Credit Trends:

U.S. Refinancing Study--$4.88 Trillion Of Rated Corporate Debt Is Scheduled To Mature Through 2023

August 21, 2018

S&P Global Fixed Income Research estimates that $4.88 trillion of U.S. corporate debt rated by S&P Global Ratings will mature between July 1, 2018, and Dec. 31, 2023. Annual maturities for U.S. corporate debt (including bonds and loans from financial and nonfinancial companies) are set to surpass $1 trillion annually in 2021 and 2022. Over the past 12 months, U.S. companies have reduced the amount of debt maturing through 2021 as financing conditions have remained broadly supportive. Following years of rising issuance and low yields, credit markets are becoming increasingly volatile this year as the Federal Reserve continues to raise rates and funding costs rise.

U.S. companies account for 44% of the total global corporate debt maturing through 2023, and the U.S. accounts for 62% of the world's speculative-grade (rated 'BB+' or lower) debt maturing over this period. Unlike in the rest of the world, the majority of corporate debt in the U.S. is from nonfinancial companies, and a notably higher share is rated speculative grade. While the majority of U.S. corporate debt maturing through 2023 is investment grade (rated 'BBB-' or higher), $1.55 trillion is speculative grade, and we consider this debt to be at higher risk of refinancing, particularly if financing conditions turn sharply less accommodative than they've been in recent years.

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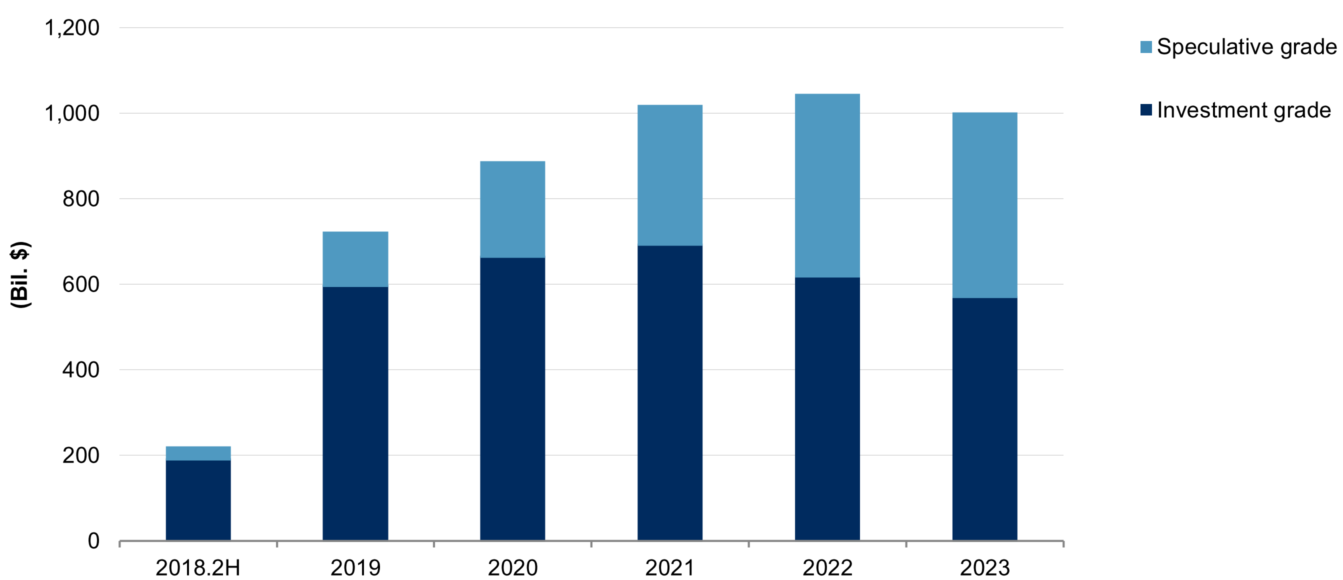
Overview

- About $4.88 trillion in rated U.S. corporate debt is scheduled to mature through 2023; the annual amount maturing is set to rise from $721.1 billion in 2019 to a peak of $1.04 trillion in 2022.
- About $1.55 trillion in speculative-grade debt is set to mature through 2023, and close to 60% of this debt consists of leveraged loans and revolvers. As rising interest rates have sparked investor demand for floating-rate debt, speculative-grade companies have increasingly turned to the leveraged loan market for funding.
- Within the nonfinancial corporate sectors, the high technology sector has the largest amount of debt maturing through 2023, while the media and entertainment sector has the largest amount of speculative-grade debt.
- Financial services companies face higher near-term maturities than nonfinancial issuers. Short- and medium-term debt makes up a substantial portion of the $322 billion in rated debt from financial services companies that is scheduled to mature in the second half of 2018 through 2019, after which annual maturities are set to decline.

