Insights

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Debtwire

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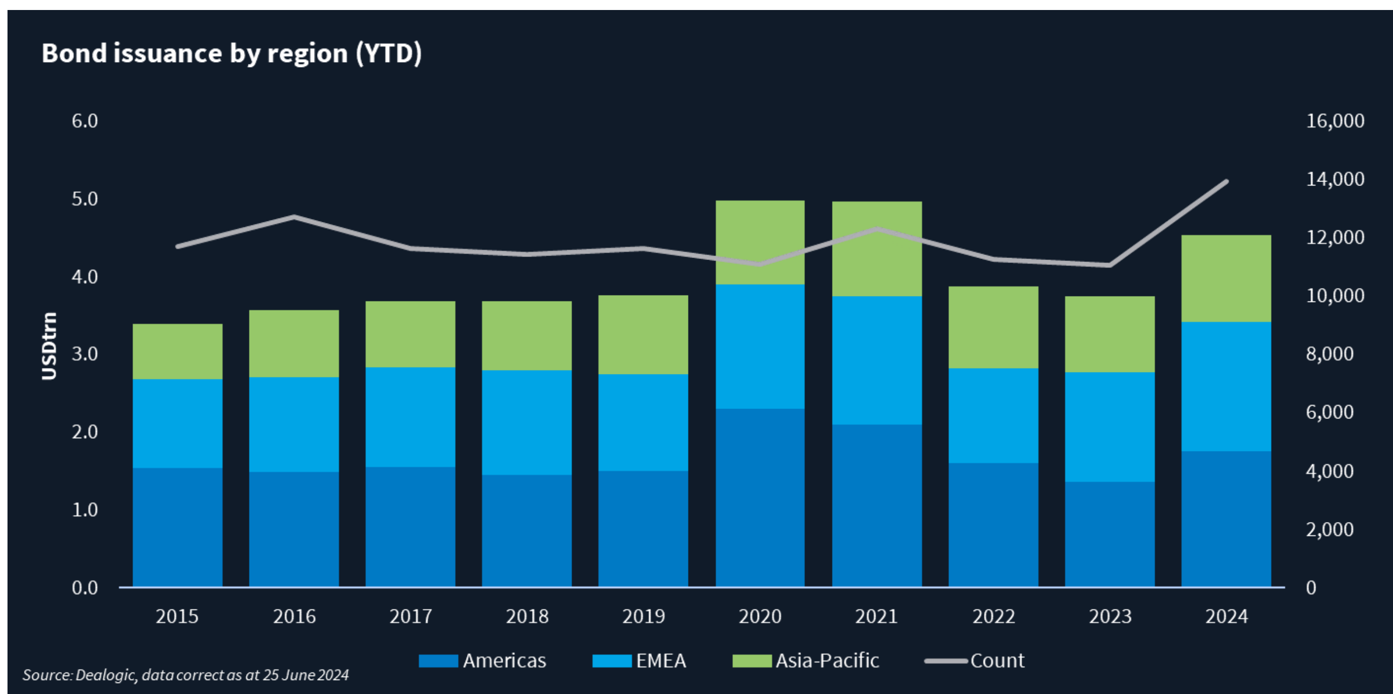
Bond Highlights 1H24

Bonds bounce back in EMEA, spurred by high-yield and autos

Bond markets are still on track to beat their volume totals of the past two years despite activity cooling in 2Q24. With almost USD 3trn of 2024 maturities still to refinance, capital markets are likely to be busy for the rest of the year.

After racing out of the blocks in 1Q24, bond issuance slowed in 2Q24, with volume tumbling 27% year-on-year to USD 1.92trn globally, ranking as the third slowest second quarter since 2019, according to *Dealogic* data. While this may be disappointing given hopes that issuance would recover this year after two relatively barren years, thanks to the strong start in January and February, 1H24 volumes are still higher than those in 1H23 and 1H22.

The Americas has issued the most bonds by volume in the year to date (YTD), surpassing EMEA, which was the busiest market in 2023. A 29% increase in volumes to USD 1.75trn helped the Americas claim top spot, narrowly exceeding USD 1.67trn issued in EMEA. Despite sitting atop the tree, volumes fell in the Americas last year, marking a third consecutive year of decline following a whirlwind 2020. By contrast, EMEA had already started to recover. In fact, the region has issued more bonds so far this year than any other previous year including 2021. The APAC bond market has also performed also well – its USD 1.12trn of volume is Asia-Pacific's second-best annual total.



