

Weekly Briefing

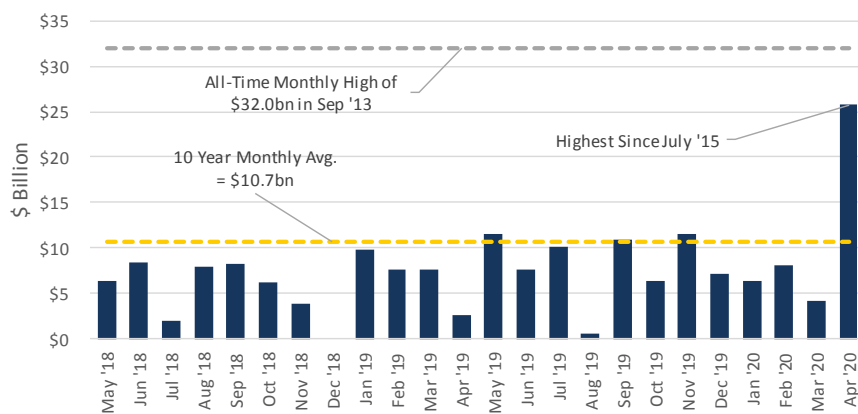
SKYView: New Issuance

Coronavirus-induced uncertainty, fund outflows and an influx of fallen angel paper into high yield dramatically stifled the primary market in March. In fact, gross high yield issuance in March declined to \$4.2bn, the lowest level recorded since December '18 (no new deals came to the market amidst a government shutdown and rising trade war tensions between the US and China). Issuance recovered, however, in April, with over \$33bn of new deals pricing. In this *Weekly Briefing*, we examine trends in the new issue market and estimate premiums being offered to incentivize participation in recent deals.

At the time of writing, April net issuance had already surpassed the \$25bn mark (> \$33bn gross), representing the strongest month since July '15, and well above the \$10.7bn monthly average over the trailing-10-year period. Bolstered by a supportive Fed and peaking COVID-19 death rates, market sentiment has continued to improve since the most recent risk asset trough (March 23). This, combined with healthy portfolio manager cash balances, set the stage for a rise in new issuance, the bulk of which was used to shore up balance sheets.