Chart 1

U.S. Rated Corporate Debt Maturities Surpass $1 Trillion Annually In 2021-2022



Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings from financial and nonfinancial corporates. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

Maturities are set to rise above $1 trillion annually in 2021 and 2022, up from $721 billion in 2019. While this is a substantial amount of debt, credit markets in the U.S. have shown sufficient depth and demand for corporate credit to facilitate companies' issuance of new debt to manage pending maturities. U.S. rated corporate bond issuance has exceeded $1 trillion annually over the past five years, and institutional leveraged loan issuance surpassed $500 billion in 2017, led by strong demand for floating-rate debt. With maturities steadily climbing over the next several years, companies should be able to tap into the credit market to meet refinancing demands. However, given the heightened potential for an economic downturn, rising borrowing costs, and sudden bouts of market volatility or restrained liquidity over the next five and a half years, this debt could pose significant challenges for highly leveraged firms.

For this study, we looked at maturing investment-grade and speculative-grade debt issues from nonfinancial corporate and financial services issuers based in the U.S. (including the tax havens of Bermuda and the Cayman Islands). U.S. companies have $4.88 trillion in rated debt scheduled to mature through 2023, representing the largest share of the $11 trillion in global corporate debt set to mature over this period.

Nearly 75% of U.S. corporate debt is from nonfinancial issuers (with $3.68 trillion), which is a much higher share than in the rest of the world, where nonfinancial debt accounts for 49% of the debt maturing through 2023. Financial services companies in the U.S. (including the bank, nonbank financial institution, and insurance sectors) owe 25% of the debt maturing through 2023, with nearly $1.2 trillion. About 90% of the debt from financial services companies is investment grade, compared with just 61% of nonfinancial corporate debt (see table 1).

Table 1

U.S. Maturing Corporate Debt

(Bil. $)	2018.2H	2019	2020	2021	2022	2023	Total
Financials	81.4	240.8	234.3	235.2	213.5	193.5	1,198.7
Investment grade	76.8	224.2	211.3	213.1	177.5	174.3	1,077.2
Speculative grade	4.6	16.6	23.0	22.2	36.0	19.2	121.4
Nonfinancial	137.2	480.4	650.7	781.4	829.5	805.4	3,684.5
Investment grade	113.1	372.0	452.6	479.2	440.8	395.9	2,253.6
Speculative grade	24.1	108.4	198.1	302.2	388.7	409.4	1,430.9
Total investment grade	189.9	596.2	663.9	692.3	618.3	570.3	3,330.8
Total speculative grade	28.7	124.9	221.1	324.4	424.6	428.6	1,552.3
Total	218.6	721.1	884.9	1,016.6	1,043.0	998.9	4,883.2

Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on close of business on June 30, 2018. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

