BondCliQ

# The Inside Market February 2020

## Corporate Bonds in the Time of the Coronavirus – What story does the data tell us?

The last week of February 2020 was a reminder that markets can and will go negative. Courtesy of the Coronavirus, global financial markets saw a "prolonged correction" in every major equity market:

- The S&P 500 had its worst week since 2008 (US - NY TIMES)
- The pan-European Stoxx 600 lost 12.7%...the worst since October 2008 (EU - CNBC)
- Both the Shenzhen composite and Shenzhen component dropped nearly 5% on Friday (Asia - CNBC)

I had the honor of being invited to speak about the impact of the Coronavirus on the Yahoo! Finance news broadcast on Friday. As I watched the show before my segment, they kept flashing real-time updates of the carnage in equity markets, but not a single piece of information existed on corporate bonds. Not a profound observation in the least, but it still amazes me because the US corporate bond market is bigger and arguably more important than the stock market.

Luckily, we (BondCliQ) have the transaction data (TRACE), so our February blog post is dedicated to re-telling the story of last week, in data (and pictures).

## Nobody Move, Nobody Gets Hurt

The beginning of 2020 set a record pace for new issuance:

*Corporations rushed to sell $69 billion in investment grade debt this week, the second-highest amount ever in a one week period, according to BofA Securities.*

*Companies Issue HG Debt at one of the Fastest Paces Ever This Week – CNBC, January 10th, 2020*

By the middle of last week, it was clear that the first casualty caused by the Coronavirus for the corporate bond market was the new issue calendar. Most if not all deals were canceled:

*In the U.S., Wall Street banks recorded their third straight day without any high-grade bond offerings, a rarity outside of holiday and seasonal slowdowns. European debt bankers had their first day of 2020 without a deal on Wednesday. And bond issuance in Asia, where the virus first emerged, has slowed to a trickle.*

*Global Credit Markets Seizes Up As Coronavirus Halts Bond Sales – Bloomberg, February 26th, 2020*

Delaying new deals isn't so unusual for the corporate bond market, but the Coronavirus does beg a critical question for some of the less creditworthy borrowers: **How long will I have to wait?**

# Red Rain is Coming Down…

So, how bad was the week for US corporate bonds. Using the BondTiQ application we can visualize the entire week of corporate bond trading activity (Feb 24th to Feb 28th):

| | Market Size | Maturity | | | | | | Credit Rating | | | Trade Size | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Totals | 0-3 | 3-5 | 5-7 | 7-10 | 10-15 | 15+ | <=CC | CCC TO BB+ | >=BBB- | <1MM | 1MM-5MM | >5MM |
| Volume | 240,023,599,580 | 18% | 17% | 18% | 21% | 4% | 22% | 0% | 33% | 66% | 15% | 55% | 30% |
| Trades | 360,724 | 25% | 20% | 19% | 16% | 4% | 17% | 0% | 29% | 70% | 84% | 14% | 2% |

**Financials** vol: 57,227,648,900 | trds: 101,509 | CF: +6% : 2.3MMM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| BAC | JPM | C | WFC | GS | MS | BNP | HSBC | BACR | GE |
| DB | CS | AXP | MET | MUFG | USB | AVOL | RBS | COF | PNC |

**Energy** vol: 29,521,691,320 | trds: 42,364 | CF: +2% : 315.4MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| PEMEX | PETBRA | ETP | OXY | EPD | EQT | BPLN | EQM | AR | RIG |
| RDSALN | KMI | CHK | WLL | XOM | CQP | TRGP | CRC | HAL | RRC |

**Communications** vol: 24,701,526,420 | trds: 31,719 | CF: +7% : 1.1MMM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| T | CHTR | CMCSA | VZ | S | INTEL | ZAYO | DISH | DIS | CTL |
| NFLX | VOD | FTR | TMUS | PCLN | TELEFO | CSCHLD | LVLT | SIRI | DISCA |

**Healthcare** vol: 24,574,873,350 | trds: 27,593 | CF: +8% : 1.3MMM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| CVS | AMGN | HCA | ABBV | BMY | UNH | CNC | THC | NOVNVX | CI |
| ENDP | TEVA | MNK | PFE | JNJ | VRXCN | BHC | GILD | ANTM | CYH |

**Consumer Discretionary** vol: 23,203,244,450 | trds: 40,786 | CF: +2% : 341.5MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| F | GM | LB | HD | AAL | TSLA | AMZN | MCD | LOW | HTZ |
| HNDA | TOYOTA | SGMS | DAIGR | SPLS | LEN | LYV | W | MAT | SWK |

**Technology** vol: 17,003,523,970 | trds: 26,566 | CF: +6% : 661.9MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| AAPL | MSFT | INTC | DELL | IBM | ORCL | COMM | AVGO | CSCO | 697435AD |
| MCHP | MSCI | MU | FINRSK | QCOM | WDC | VMW | CRM | ADBE | NXPI |

**Consumer Staples** vol: 15,989,151,610 | trds: 21,427 | CF: +2% : 265.5MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| KHC | ABIBB | WMT | MO | ACI | PEP | JBSSBZ | BATSLN | CAG | PM |
| POST | STZ | CPB | KR | UNANA | KO | BGS | PG | CVS | ATDBCN |

**Industrials** vol: 14,751,479,880 | trds: 25,313 | CF: +6% : 630.3MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| UTX | GE | BBDBCN | UNP | URI | TDG | DE | CAT | FDX | UPS |
| BA | BNSF | RSG | WM | GD | LMT | ARNC | VWR | NOC | SIEGR |

**Materials** vol: 9,683,600,650 | trds: 15,857 | CF: +3% : 211.8MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| FCX | DWDP | MMM | DOW | CC | FMCN | X | LYB | STLD | OLN |
| ARGID | TROX | CLF | VW | BLL | BMCAUS | FMGAU | BWY | CEMEX | SLGN |

