

Analysis

Why companies are issuing record amounts of corporate debt - and what it says about markets

Sky's Ian King on how the spate of debt issuance has less to do with an uptick in economic activity and more to do with good corporate housekeeping.



Ian King

Business presenter @iankingsky

🕒 Thursday 25 January 2024 14:46, UK



An electronic ticker tape showing the FTSE 100 inside the London Stock Exchange. Pic: Nicholas .T. Ansell



 Why you can trust Sky News >

Just three weeks into 2024, one of the most eye-catching developments in financial markets has been a surge in issuance of corporate debt - the activity by which companies raise money selling bonds to investors.

According to data from London Stock Exchange Group, investment-grade companies have issued \$153bn (£120bn) worth of bonds this month, the highest figure in dollar-denominated debt for this point in the year in records going back to 1990.

There are various reasons why a company would look to issue debt, among them raising money to fund investments or projects, or to acquire another business.

So some may hope this will led to an uptick in economic activity.

Sadly, the spate of activity this year looks less to do with a possible increase in investment or mergers and acquisition (M&A) activity and more to do with good corporate housekeeping.

The yield - an implied borrowing cost - on government bonds has been falling around the world during recent months as markets have started to **price in interest rate cuts** this year from the likes of the US Federal Reserve, the European Central Bank and the **Bank of England**.

With them have fallen corporate bond yields and so-called "spreads" - the difference between the yield on a corporate bond and the yield on its equivalent US Treasury bond.

MORE FROM BUSINESS

**BREAKING
NEWS**

Foreign govts face ban on owning British newspapers - effectively blocking Abu Dhabi-led Telegraph takeover



UK economy returns to growth



TikTok's US future in doubt as House demands end to China ownership

Henry Allen, the macro strategist at Deutsche Bank, pointed that this week has seen euro-denominated investment grade spreads close at their tightest since April 2022 while US investment grade spreads are also around their tightest in the last two years.

That has led to a rush of corporate debt issuance.

As Scott Douglas, director of capital markets at the corporate finance advisors Centrus, puts it: "This is an excellent time for corporates to issue [debt] as many sat on their hands last year and pushed their refinancing back if they could, or went short and borrowed in the banking market. Current average yields are in the 5.2% to 5.3% range compared to over 6% a few months ago."



'Backlog' of corporate debt issuance hits the market

Why now?

Some people may ask why, in view of expectations that interest rates are going to fall this year, a company would issue debt now.

There are several reasons.

One is that corporate treasurers and the finance directors to whom they report are a perennially cautious bunch.

They may well have concluded that, with expectations for interest rate cuts so high, there is plenty of scope for disappointment and that, should inflation data start to point towards those rate cuts being deferred, funding conditions may become more difficult. On that basis, they will have concluded, there is little risk to them in issuing debt now even if they might be able to do so at a marginally cheaper rate a few months from now.

That is linked to the second reason. There is currently a good deal of enthusiasm on the part of investors to put money to work just now.

That, again, is linked to expectations that interest rates are going to fall this year.

Read more

[Why do so many major companies release results on the same day in July?](#)

Investors in corporate bonds may be reasoning that it is better to lend

to a company at between 5.2% to 5.3% now rather than risk only being able to do so at below 5% in a few months from now.

As Mr Douglas puts it: "There are strong levels of liquidity as investors want to 'fill their boots' and lock in yields before interest rates start to be cut."

A third factor is - as has been well documented - the dearth of activity in stock market flotations.

Mr Douglas reports that his business is seeing strong demand from UK corporates wanting to access debt capital markets partly because primary equity markets are more challenging to access at present.

That is not to say this is a case of what is bad for stock markets is good for corporate debt markets, or vice versa.

There is a school of thought that a lot of the money currently being raised via corporate debt issuance will be deployed by companies in share buyback programmes. The UK, where stock market valuations remain **depressed compared with international peers**, could be a prime target for such activity.

Some will question whether both sides - the borrowers and the investors - can both be right at the same time.

Companies are rushing to issue debt because spreads have tightened and they want to raise money on more advantageous terms than they could a few months ago - even at the risk that they would

be able to do so more cheaply still a few months from now.

That especially applies to those corporates who may not enjoy a robust credit rating.

Investors are rushing to buy this debt because they think interest rates are going to fall from current levels.

Yet it can be argued both sides are behaving rationally given the longer-term picture. The cost of credit has come down sharply, so it makes sense for companies to issue debt now, while corporate bond investors are enjoying a better yield than they have for most of the last two decades.

Hence the upsurge in activity.



Facebook



X



YouTube



Instagram

About Sky News

[About Us](#)

[Sky News Profiles](#)

[Sky News International](#)

[Sky News Library Sales](#)

[Site Map](#)

[Editorial Guidelines](#)

[Sky News Board](#)

Sky News Services

[Sky News RSS](#)

[Sky News For Your Phone](#)

[Sky News Radio](#)

Sky Channels

[Sky Witness](#)

[Sky Atlantic](#)

[Sky Arts](#)

[Sky Cinema](#)

[Sky Sports](#)

More Sky Sites

[NOW](#)

[Sky Zero](#)

[Sky Academy Studios](#)

[Bigger Picture](#)

[Sky Group](#)

[Sky Bet](#)

[Sky.com](#)

[Sky News Arabia](#)

[Advertise With Us](#)

[Terms & Conditions](#)

[Privacy & Cookies](#)

[Privacy Options](#)

[Accessibility](#)

[Contact Us](#)



© 2024 Sky UK