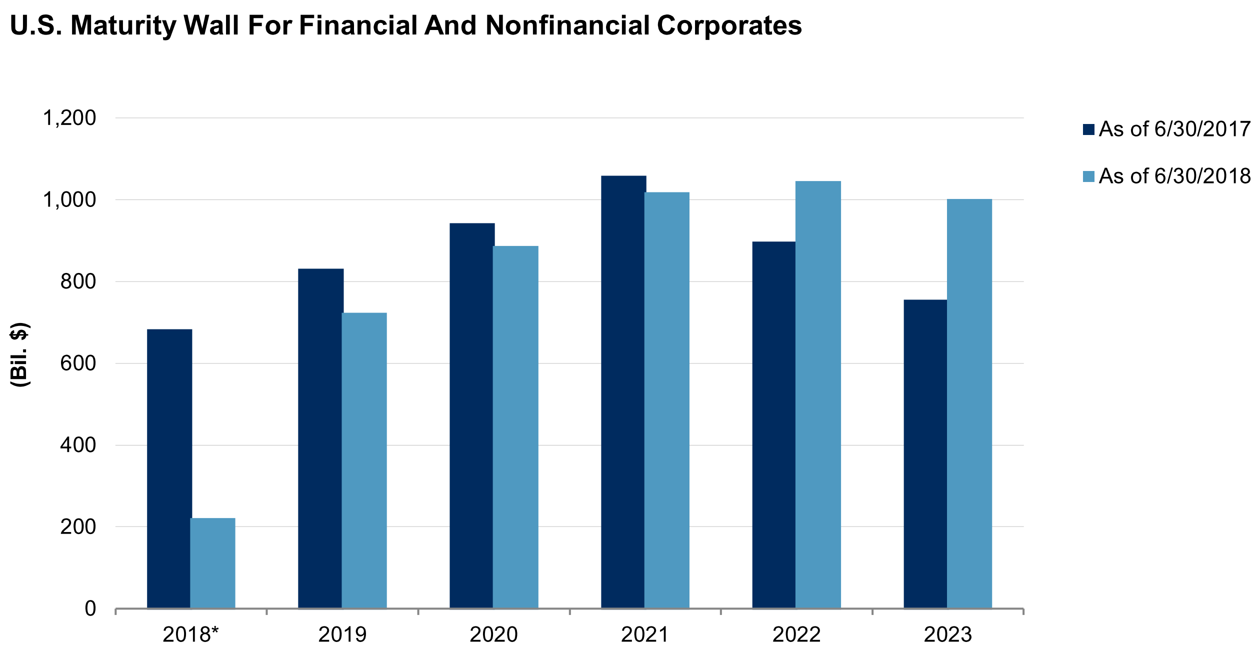
Funding The Maturity Wall

While the maturity wall steepens as debt mounts in 2021 and 2022, we expect that companies will issue new debt between now and then, and that the amount of debt maturing in those years will decline in the intervening years.

In our report last year, "U.S. Refinancing Study--$4.67 Trillion In Rated Corporate Debt Will Mature Through 2022," published Aug. 8, 2017, with data as of June 30, 2017, we found that annual maturities were set to rise to a peak of $1.06 trillion in 2021. Since then, companies have paid down or refinanced a portion of the near-term debt and issued new debt maturing in later years. With this new issuance, the peak maturity year has been pushed back to 2022, when $1.04 trillion is now scheduled to mature.

In the 12 months ended June 30, 2018, companies reduced the amount of debt set to mature in 2019-2020 by 9%, and the amount scheduled to mature in 2022-2023 rose by 24% (see chart 2). As companies continue to issue new debt with longer maturities, we expect the maturity wall will continue to be rolled back to later years.

Chart 2



Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings on the respective reporting date from financial and nonfinancial corporates. Foreign currencies are converted to U.S. dollars on the respective reporting date. *2018 maturities estimated as of 6/30/2018 reflect debt scheduled to mature in the second half of the year. Source: S&P Global Fixed Income Research.

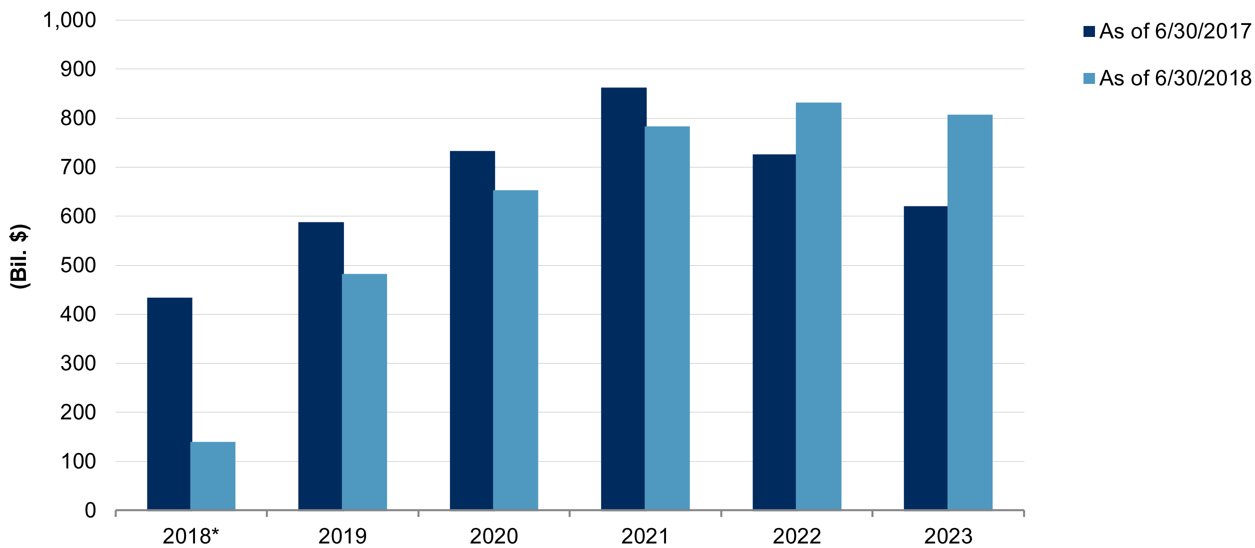
Nonfinancial Issuers Have Pushed Peak Maturities To 2022