US High Yield Market Net New Issuance on the Rise in April

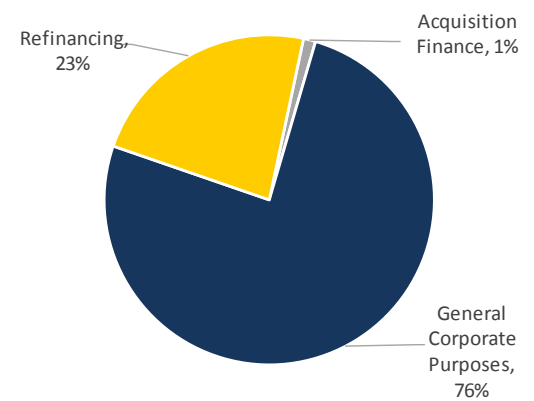
monthly data, last 12 months



Source: SKY Harbor, JP Morgan

Issuance Primarily to Bolster Liquidity Position

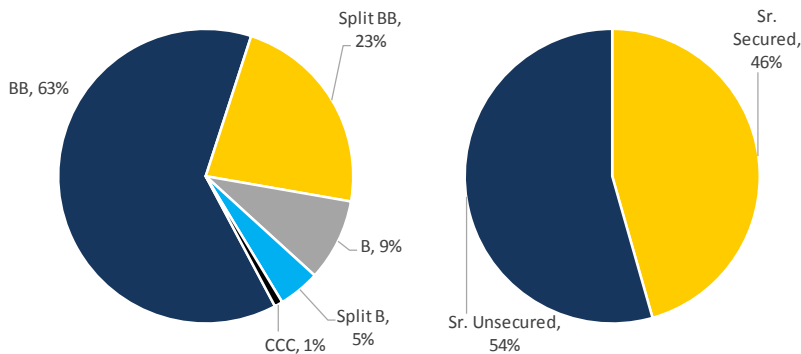
April gross issuance data



Market bifurcation has been a recurring theme during the April rally, and new issuance trends have not deviated from the plot. For the month, 85% of new deals hitting the market have been rated BB or split BB/B in nature, with very little being raised in the CCC space. Secured issuance has been the favored course for those with Single-B or lower corporate family ratings (note that secured issuance has made up ~ 46% of April volumes, well above the 17% secured penetration of the ICE BofA US High Yield Index). Autos, Gaming, Services and Retail have been most active in the new issue market, likely the result of those sectors bearing the brunt of economic shutdown concerns. A notable exception has been energy – undoubtedly in need of extra liquidity due to a weakened global economy but likely beyond the bounds of investor risk appetite.

Issuance Skewed Toward Higher-Quality; Security Somewhat Balanced

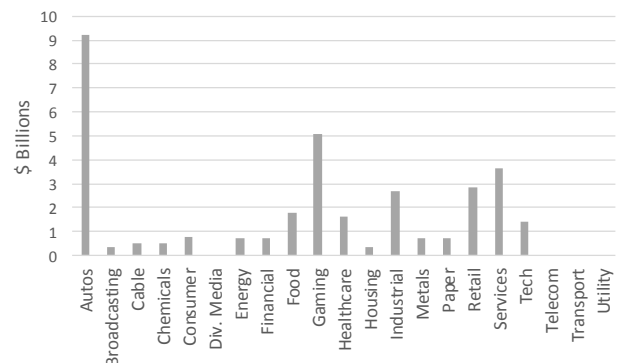
April gross issuance data



Source: SKY Harbor, JP Morgan

Shutdown-Impacted Sectors Have Been Most Active

April gross issuance data

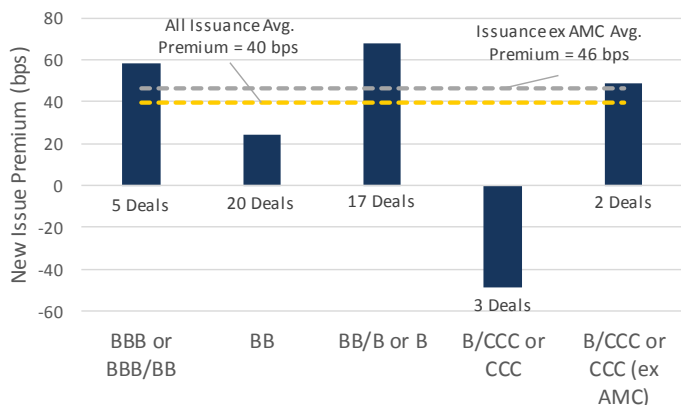


Importantly, new issues have performed relatively well in recent weeks. Of the 45 deals announced in April that our research analysts have worked on, 35 (78% of deals) have traded up, 7 (16% of deals) have traded down, and 3 remain unchanged. Furthermore, only one deal has, in our view, materially underperformed (the AMC Entertainment 10.5% Notes due 2025 have traded to ~ 88, having been issued at 98 on April 17).

Analyzing all new deals that were issued in April, and comparing coupon levels to yields once they began to trade hands in the secondary market, we estimate an average new issue premium of ~ 40 bps (~ 46 bps excluding AMC, our set outlier). As demonstrated below, split BB/B and Single-B deals have theoretically benefited from the most generous new issue premiums, even when adjusted for relatively lower starting yields among BB names. Furthermore, new issue premiums have tapered off slightly as the month has gone on (again, excluding AMC), but this may be a function of the timing of deals hitting the market (April deals were front-loaded, likely necessitating some concessions earlier on).

