The Inside Market

October 10th, 2023

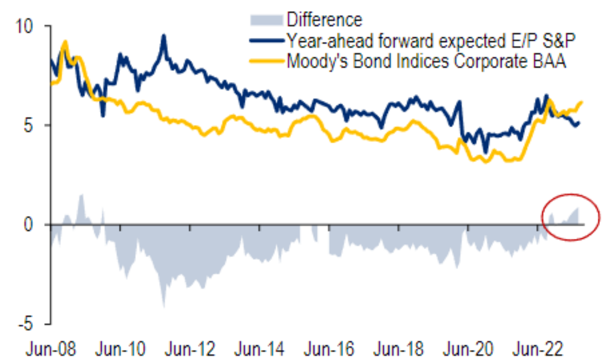
The Missing Corporate Bond Market

As an asset class, it can be argued that corporate bonds are essential to a well-functioning, global economy. What happens in corporate bond markets has a direct impact on companies, other markets (stocks), and countries. So why do major financial news outlets pay little attention to corporate bond markets relative to other asset classes?

To put this omission into perspective, there is coverage of crypto markets on every website, news publication and financial news network, yet the global market cap of crypto is ~$1 trillion, which is less than 10% of the size of the US corporate bond market ($11 trillion).

The simple answer to the lack of consideration for bonds is yield. For almost 15 years, the yields for corporate bond investors have been inferior to equities. However, we have recently seen a major shift in market dynamics that is likely here to stay (see chart). **We are now in the equivalent of the dot.com era for corporate bonds**. So what do financial news outlets need to do to find and properly cover this missing market?

Figure 5. The Baa corporate bond yield is now higher than the S&P expected earnings yield. The last time we saw this was in Dec 2009 (just before 30y yields topped out around 4.8%).



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Source: Citi Research, Haver Analytics, Bloomberg

Knowledge is Power

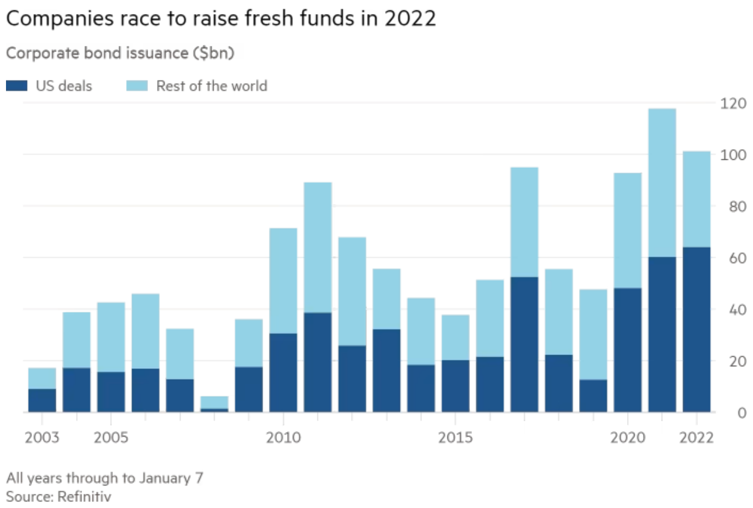
As a consequence of an equity-centric financial news media, knowledge and understanding of corporate bond markets has atrophied. While there are outstanding reporters like Tracy Alloway (@tracyalloway), Robin Wigglesworth (@RobinWigg), Lisa Abramowitz (@lisaabramowicz1), Joy Wiltermuth (@JoyWiltermuth), Dan Barnes (@TheBondDESK), and Mary Childs (@mdc), the financial news media needs to improve their proficiency in corporate bond market structure.

Admittedly, corporate bond markets have some characteristics that are alien to common sense. For example, what drives the direction of most financial products is buying and selling activity. If there are more buyers than sellers, a security will go up in value, and vice versa. This is not the case for corporate bonds. Sometimes a bond is repriced due to things like a Fed announcement and, despite a loss in value, there is net buying activity because investors now see this higher yielding bond as attractive. A lack of understanding of this concept leads to headlines like this:

It's the Worst Bond Market Since 1842. That's the Good News.

The four-decade-long bull market in bonds is over, but that doesn't mean you should dump them

Really? If 2022 was that terrible, why was there record issuance of debt by US companies?

