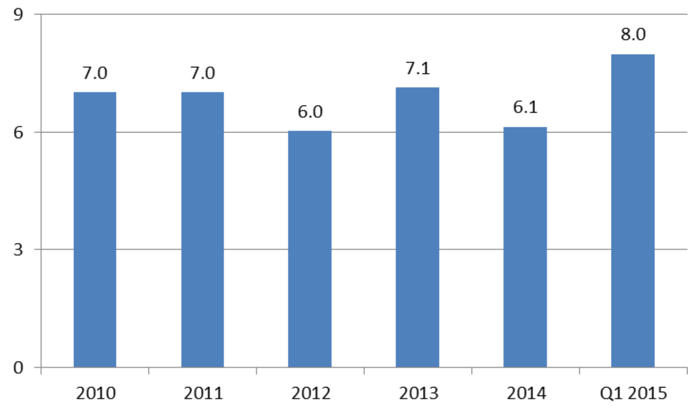

Source: Scope Ratings, Bloomberg, AFME

## New records on maturities and credit quality

**New record average maturity of eight years**

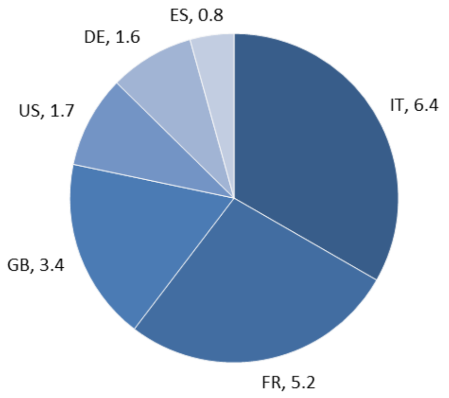
Moreover, the trend towards longer maturities further stabilised with a record average length of eight years (see figure 3), thereby taking advantage of low interest rates and the healthy investor appetite for fixed income. Given the current interest-rate environment, Scope believes placements are easier for longer-term high-yield bonds. However, the longer maturities may increase refinancing risks if the interest-rate environment changes significantly after 2020.

**Figure 3: New record of average maturity**




Source: Scope Ratings, Bloomberg, AFME

**Figure 4: High-yield issuance by issuer country (EUR bn)**




Source: Scope Ratings

**American issuers rank fourth among issuers**

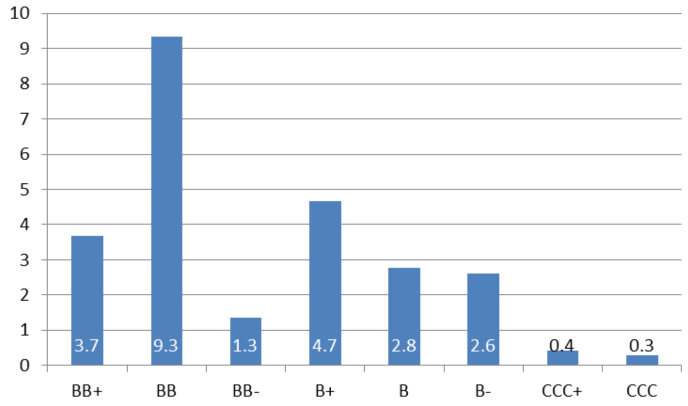
Italian, French and British companies led the recovery. However, American companies, as the fourth-largest country issuer group, have strongly backed the quarter-on-quarter recovery and benefited from the favourable interest-rate environment in Europe.

### It's all about yield

With investors having the full choice of new high-yield bond issuances, the trend for issuances from higher-rated entities strengthens. This trend may have been in place since H2 2014. The Q1 2015 median rating of European high-yield issuers now stands at BB- (up from B on average in 2014), signalling heightened investor scrutiny and selectivity.

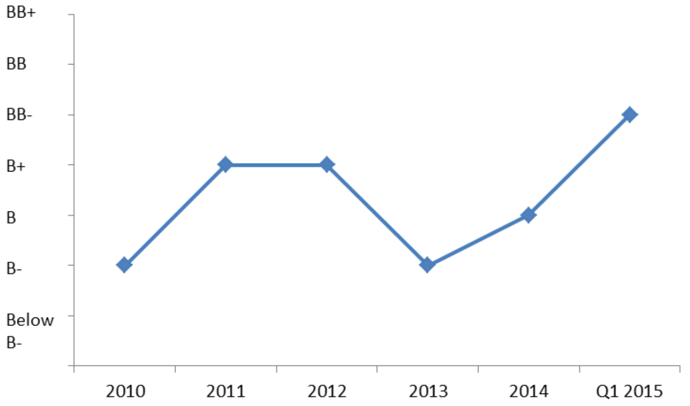
Moreover, Scope recognises an increased divergence of coupons. Compared to FY 2014, credit spreads are narrowing among entities rated B+ to BB+ and widening on the lower-rated entities (see the figure on the first page). Hence, as investor behaviour is all about yield, lower-rated issuers need to entice investors to take the risk. Scope believes that this trend should persist over the next few quarters with investors focusing on the large supply of debt offerings from more financially robust corporates.

**Figure 5: Amount issued by rating category (EUR bn)**




Source: Scope Ratings, Bloomberg

**Figure 6: Average rating of issued bonds**




Source: Scope Ratings, Bloomberg

## Scope Ratings AG

Lennéstraße 5
10785 Berlin

T: +49 (0)30 27891-0
F: +49 (0)30 27891-100
Service: +49 (0)30 27891-300

The Gridiron Building, 8th floor
One Pancras Square, London N1C 4AG
T: +44 203 714 4980

info@scoperatings.com
**www.scoperatings.com**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