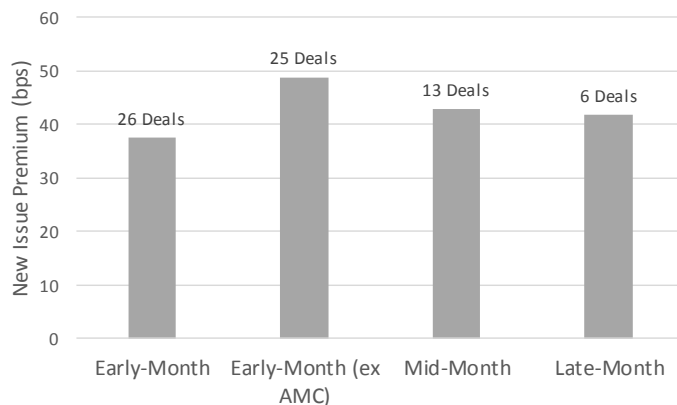
New Issue Premiums by Rating

April issuance



New Issue Premiums by Timing of Deal

April issuance



Source: SKY Harbor

In our view, strong new issue markets represent a material positive for the high yield asset class, particularly as Fed programs have only marginally addressed the universe of below-investment-grade credits. (The Fed has allowed for purchases of recent fallen angels, and can theoretically buy some high yield ETFs, but most support has gone toward higher-rated entities.) The ability of the Fed to purchase recent fallen angels, however, should alleviate a portion of anticipated stress on the existing BB base, and the table below shows that previously identified at-risk sectors – such as Autos, Retail and Energy – are marginal beneficiaries in the near-term given PMCCF and SMCCF¹ eligibility. The greatest area of support, however, has been market technicals, with outflows turning to inflows since the start of April. Trends on the leveraged loan side have, however, not been as supportive.

HY Lacks Explicit Fed Help, Fallen Angels Aside

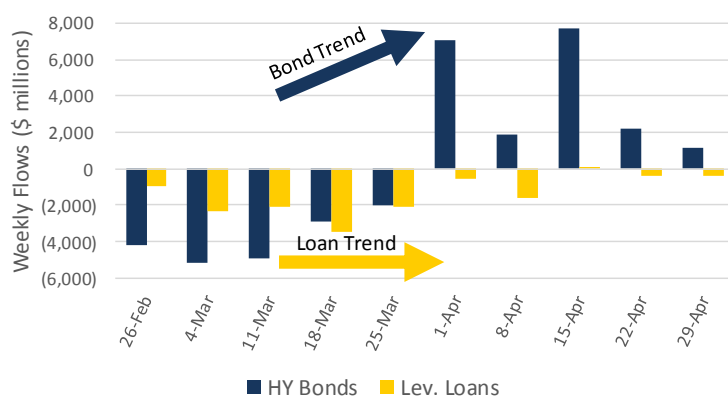
topical Fallen Angels

Name	Not IG Rated on March 22nd	Not US Domiciled	Other	PMCCF / SMCCF Eligible?
Continental Resources				Yes
Delta Airlines			took Fed aid	No
EQM Midstream	X			No
EQT Corp	X			No
Ford				Yes
Kraft Heinz	X			No
Michael Kors		X		No
Macy's				Yes
Methanex		X		No
Occidental Petroleum	X			No
Patterson-UTI Energy				Yes
QVC				Yes
Royal Caribbean		X		No
Rockes Express Pipeline				Yes
Spirit Aerosystems	X			No
Western Midstream				Yes

Source: SKY Harbor, Barclays, Lipper, JP Morgan, Bloomberg

Inflows Largely Boosting HY Sentiment & Supporting New Issuance

weekly data



In conclusion, a strong primary market has emerged in the US high yield space, with net new issuance rebounding from very depressed levels in March. This wave of issuance has included an attractive new issue premium (40 to 50 bps), with most deals performing well after the break. While Fed actions have only marginally been directed at the universe of credits with below-investment-grade ratings, headwinds for the existing BB base arising from an expected uptick in fallen angels should be tempered due to recently announced modifications to PMCCF/SMCCF eligibility. Finally, inflows into high yield have been highly supportive, allowing companies to bolster their liquidity position amidst pandemic-related shutdowns.

¹ Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF), launched by the Federal Reserve on March 23, 2020 to support the corporate bond market in the face of the COVID-19 coronavirus crisis.

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