Nonfinancial companies in the U.S. have $3.68 trillion in rated debt instruments that are scheduled to mature through 2023. Over the past year, nonfinancial companies have paid down or refinanced a higher share of the debt maturing through 2020 than financial services companies, and nonfinancial companies have added more to debt maturing in later years.

Over the 12 months to June 30, 2018, the amount of nonfinancial debt set to mature from 2019-2020 fell by 14%, and the amount of debt maturing in 2021-2022 increased by 22%. With this new debt, the peak maturity year for U.S. nonfinancial corporate debt has been pushed back by one year to 2022 (when $829 billion is set to mature) (see chart 3).

Chart 3

U.S. Nonfinancial Corporate Debt Maturities Rise Through 2022



Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings on the respective reporting date. Foreign currencies are converted to U.S. dollars on the respective reporting date. *2018 maturities estimated as of 6/30/2018 reflect debt scheduled to mature in the second half of the year. Source: S&P Global Fixed Income Research.

Over A Third Of Nonfinancial Corporate Debt Is In The 'BBB' Category

Risks should be low for most of the U.S. nonfinancial corporate debt maturing through 2023. The majority (about 61%) of this $3.68 trillion in rated debt is investment grade. However, the U.S. has a higher share of nonfinancial corporate debt rated speculative grade, at 39%, than the rest of the world. Globally (excluding the U.S.), about 28% of rated nonfinancial corporate debt maturing through 2023 is speculative grade. Additionally, the share of investment-grade debt from nonfinancials that is in the 'BBB' category has risen somewhat over the past year. The 'BBB' category now accounts for 63% of nonfinancial investment-grade debt maturing over the next 22 quarters, up from 61% as of June 30, 2017.

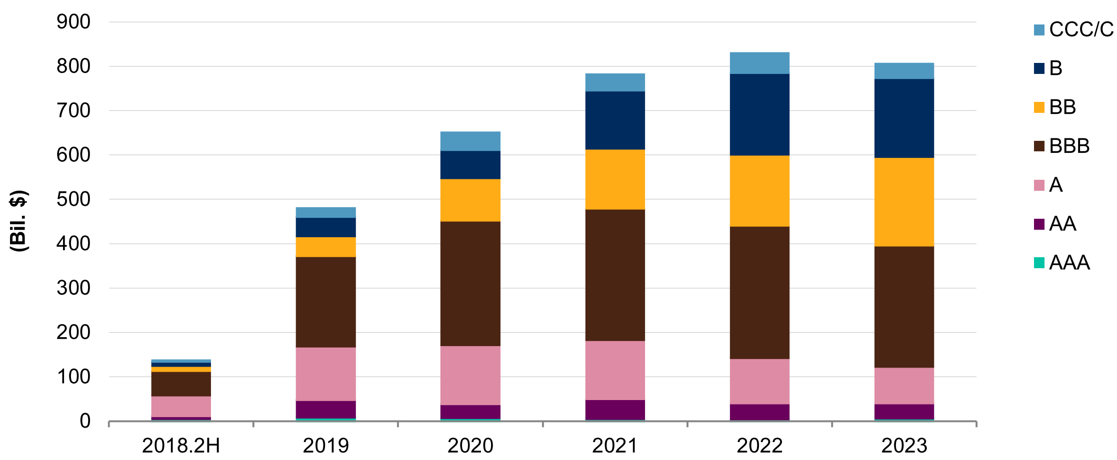
The largest share of nonfinancial corporate debt in the U.S. is in the 'BBB' category, with 38%, or $1.4 trillion (see chart 4). The 'BBB' category is the lowest rating category within the investment-grade segment. About $531.7 billion of this debt is rated 'BBB-', and issuers of this debt would likely face a steep increase in funding costs if this debt was downgraded.

