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Corporate Bond Market Booms, a Bright Sign for U.S. Economy

Corporate-debt issuance heads for another record year as sales rebound after summer lull

Microsoft Corp. issued $13 billion in bonds last week, and opened this store on New York's Fifth Avenue.
PHOTO: STEPHANIE KEITH/BLOOMBERG NEWS

By MIKE CHERNEY

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The bond market is booming again, a sign of investors' faith in the resilience of the U.S. economy.

U.S. bond sales by companies with good credit ratings hit $103 billion in October, a record for the month, according to deal tracker Dealogic. Corporate-bond sales in the U.S. are on track for their fourth straight annual record, according to data from the Securities Industry and Financial Markets Association.

Many analysts say they expect bond sales to continue at a vigorous pace through the end of the year, reflecting steady economic growth, pent-up investor demand following a late-summer slowdown in bond issuance, and efforts by corporate treasurers to lock in low interest rates before a possible Federal Reserve interest-rate increase in December.

Microsoft Corp. sold $13 billion in new bonds on Thursday, a day after the Fed said it might raise rates this year for the first time since 2006. Earlier in the week, insurer ACE Ltd. sold $5.3 billion and Nike Inc. sold $1 billion, its first debt sale in more than two years. Oil-field services giant Halliburton Co. is planning a large bond sale that could hit the market as early as this week.

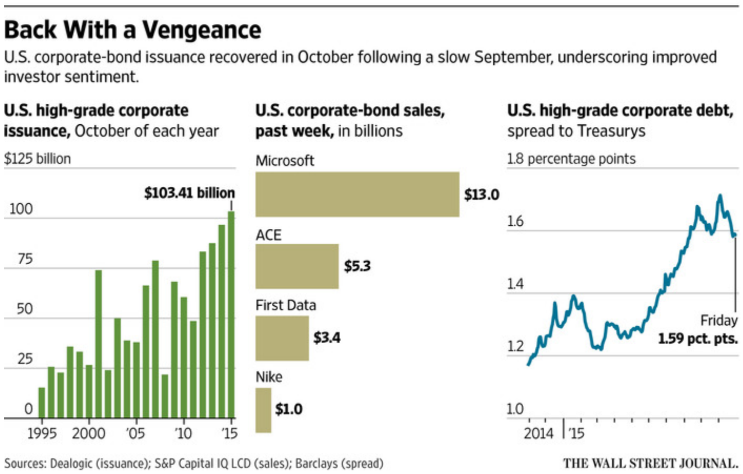
The gap in yields between highly rated corporate bonds and benchmark Treasurys had fallen from 1.71 percentage points at the beginning of October to 1.59 percentage points as of Friday, according to Barclays data. A smaller spread means buyers are willing to accept lower interest payments relative to Treasurys to own corporate bonds, and suggests investors perceive that default and other risks are falling. High-grade corporate bonds yielded 3.22% as of Friday, according to the S&P U.S. Investment Grade Corporate Bond Index.

Overall, high-grade U.S. corporate bonds have returned 0.32% this year, a figure that includes price changes and interest payments, according to Barclays.

Even some riskier companies are finding strong demand. Payment-technology company First Data Corp. , which carries ratings in the “junk” category, said on Friday that it sold $3.4 billion in bonds with a 7% interest rate, after preparing to sell just $750 million.

The bond market’s bounceback is a positive sign for a U.S. economy that was perceived to have lost some momentum in the second half of 2015. U.S. economic growth cooled in the third quarter, and job gains have slowed, but the economy appears to be plodding along despite a sharp slowdown in emerging markets.

Corporate bonds are a “better leading indicator for the economy than most of the other market metrics out there,” said Gene Tannuzzo, who helps oversee the $2.3 billion Columbia Strategic Income Fund. “If we see a nice rebound, that will tell you that the economy is in an OK spot.”



Risk appetite has recovered from a late-summer swoon that swept markets and sharply reduced bond sales in September. U.S. stock indexes are again up this year after deep declines late this summer.

Investment-grade companies sold $105 billion in September, down roughly 23% from a year earlier and the lowest figure for September since 2011, according to Dealogic. September is typically a much stronger month for debt issuance than October, as investors and bankers return from summer vacations.

The slowdown in debt deals highlighted growing worries that corporate financial health has already peaked and that the credit cycle—the ease with which companies can borrow money—could be in its latter stages, presaging an economic downturn.

“When nothing is happening in major parts of the market, that’s when you worry,” said Mark Bamford, global head of fixed income syndicate at Barclays.

For the bond market, September was “unique in that we hadn’t had a period where access was questioned,” said Andrew Karp, co-head of Americas investment-grade capital markets at Bank of America Merrill Lynch.

Johnson & Johnson, one of the few companies that maintain a pristine triple-A credit rating, plans to finance a $10 billion share-repurchase program with new debt.

Other companies are also laying the groundwork for debt issuance.

“We will be adding debt to the balance sheet,” Tony Tripeny, chief financial officer at glassmaker Corning Inc., said on a conference call Tuesday, according to a transcript from FactSet. He didn’t give an exact time frame but said it would be “over the next few years.”

There are still some signs that the credit cycle may be peaking. Defaults on junk-rated companies are expected to increase, and more companies are getting downgraded by credit-rating firms. Corporate executives are pursuing more acquisitions amid difficulty finding revenue growth, which could mean bigger debt loads for some companies down the road.

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