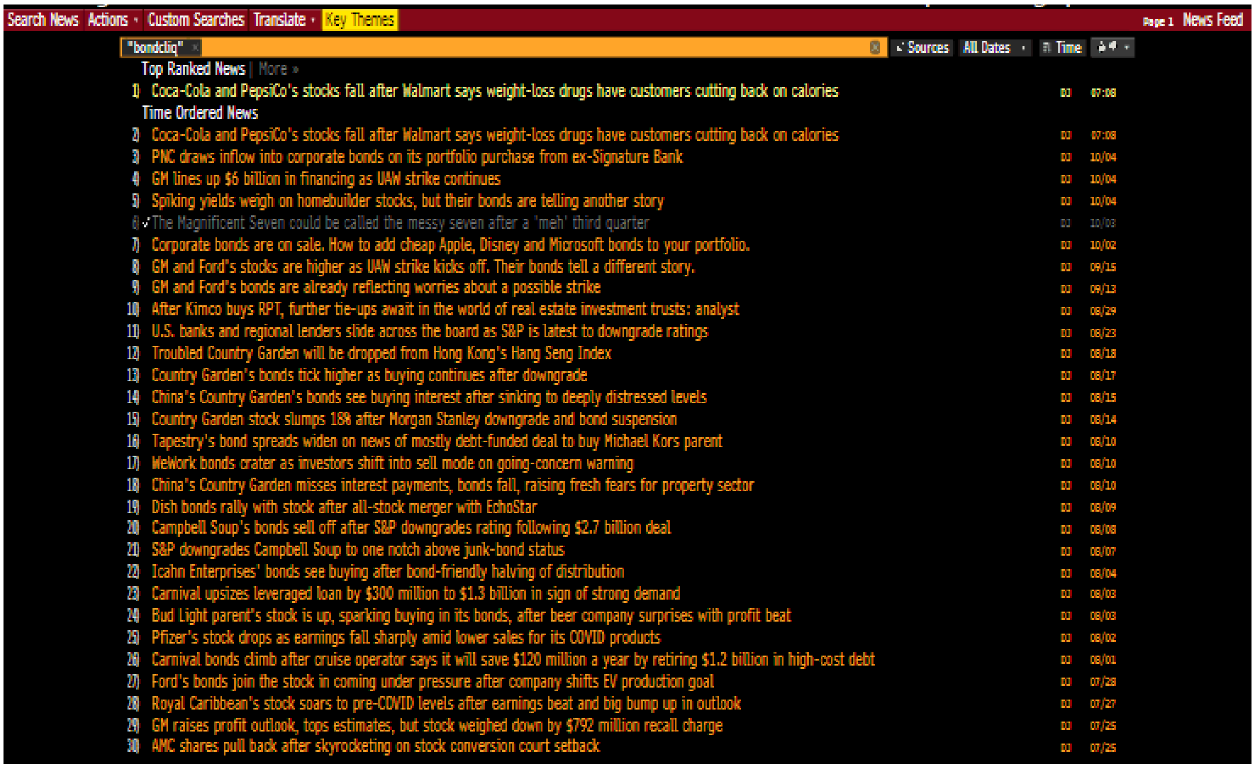


Bond buying was at record highs in 2022.

Access is Essential

It is unrealistic to expect an increase in corporate bond market coverage without a material improvement in the accessibility of key data sets. For reporters, readily available information on corporate bond transaction data is difficult to obtain, and access to reliable pricing information is almost non-existent. If financial news outlets had a way to leverage these data sets, do you think the cadence and quality of corporate bond market coverage would improve?