Maturities for investment-grade nonfinancial debt are more front-loaded than those of speculative-grade debt. Through 2020, $937.7 billion in investment-grade debt is set to mature, and investment-grade maturities peak in 2021, when $479 billion is set to come due.

Speculative-grade maturities are set to surpass investment-grade maturities by 3% in 2023, and they will continue to rise through 2024, when they reach $442 billion.

Chart 4

Nonfinancial Corporate Maturities By Rating Category



Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on close of business on June 30, 2018. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

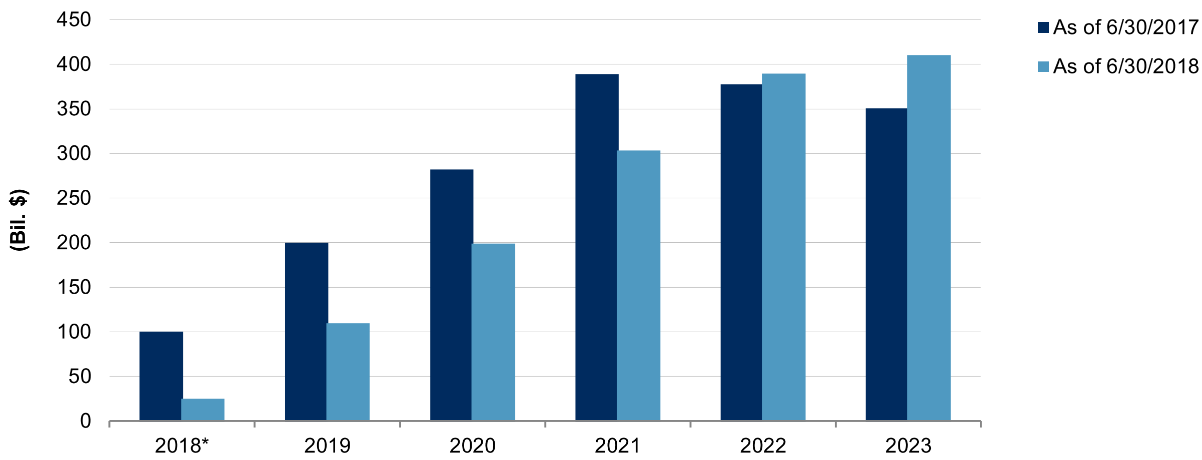
Speculative-Grade Nonfinancial Companies Have Reduced Debt Maturities Through 2020

In comparison, a smaller portion of speculative-grade debt from nonfinancial companies is set to mature through 2020. Speculative-grade maturities for 2019 are relatively modest, at $108 billion. Over the 12 months to June 30, 2018, companies reduced the amount of speculative-grade nonfinancial debt maturing in 2019-2020 by 36%, while the amount maturing in 2022-2023 increased by 10% (see chart 5). The amount of U.S. nonfinancial corporate speculative-grade debt that is set to mature over the next 22 quarters is roughly in line with what we've seen in recent studies. The $1.4 trillion in our current estimate is about 5% above our estimate from 12 months ago, but below our estimate as of 24 months ago.

The pattern of speculative-grade maturities is also consistent with what we've seen in recent years. Maturities are set to steadily climb over the next several years, to a peak that is four to five years out. Given the long window between now and the year of peak maturities, credit markets are likely to experience a period of heightened stress within that time frame.

