Hybrid and subordinated FIG market reopens after heavy sell-off

Another shortened week (Friday a public holiday in parts of Europe) saw another packed agenda for the capital markets. New debt issuance continued the pace of recent weeks; roughly USD 125bn by mid-Thursday morning in London. After April's monthly volume record, the May backdrop is looking positive. The central bank backstop bid and continued investment-grade and high-yield fund inflows are offering supportive technicals.

The flow of IG corporates continued, while the FIG sector saw a little more life than in recent weeks. Half a dozen European banks (Danske Bank, Erste Bank, Helaba, Nordea, OP Corporate Bank and SBAB Bank) raised an aggregate EUR 6bn, albeit playing it safe in senior preferred format.

Most deals coming to the market across the spectrum of borrower segments have looked fine, although a few have been a little sticky in marketing and not all issuers have been able to breeze through initial pricing thoughts.

The big news in FIG capital markets was the re-opening of AT1 and Tier 2 markets. "Next up: sub-debt and hybrids", a mid-April social media post had said following an earlier edition of Primary Market Talk, when a trio of French banks had sold senior non-preferred debt. Investors were giving every indication then that they were prepared to brush off Covid-19 volatility and go down the capital structure to book yield.

In the event, it took no more than a couple of weeks after that for the AT1 market to re-open. QBE Insurance tapped the market for USD 500m on 5 May with a PNC5 fixed-rate resetting Yankee. That was the first AT1 since the crisis began (although Charles Schwab's USD 2.5bn PNC5 non-cumulative preferred stock offering on 27 April technically takes the plaudits as the first deeply subordinated FIG deal since the crisis).

QBE's bonds, said to have been well oversubscribed, priced at a 5.875% yield, way through initial thoughts of 6.50% area. The issue confirmed the rehabilitation of hybrid debt, which has been bouncing back in secondaries in recent weeks after massively selling off in the extreme market volatility of late March. QBE's offering came in the wake of the insurer's USD 750m mid-April institutional equity placement.

The day after QBE priced its AT1, Royal Bank of Scotland Group priced a GBP 1bn 10.25NC5 Tier 2 at G+355bp with demand exceeding GBP 5.5bn. The depth of demand enabled leads to push pricing through G+365bp area guidance, having started out with IPTs of G+400bp area. In the US market, meanwhile, TCF Financial, the Detroit-based bank holding company, priced a USD 150m offering of 10NC5 fixed-to-floating subordinated notes on 1 May at a yield of 5.50%.

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Elsewhere, the granting by Germany's Federal Constitutional Court of several complaints against the ECB's EUR 2trn Public Sector Purchase Programme (PSPP) around the principle of proportionality generated excited media headlines mid-week about Germany's participation in quantitative easing. Media coverage naturally included the customary questioning of what this might mean for euro area stability (no answers forthcoming, of course).

Bund yields initially rose on the highly technical legal news (which has deeply political nuances) and BTP spreads widened. But in truth the moves were not sharp and the market moved on pretty quickly to other things. While the court ruling concerns only the PSPP, media speculation inevitably spread to whether this might affect other ECB asset-purchase programmes, including the PEPP.

For the capital markets, the bigger Germany news came in the form of the EUR 35.5bn of demand the Federal Republic received for its EUR 7.5bn 15-year syndicated sovereign bond (EUR 500m of which is being retained). Investor reaction was nowhere near as frenzied as in recent issues from higher-yielding Spain and Italy, but the market nonetheless deemed the exercise a success. The debt office probably did well to exercise pricing restraint, printing at 22bp over the February 2030 Bund, just 2bp through +24bp guidance. At that point, the deal was said to have offered a small concession, which was put down to paying up for size.