Source: Dealogic, data correct as at 25 June 2024

The ratio of corporate bonds to financials, sovereigns, and asset- or mortgage-backed notes has remained steady. Corporates claimed the biggest market with around one-third of global issuance. Financials rose slightly to 29% from 25% of volume, which is perhaps unsurprising given the banking sector's recovery following the Credit Suisse meltdown last year. Excluding finance and government, the utilities and energy sectors printed the most paper, with 604 deals, almost 100 more than at the same time last year. Autos steered into second place, as the sector issued USD 190bn of bonds. The 26% increase versus 2023 could

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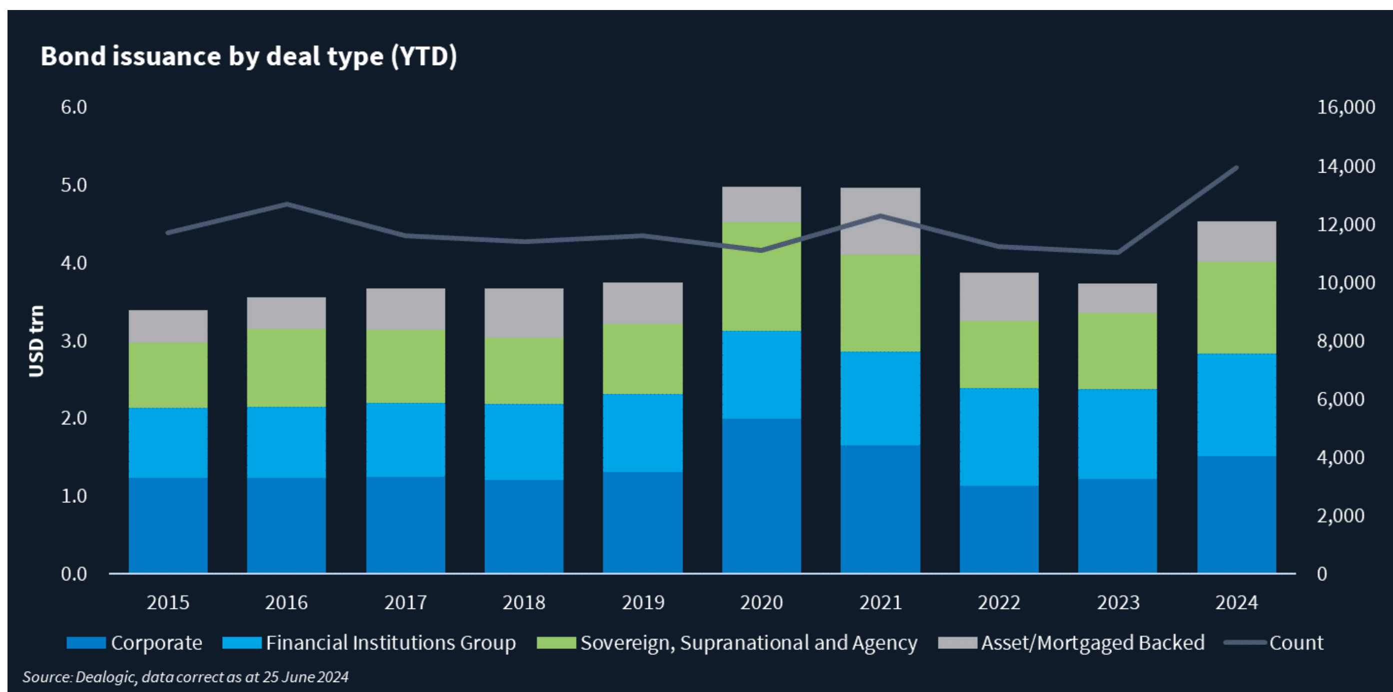
be related to original equipment manufacturers (OEMs) needing to finance more production now that supply chains are functioning again.



High times

In high yield (HY), the picture is rosier. Leveraged finance syndicates have corralled 65% more bonds into the hands of investors than last year, or USD 306bn by volume. This has boosted HY to 7% of total bond issuance, its highest proportion since 2021, even if investment grade (IG) is still having a respectable year with over USD 4trn of issuance so far. In 1Q24, London-based insurance company **Ardonagh** completed a landmark deal that included a mix of dollar and euro bonds, and private debt funding. The dynamic between private and public markets continues to dominate leveraged finance markets.