Since the start of Q2 2023, BondCliQ has been supporting the very talented reporters at Dow Jones MarketWatch, led by [Mark Decambre](), by supplying them with tools to access US corporate bond data. This has resulted in over 40 articles focused on corporate bond debt: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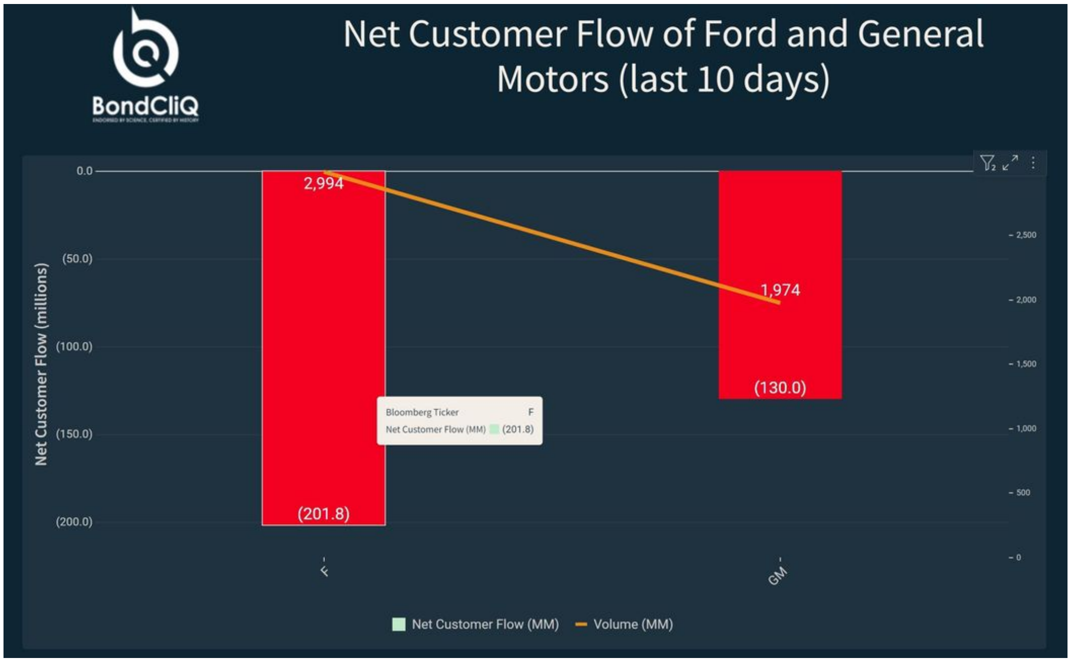
1) Coca-Cola and PepsiCo's stocks fall after Walmart says weight-loss drugs have customers cutting back on calories DJ 07:08

Time Ordered News
2) Coca-Cola and PepsiCo's stocks fall after Walmart says weight-loss drugs have customers cutting back on calories DJ 07:08
3) PNC draws inflow into corporate bonds on its portfolio purchase from ex-Signature Bank DJ 10/04
4) GM lines up $6 billion in financing as UAW strike continues DJ 10/04
5) Spiking yields weigh on homebuilder stocks, but their bonds are telling another story DJ 10/04
6) The Magnificent Seven could be called the messy seven after a 'meh' third quarter DJ 10/03
7) Corporate bonds are on sale. How to add cheap Apple, Disney and Microsoft bonds to your portfolio. DJ 10/02
8) GM and Ford's stocks are higher as UAW strike kicks off. Their bonds tell a different story. DJ 09/15
9) GM and Ford's bonds are already reflecting worries about a possible strike DJ 09/13
10) After Kimco buys RPT, further tie-ups await in the world of real estate investment trusts: analyst DJ 08/29
11) U.S. banks and regional lenders slide across the board as S&P is latest to downgrade ratings DJ 08/23
12) Troubled Country Garden will be dropped from Hong Kong's Hang Seng Index DJ 08/18
13) Country Garden's bonds tick higher as buying continues after downgrade DJ 08/17
14) China's Country Garden's bonds see buying interest after sinking to deeply distressed levels DJ 08/15
15) Country Garden stock slumps 18% after Morgan Stanley downgrade and bond suspension DJ 08/14
16) Tapestry's bond spreads widen on news of mostly debt-funded deal to buy Michael Kors parent DJ 08/10
17) WeWork bonds crater as investors shift into sell mode on going-concern warning DJ 08/10
18) China's Country Garden misses interest payments, bonds fall, raising fresh fears for property sector DJ 08/10
19) Dish bonds rally with stock after all-stock merger with EchoStar DJ 08/09
20) Campbell Soup's bonds sell off after S&P downgrades rating following $2.7 billion deal DJ 08/08
21) S&P downgrades Campbell Soup to one notch above junk-bond status DJ 08/07
22) Icahn Enterprises' bonds see buying after bond-friendly halving of distribution DJ 08/04
23) Carnival upsizes leveraged loan by $300 million to $1.3 billion in sign of strong demand DJ 08/03
24) Bud Light parent's stock is up, sparking buying in its bonds, after beer company surprises with profit beat DJ 08/03
25) Pfizer's stock drops as earnings fall sharply amid lower sales for its COVID products DJ 08/02
26) Carnival bonds climb after cruise operator says it will save $120 million a year by retiring $1.2 billion in high-cost debt DJ 08/01
27) Ford's bonds join the stock in coming under pressure after company shifts EV production goal DJ 07/28
28) Royal Caribbean's stock soars to pre-COVID levels after earnings beat and big bump up in outlook DJ 07/27
29) GM raises profit outlook, tops estimates, but stock weighed down by $792 million recall charge DJ 07/25
30) AMC shares pull back after skyrocketing on stock conversion court setback DJ 07/25

