Bond investors suffer supply indigestion as flow continues amid poor macro signals

The bond market remains in pretty good shape and issuers continue actively to tap the market up and down the ratings and capital spectrum. Over-subscription levels this past week were a little more muted than in recent weeks, and the upbeat mood was a tad spoiled owing to macro and technical concerns.

Nonetheless, another USD 170bn or so of primary issuance emerged this past week amid dire predictions about the global economy. Around 60% was from corporates. Geographically, Europe and the US shared the bulk of the activity; Asia-Pacific was once again a rounding error.

Almost 20% of corporate supply was from sub-investment-grade or crossover names, despite worrying predictions about a spike in corporate defaults down the line. HY issuance was mainly from the US and from multiple industry sectors. Once again, it included companies in the front line of Covid distress.

Royal Caribbean Cruises raised USD 3.332bn, split into USD 1bn in three-year and USD 2.32bn in 5NC2 secured notes offering chunky yields of 11.673% and 12.314% respectively. Notes and related guarantees are secured by 28 of the company's vessels and intellectual property. The company will use proceeds to repay its USD 2.35bn 364-day senior secured term loan entered into on March 23; the rest will support its liquidity position.

Viking Cruises paid a 13% yield on its USD 675m five-year senior notes, also secured on vessels. Net proceeds, after funding the repayment of USD 74m of existing debt and accrued interest on some of its river vessels, will be used for general corporate purposes.

Not all issues are crossing the line, though: South African paper company Sappi pulled its EUR 250m high-yield offering on 15 May, citing unsatisfactory market conditions, while United Airlines pulled its USD 2.25bn secured bond a week earlier. Proceeds had been earmarked to repay a USD 2bn term loan entered into on March 9.

The factor that’s causing a little anxiety is a general one about a second wave of Covid-19 infections as economies come out of lockdown, and fears of a second lockdown that would have an even more serious economic impact. Investors are also a little agitated by talk of another market correction: some analysts believe the post-March recovery has happened too quickly. HY spreads, for example, have come in 300bp-400bp from the 1,000bp+ levels of late March.

The sheer amount of issuance is causing some indigestion as investors struggle to keep up with the pace of corporate fund-raising activity.

On the plus side, IG and HY credit flows continue to be positive. Notably, the US Fed initiated its Secondary Market Corporate Credit Facility this week, with a tentative purchase of USD 305m of corporate bond ETFs, according to a statistical release. The sense is that the Fed will carefully test the impact of its purchases before jumping in with both feet and potentially distorting the market. That is, avoid any more distortion of the market than the announcement of its purchase programmes has already caused.

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Covid-19 bonds continue to roll off the production line. French unemployment insurance agency UNEDIC was in the market on 15 May with a EUR 4bn six-year social bond. Guided to OAT+40bp, pricing was revised to +38bp area and the spread was fixed at OAT+36bp as over EUR 7.75bn of orders flooded into the book in marketing. The government agency has increased its 2020 funding programme to EUR 13bn in light of Covid-19. All of its bonds will henceforth be issued in labelled social bond format aligned with the Social Bond Principles.

In a rare outing by a private sector issuer, Bank of America priced a USD 1bn 4NC3 fixed-to-floating Covid-19 bond on 14 May to finance/refinance eligible social investments. These will include amounts funded under new and existing loans and lines of credit to the bank's Global Commercial Banking clients; clients the bank says it reasonably believes to be or to have been involved in activities in response to the Covid-19 pandemic in not-for-profit hospitals, skilled nursing facilities, healthcare equipment or healthcare supplies.

Bank of Ireland priced the first European bank AT1 since before the C-19 crisis. The EUR 675m offering priced with a yield of 7.50%, equivalent to a spread of MS+792.4bp. Proceeds are earmarked to refinance an outstanding AT1 whose call date falls in June. In the US, deeply subordinated hybrid supply came from BNY Mellon (USD 1bn at a yield of 4.70%) and First Midwest Bancorp (USD 100m at a 7% yield). Deutsche Bank kept the Tier 2 gates open with a EUR 1.25bn 11NC6 that sold at MS+600bp guidance (5.727% yield).

Summary of FIG debt issuance 7 May to 15 May (15:00 CET)

Allianz SE pushed out IPTs of MS+250bp area for its EUR 1bn long 30NC10 on the morning of 15 May. Demand had reached EUR 2.1bn by the end of the morning session. Guidance was tightened to MS+230bp +/-2bp and the spread was fixed at the tight end.