The Covid-19 bond train continues to roll. Instituto de Crédito Oficial, the Spanish government agency, priced a EUR 500m four-year Covid-19 social bond on 6 May at 14bp over the sovereign curve, the tight end of +16bp +/-2bp guidance as more than EUR 3.5bn of orders came in. Proceeds will be allocated to projects that mitigate the economic and social impacts of the pandemic in Spain.

The World Bank was also back, pushing out pricing guidance of MS+35bp for a benchmark 10-year bond linked to UN Sustainable Development Goal #3: Good Health & Well-Being. Latin American multilateral development bank Corporación Andina de Fomento, meanwhile, pushed out IPTs/guidance of MS+220bp on a benchmark three-year bond, proceeds of which will partially finance a Covid-19-related emergency credit line to help its shareholder countries tackle the pandemic.

In corporate news, there was steady flow of big IG names tapping the market in size; Apple Inc topping the list for size (USD 8bn). But investors, emboldened by Fed bond-buying, also showed themselves open to buying high-yield supply as well as bonds from companies in sectors badly affected by the Covid-19 crisis. As mentioned in last week's Primary Market Talk, corporates in distressed sectors are actively seeking access to capital across market segments.

Case in point: Norwegian Cruise Line Holdings secured USD 2.225bn of liquidity (USD 2.4bn if underwriters exercise over-allotment options) in four transactions: a USD 400m common stock offering (upsized from USD 350m); a USD 400m investment from private equity firm L Catterton; a USD 750m 6% four-year convertible (upsized from USD 650m), and USD 675m of four-year senior secured notes (upsized from USD 600m).

To get the senior secured bonds over the line, Norwegian priced them to yield an eye-watering 12.575%, equivalent to a spread of T+1226bp. And that was with the security of first-priority interests in shares of capital stock in certain subsidiary guarantors, two of the company's vessels, material intellectual property and two islands it uses in its cruise business. The notes are guaranteed by subsidiaries that own the property securing the notes (and also by subsidiaries whose assets will not secure the notes).

This was a clear case of doing what needs to be done to get money in the bank. With these facilities, the company said it expects to have roughly USD 3.5bn of liquidity; sufficient, it said, to withstand well over 12 months of voyage suspensions.

In similar vein, car rentals company Avis Budget Group's USD 500m of 10.5% 5NC2 senior secured notes (upsized from USD 400m) sold at a reoffer of 97 to yield 11.297%, equivalent to T+1,092bp. The offering came in the wake of a waiver of the leverage covenant the company obtained on 27 April in its existing senior credit facilities (a term loan and revolving credit facility) until 30 June 2021. The waiver was included in an amendment to the credit facilities, which allowed the company to incur an additional USD 750m of first-lien debt.

Marriott International was back in the market on 6 May with a USD 500m 5NC2 offering of senior secured bonds with an equity clawback of up to 40% plus coupon for two years. The bonds priced at a 6.125% yield (price talk was 6.25% area). The company additionally raised USD 920m by signing amendments to its existing co-brand credit card agreements – USD 570m from JPMorgan Chase, USD 350m from American Express. The hotels group said it had terminated its USD 1.5bn 364-day revolving credit facility announced on April 14 because the capacity of that facility was substantially reduced as a result of its USD 1.6bn offering of senior notes on 16 April.

In the battered airline sector, United Airlines followed peers Delta Airlines and Southwest Airlines into the market, with a dual-tranche USD 2.25bn secured offering split into three and five-year lines. United's bonds will be secured initially by first-priority security interests in a designated pool of 360 aircraft it owns. The airline said it intends to use net proceeds to repay USD 2bn in aggregate principal outstanding under the term loan facility it entered into on March 9.

Summary of FIG debt issuance 30 April to 7 May(12:00 CET)

AIG priced a USD 4.1bn three-tranche senior unsecured offering on 6 May split into a USD 1.5bn five-year at T+215bp (IPTs T+240bp area); a USD 1.6bn 10-year at T+270bp (IPTs T+285bp area); and a USD 1bn 30-year at T+300bp. All tranches priced at guidance, but guidance for the 30s was the same level as IPTs.

