HIGH YIELD ISSUANCE BOUNCES BACK

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Issuance in the European High Yield primary bond market has sprung back to life this month. This could help to temper the strong technical factors that dominated the market over the summer.

Since late June, expectations that major central banks will stay accommodative for longer, and possibly even ease monetary policy further, have fueled a global search for yield. This has driven inflows into the asset class at a time when there was very little new bond issuance, which is typical of the summer months. As a result, spreads have tightened significantly and yields have compressed. The triple-C rated segment of the market, which tightened almost 300 basis points in August, illustrates this point. If the recent pick-up in issuance activity had not occurred to dampen these technical factors, valuations could have begun to get stretched. Given this, the activity so far this month has been encouraging.

A flurry of new bond deals have been brought to the market. Supply has been met with robust demand and several deals have been upsized. In contrast to the first half of the year, when double B-rated issuers dominated supply, so far in September new issuance has come from across the ratings spectrum. Even a bout of volatility in broader financial markets has failed to derail supply.

From our perspective, new issues present potential opportunities. But credit intensive research is required to identify the successful stories and, just as importantly, the companies to be avoided. Our dedicated analysts conduct their own bottom-up research, looking at a range of factors including a company's cash flow and management structure. The issuer's maturity and liquidity profile are also evaluated, alongside its full capital structure. We also meet with company management teams to carry out further due diligence. All of these areas are analysed in order to get a full picture of a company and the potential risks/rewards involved from investing.

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