Aon Global Holdings priced a USD 1bn senior unsecured offering on 12 May at a yield of 2.804%, equivalent to T+212.5bp. Pricing came at the tight end of T+215bp +/-2.5bp guidance. IPTs were T+240bp.

Bank of America priced a no-grow USD 1bn 4NC3 fixed-to-FRN issue due senior unsecured Covid-19 bond on 14 May at T+130bp, the tight end of T+130bp +/-2bp guidance. IPTs were T+145bp area. The back end rate will be compounded SOFR+146bp.

Bank of Ireland priced a EUR 675m PNC5.5 fixed-rate reset contingent temporary write-down AT1 on 14 May at a yield of 7.50%, equivalent to a spread of MS+792.4bp. Proceeds are intended to refinance an outstanding AT1 (the 7.375s callable in June).

Barclays plc put out IPTs of G+400bp area on the morning of 15 May for an expected GBP 500m 10.5NC5.5 Tier 2. Pricing tightened into guidance of G+375bp-380bp WPIR.

BNY Mellon priced its USD 1bn PNC5 series G fixed-rate reset non-cumulative preferred stock offering on 12 May at a yield of 4.70%. IPTs were 5.25% area.

Citigroup priced a USD 1.5bn green 15NC13 fixed-to-floating senior unsecured bond on 7 May at T+150bp.

Credit Suisse priced a EUR 1.5bn offering of two-year senior unsecured opco FRNs on 12 May at 3mE+95bp guidance. Demand reached above EUR 2.1bn. IPTs were 3mE+115bp area.
On the same day, the bank also priced a no-grow EUR 500m five-year senior unsecured green bond at MS+80bp, the tight end of MS+85bp +/-5bp guidance. Demand was above EUR2.8bn at closing, having reached EUR 3.25bn in marketing. IPTs were MS+115bp area.

Deutsche Bank priced its EUR 1.25bn 11NC6 Tier 2 at MS+600bp guidance, equivalent to a yield of 5.727% at the 99.494 reoffer. Books closed at EUR 2.2bn. IPTs had been MS+625bp area.

First American Financial Corp priced a USD 300m senior unsecured offering on 8 May at T+337.5bp IPTs.

First Midwest Bancorp priced a USD 100m PNC5 fixed-rate non-cumulative preferred stock offering on 13 May at 7% yield, which is where IPTs started. The deal was downsized from USD 150m.

HSBC Canada priced its USD 1bn three-year Canadian covered bond backed by prime Canadian residential mortgages on 13 May at MS+72bp. Books closed at USD 2.25bn. IPTs were MS+80bp, revised too MS+75bp area.

Hypo Noe Landesbank für Niederösterreich und Wien priced a EUR 500m seven-year mortgage covered bond on 12 May at MS+19bp, the tight end of MS+20bp +/-1bp WPIR revised guidance. Initial guidance was MS+25bp area. The final book of demand was above EUR2.6bn at reoffer.

Lincoln National priced a dual-tranche senior note on 8 May split into a USD 500m long 10-year at T+275bp (IPTs were T+300bp area) and a USD 300m 30-year at T+300bp (IPTs T+325bp area).

Manulife Financial priced a USD 500m offering of 10-year senior unsecured notes on 14 May at T+200bp. IPTs were T+230bp area.

NatWest Markets priced a USD 1bn three-year senior unsecured on 14 May at T+230bp. IPTs were T+240bp area.

Regions Financial Corp priced a USD 750m five-year senior holdco note on 13 May at T+200bp guidance. IPTs were T+235bp area.

Skandinaviska Enskilda Banken priced a EUR 1bn three-year senior preferred note on 11 May at MS+68bp, the tight end of MS+70bp +/-2bp WPIR guidance. The final book was over EUR 2bn. IPTs were MS+95bp area.

Springleaf Finance Corp (guaranteed by OneMain Holdings) priced a USD 600m 5NC2 senior unsecured note on 12 May at T+851bp, for an 8.872% yield. Yield price talk had been 9% area.

Stifel Financial priced a USD 400m 10-year senior unsecured note on 13 May at T+345bp, the tight end of T+350bp +/-5bp guidance. The deal was upsized from USD 300m. IPTs went out at T+375bp area.

US Bancorp priced a USD 1.5bn five-year senior unsecured note on 8 May at T+115bp. IPTs wee T+135bp area.

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

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