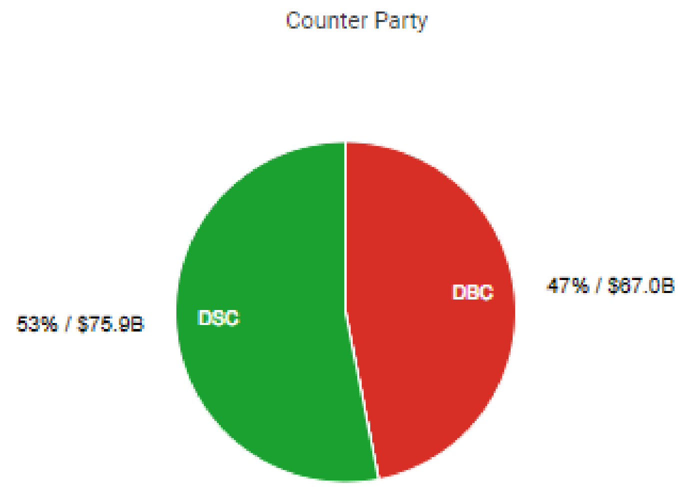
**Utilities** vol: 7,620,717,630 | trds: 12,408 | CF: +2% : 110.4MM

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| DUK | DTE | BRKHEC | PCG | FE | SO | EXC | VST | CPN | EDF |
| NRG | NEE | SRE | D | XEL | ENGX | AES | PEG | PPL | CNP |

From the looks of it, no portfolio was safe as the top 20 names by volume in each sector saw their underlying bonds loose value. The only exception for the week was Mallinckrodt, a CCC- rated, a generic drug manufacturer that agreed to settle an opioid lawsuit for $1.6 billion. Distressed bond trading is weird…

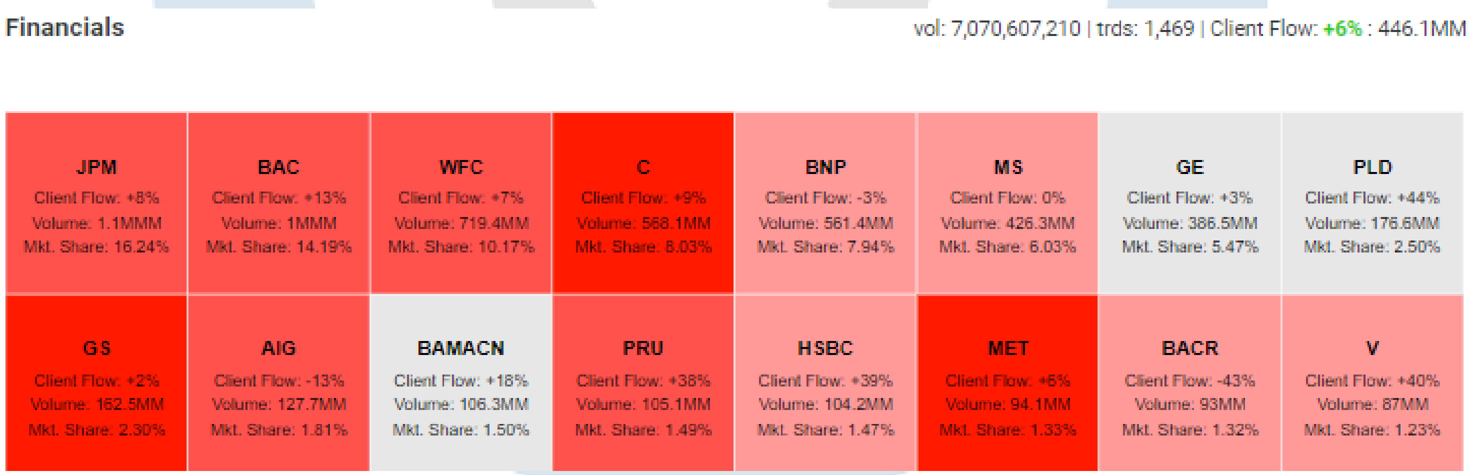
# If you can keep your head about you while all others are losing theirs…(R.Kipling)

While the US corporate bond market certainly lost value, institutional investors were not panicking in the slightest. If we examine institutional transactions (>=$1MM) for the entire week, buy-side clients were net buyers of corporate bonds by a difference of almost $9 billion in notional volume:




**This image illustrates why it is critical that corporate bond market data be included in the broader discussion on financial market performance**. While the stock market can be relied on for accurately reflecting the present feelings of investors, the bond market articulates the longer term financial market outlook. Undoubtedly, buy-side institutions treated last week as an opportunity to pick up yield and were not dismayed by the Coronavirus.

There is even more evidence of market support when we look at the market on a sector and maturity basis. For the week, long end (>=10yr), investment-grade Financials also had positive client flow, especially for the top four issuers by volume:




Clients were net buyers of 13 out of the 16 most active issuers when looking at this section of the market. Maybe they were pricing in what is already being predicted this week, [a central bank rescue plan to get markets back on track](). Undoubtedly, this is a windfall for the banks, just like every other QE initiative post-2008.

# Darkness Cannot Drive Out Darkness; Only Light Can Do That…(MLK)

One thing that all institutional corporate bond market participants know is that when volatility really picks up, data is at a premium. The inability to quickly capture, organize and sift through TRACE data leaves you reacting in an environment that presents meaningful opportunity. **The browser-base application that created these images/insights, BondTiQ, is the most powerful tool for leveraging TRACE information.** Let us help you get an edge.

If you are interested in a free trial for you and your desk, reach out to us at info@bondcliq.com.

-Chris White, BondCliQ CEO