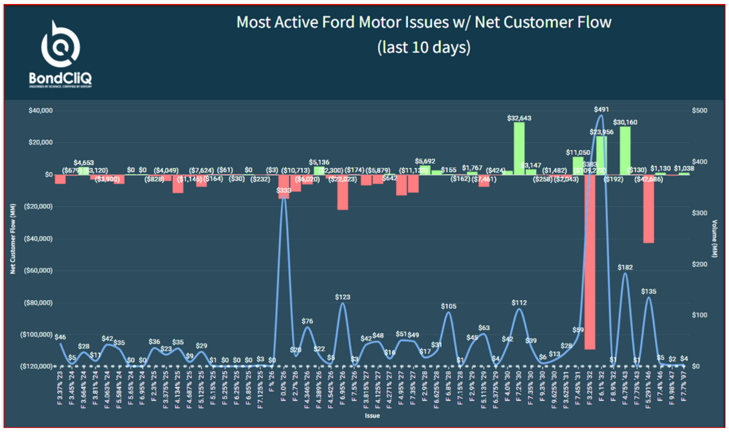
The articles from MarketWatch articulate the role that corporate bonds are playing in financial markets through the data visualization graphics BondCliQ provides. Now a more comprehensive story can be told when there is news impacting a given company. For example, when the UAW strike began, the following article was able to compare the difference between their stocks and bonds: [GM and Ford's Stocks are Higher. Their Bonds Tell a Different Story.]()

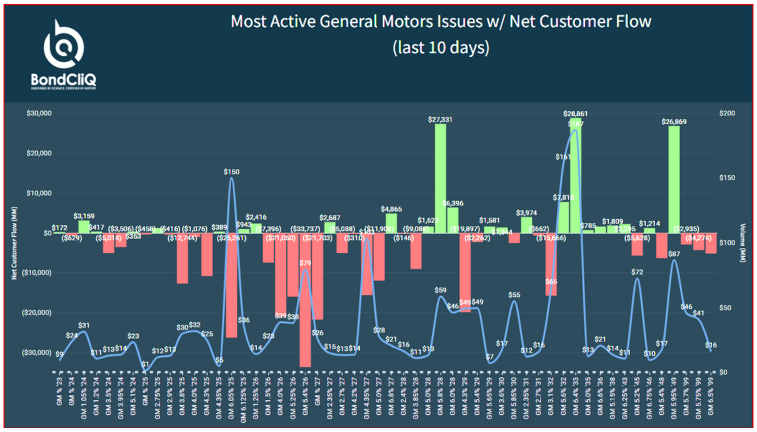
The strike at all three U.S. carmakers is a break with tradition, as the union for many years has elected to center strike efforts at one company to protect its strike fund and picket-line firepower. Ford's stock was last up 0.5%, while GM was up 1.4%.

But as the following charts from data solution company BondCliQ shows, the bonds have seen far more selling than buying over the last 10 days:



The next charts show that Ford has seen more selling than GM:



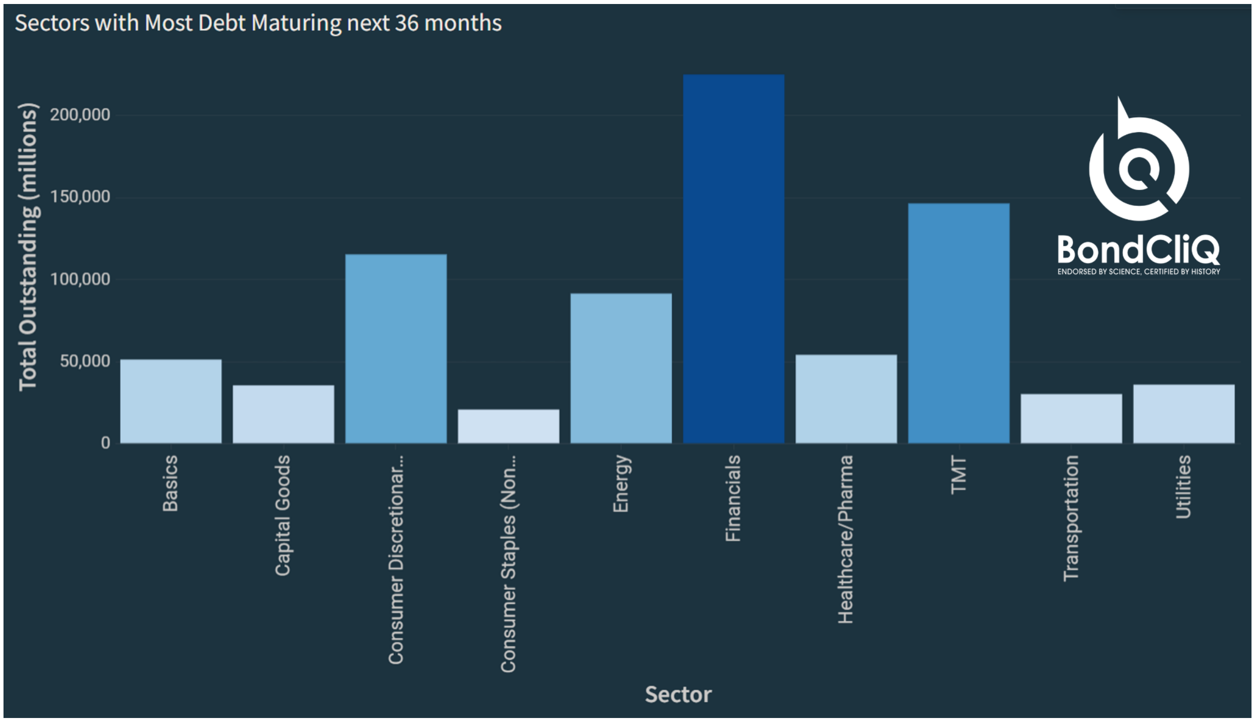


Given that Ford and GM have a combined $231 billion in outstanding corporate bond debt, any story about the health of the automaker industry has to include activity in their corporate bonds.

Metrics that Matter

Simply stating that the corporate bond market is up or down is not insightful. Due to the idiosyncratic nature of this market, the data that can be accessed, must be used to produce metrics that illustrate key trends. Here are a few examples of metrics that matter in the corporate bond market:

Outstanding Debt aka Maturity Wall



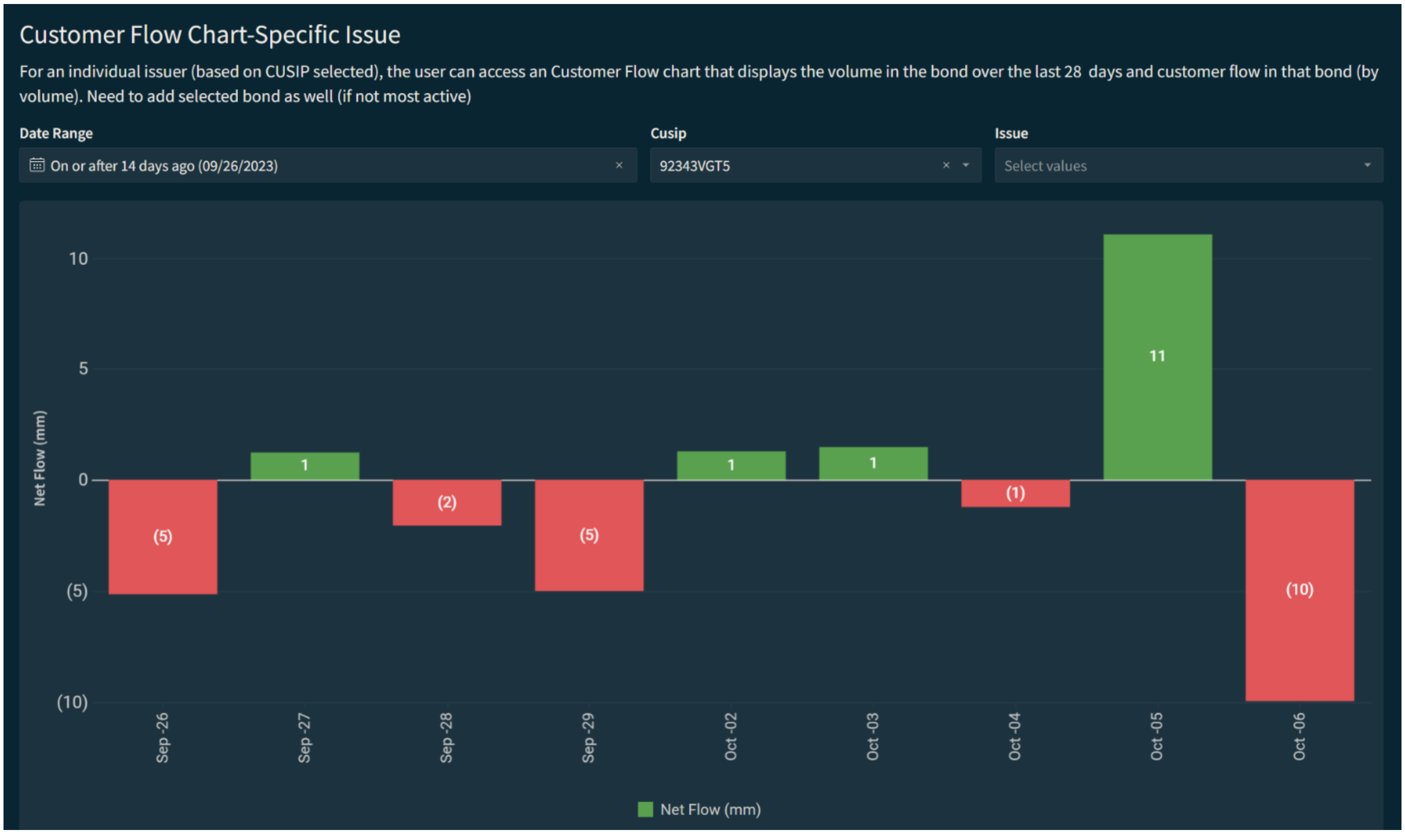
This chart displays outstanding debt with a maturity < 36 months by sector. The image articulates which sectors have the most refinancing pressure in the short-term. Given the widely accepted "higher for longer" view on market interest rates, the maturity wall metric is essential for evaluating:

- Individual issuers - when does this company have to refinance?
- Groups of companies - when do most companies in this industry need to refinance?
- Companies with similar ratings - how much BBB paper will need to be refinanced?

Unless the direction of rates changes in the next 3 years, many companies and industries will be facing materially higher debt financing costs that will negatively impact profitability.

Customer Flow

The transaction data for US corporate bonds, TRACE, has several important fields that add depth to the trade data. One of those fields is “trade type”, which is an indication of whether the trade in question was a dealer buying from a client (DBC), a dealer selling to a client (DSC), or a dealer to dealer (D2D) transaction. From this detail we can derive “customer flow” which is the difference between customer selling activity (DBC) and customer buying activity (DSC):