Syndicated continues to seize more market share against private, which should ultimately channel more leveraged buyout (LBO) deals into the bond market. Private credit risks being trapped as a provider of short-term financing by a combination of weak call protection and cheaper options for issuers in the syndicated market, according to a *Debtwire* report. The effect is to create more optimism in the bond and loan markets. The European HY asset class has experienced negative net issuance trends and competition from other funding sources such as leveraged loans and private credit. However, a panel discussion on bonds at the AFME High-Yield and Private Debt Forum suggested fund flow technicals remain supportive, with a good coupon 'carry' year on the cards.

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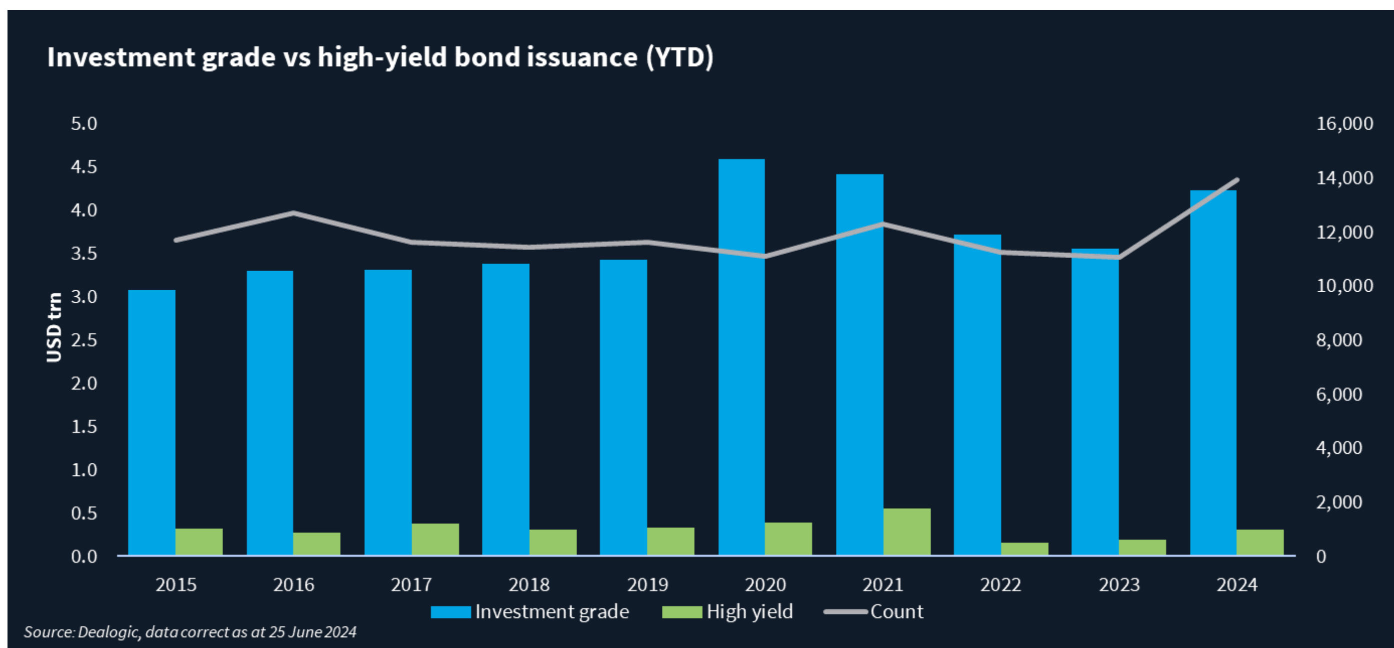

Source: Dealogic, data correct as at 25 June 2024

Rumours of ESG's demise are... overcooked

Global environmental, social, and governance (ESG) bond issuance, comprising sustainable, green, and social bonds, appeared to be recovering in 1Q24 after a slow 2023. Bankers and investors said that given the difficulties in navigating capital markets, issuers had focused on easier deals to get over the line. The hope was that as markets opened up, ESG bond issuance would follow, and 1Q24 was indeed at its most active since 2021. Unfortunately, though, 2Q24 has disappointed and the USD 190bn of volume recorded fell significantly short of the USD 251bn raised in 2Q23. Specifically, the USD 23bn of social bonds issued in 2Q24 represents the second-lowest quarterly figure since 2021.

Meanwhile, there are mixed signals in the HY market. German electronics retailer **Ceconomy** is marketing a EUR 500m sustainability-linked senior unsecured 2029 note. However, German e-commerce company **Otto** has pulled its EUR 250m-EUR 300m sustainability-linked senior unsecured four-year bond offering.

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