Bank of Queensland priced an AUD 750m five-year conditional pass-through (CPT) Australian residential mortgage covered bond on 7 May, its debut, at 3mBBSW+107bp.

Barclays Bank priced a USD 1.75bn offering of two-year senior opco notes on 5 May at T+155bp guidance. IPTs were T+200bp area.

Capital One priced a USD 2bn senior unsecured bond on 6 May split into a USD 1bn three-year at T+237bp (IPTs T+270bp area) and a USD 1bn seven-year at T+310bp (same level as IPTs).

Danske Bank sold EUR 1bn in five-year senior preferred notes on 5 May at MS+103bp; books closed above EUR 1.8bn. Guidance was MS+105bp; IPTs were MS+125bp-130bp.

Erste Bank Group priced a EUR 750m seven-year senior preferred note on 6 May at MS+115bp. Book closed over EUR 2.2bn at reoffer. Pricing came at the tight end of MS+120bp-125bp guidance. IPTs were MS+145bp area.

HSBC Bank Canada put out IPTs of MS+80bp area on May 7 for a benchmark three-year US dollar Canadian covered bond, backed by prime Canadian residential mortgages. By 09:00 London time Thursday, orders of USD 1.25bn had come into the book.

JP Morgan priced a USD 3bn 11NC10 fixed-to-floating senior unsecured offering on 6 May at T+225bp, the tight end of T+230bp +/-5bp guidance. IPTS were T+275bp area. The deal has a SOFR back end.

Landesbank Hessen-Thüringen (Helaba) sold EUR 1.5bn in five-year senior preferred notes on 5 May at MS+80bp guidance. Books closed above EUR 2.2bn. IPTs were MS+100bp area.

Marsh & McLennan priced a USD 750m 10-year bond on 4 May at T+170bp. The deal was upsized from USD 600m. IPTs were T+200bp area.

New York Life Insurance Co sold USD 650m in three-year funding agreement-backed notes on 4 May at T+87bp. IPTs were T+120bp area.

Nordea priced a EUR 1.25bn seven-year senior preferred note on 6 May at MS+85bp. Demand reached above EUR 2bn. IPTs were MS+110bp area.

OP Corporate Bank priced EUR 1bn in five-year senior preferred notes on 5 May at MS+85bp guidance. Books reached above EUR 1.5bn. IPTs were MS+105bp area.

Indonesia's largest bank, **PT Bank Mandiri** (Persero) priced a USD 500m five-year senior unsecured offering on 6 May at T+455bp, books reaching USD 2.4bn from 167 accounts. Initial guidance was T+490bp area.

Qatar National Bank priced a USD 1bn five-year senior unsecured offering on 5 May at MS+225bp with orders of USD 3.8bn from over 260 accounts. IPTs were MS+260bp area.

QBE Insurance Group priced a USD 500m offering of PNC5 fixed rate resetting AT1 at a 5.875% yield. IPTs were 6.50% area.

The **Royal Bank of Scotland** Group priced a GBP 1bn 10.25NC5 Tier 2 on 6 May at G+355bp, equivalent to a yield of 3.623%. Books closed above GBP 5.5bn. IPTs emerged at G+400bp area, tightened to guidance of G+365bp area.

Swedish State-owned **SBAB Bank** priced its no-grow debut senior preferred green bond, a EUR 500m five-year, at MS+90bp. Books closed at over EUR2bn. IPTs were MS+115bp-120bp.

TCF Financial, the Detroit-based bank holding company, priced a USD 150m offering of 10NC5 fixed-to-floating subordinated notes on 1 May at a yield of 5.50%, the same level as IPTs.

Teachers Insurance Annuity Association of America (TIAA) sold USD 1 .25bn in 30-year surplus notes on 4 May at T+200bp guidance. IPTs were T+225bp area.

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

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