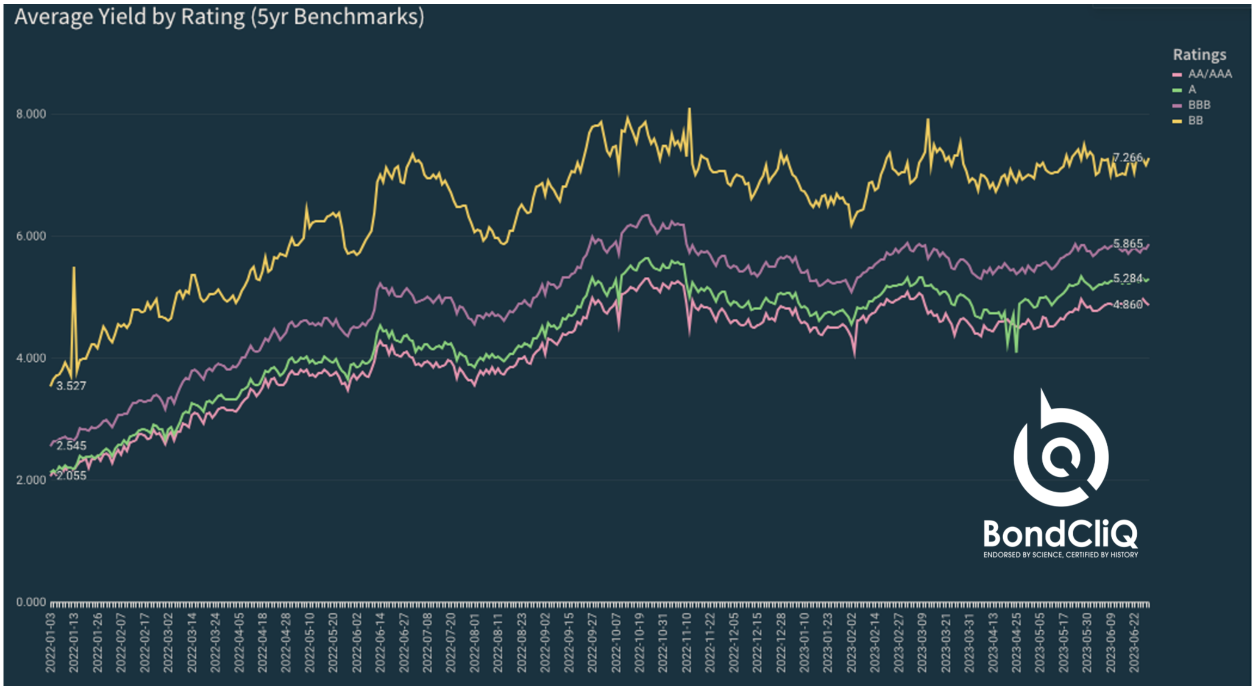
This chart displays daily customer flow in a single issue (VZ 5.05% 05/08/33) over a 10 day period. Each bar represents the net imbalance between customer buying and selling activity. The customer flow metric is essential for evaluating:

- Individual bonds - what have the imbalances looked like for this issue?
- Bonds of an issuer - what do the imbalances look like for this issuer by maturity?
- Curve analysis - what do the aggregated imbalances look like by maturity?

Market direction alone does not tell the full story on corporate bonds. Customer flow is an essential metric for completing the picture.

Relative Yield aka Yield Spreads

Tracking yields over time is fundamental to analyzing all financial products. However, the corporate bond market is a world where the concept of relative yield or “yield spreads” is essential for understanding the direction of the market.



This chart displays yields by credit rating over time and is a clear illustration of the yield spread concept. Looking back at the beginning of 2023, BB-rated paper had a yield spread of about 100 bps from BBB-rated paper, meaning that the premium between high-yield (BB) and investment grade (BBB) was very small. As rates have increased, yields have more than doubled across all ratings buckets and the spread between BBB and BB paper has widened. Again, given the widely accepted “higher for longer” view on market interest rates, monitoring relative yields is essential for analyzing:

- Credit Spreads - what is the compensation for taking on more risk?
- Sector Curves - what is the shape of the yield curve for this sector?
- Issuer Curves - what is the shape of the yield curve for this issuer?

As we move into an environment where the probability of default is increasing, corporate bond yields are a metric that acts as a “canary in the coal mine” for all investors.

Water, water everywhere and not a drop to drink

A critical development required for helping financial news outlets find the missing corporate bond market is data integrity. There is plenty of information on corporate bonds floating around, however, being able to trust the information as fact remains a challenge for reporters and market professionals. Making corporate bond data trustworthy is a perpetual process that requires the right technology infrastructure, tools for monitoring data quality, and a team of professionals that can identify and diagnose anomalies. At BondCliQ we've spent years taking the necessary steps to make corporate bond data "drinkable". Now that this market has become the flavor of the month (or years), we are prepared to support the needs of allmarket participants, reporters, academics, and regulators.

- Chris White, CEO - BondCliQ

Interested in leveraging corporate bond data?

If you and your organization are interested in accelerating the use of corporate bond data, please contact us (info@bondcliq.com) to arrange a meeting.

In the meantime, BondCliQ offers free daily market data dashboards that articulate activity in the following areas:

- Institutional trading in investment grade and high-yield markets
- Portfolio trading activity
- Deeply discounted investment grade corporate bonds

Click here for more information on our data dashboards and sign up here if you want to be added to our distribution list.

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