Chart 5

U.S. Speculative-Grade Nonfinancial Corporate Debt Maturities Climb Through 2023

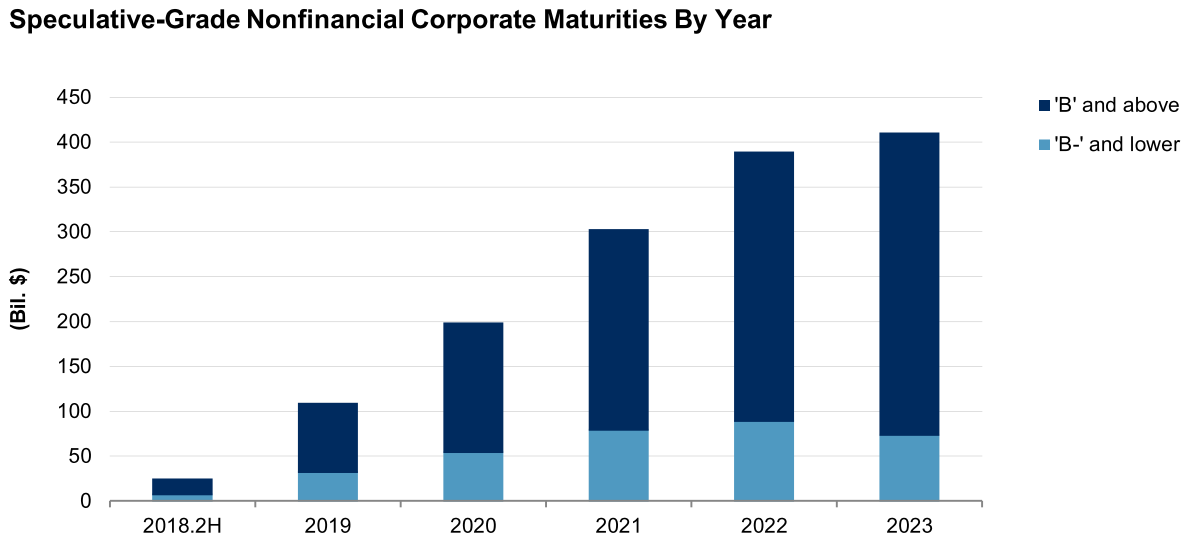


Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings on the respective reporting date. Foreign currencies are converted to U.S. dollars on the respective reporting date. *2018 maturities estimated as of 6/30/2018 reflect debt scheduled to mature in the second half of the year.
Source: S&P Global Fixed Income Research.

We consider speculative-grade debt to have higher credit risk than investment-grade debt. Speculative-grade debt is more susceptible to funding risk in periods of rising volatility and when investors become more risk averse. During stressful periods, the cost of funding for speculative-grade credit can rise sharply because fewer lenders are willing to take on the additional credit risk, which adds further risk to speculative-grade refinancing.

Debt at the lowest ratings of 'B-' and lower often carries the highest risk and is the most susceptible to a turn in financing conditions. This low-rated debt makes up a small share of speculative-grade nonfinancial debt maturing through 2023, at about $336.8 billion, and this share is little changed from where it stood last year. These maturities peak in 2022, when $89.1 billion is set to mature (see chart 6).

Chart 6



Note: Includes bonds, loans, and revolving credit facilities that are rated 'BB+' and lower by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on close of business on June 30, 2018. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

In this study, we look at the scheduled maturities of all rated U.S. corporate debt, including bonds, notes, term loans, and revolving credit facilities. While most of the investment-grade debt maturing through 2023 consists of bonds and notes, the majority (at 60%) of speculative-grade nonfinancial debt maturing through 2023 consists of term loans and revolving credit facilities (see table 2).

A key difference between these two types of debt is that term loans typically have floating interest rates, and the yield on these instruments stands to rise with interest rates. Additionally, term loans tend to have shorter maturities, and this debt must be refinanced more often. While these features have helped to bolster investor demand for loans as the Fed has begun to raise interest rates, it could also lead to higher funding costs for companies as rates continue to rise.

Table 2

Nonfinancial Corporate Rated Debt Maturities By Instrument Type

(Bil. $)	2018.2H	2019	2020	2021	2022	2023	Total
Investment grade	113.1	372.0	452.6	479.2	440.8	395.9	2,253.6
Loan/revolver	23.5	73.9	121.9	143.4	112.6	100.1	575.3
Bond/note	89.6	298.1	330.7	335.8	328.2	295.9	1,678.3
Speculative grade	24.1	108.4	198.1	302.2	388.7	409.4	1,430.9
Loan/revolver	10.0	60.8	110.9	178.7	238.5	256.1	855.1
Bond/note	14.0	47.6	87.2	123.5	150.1	153.3	575.8
Total loan/revolver	33.6	134.7	232.8	322.1	351.1	356.2	1,430.4

Table 2

Nonfinancial Corporate Rated Debt Maturities By Instrument Type (cont.)

(Bil. $)	2018.2H	2019	2020	2021	2022	2023	Total
Total bond/note	103.6	345.7	417.9	459.3	478.4	449.2	2,254.0
Grand Total	137.2	480.4	650.7	781.4	829.5	805.4	3,684.5

Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

The High Tech Sector Has The Most Nonfinancial Debt Maturing Through 2023, While Media And Entertainment Leads Speculative Grade

Among nonfinancial sectors, the high technology sector has the most debt set to mature through 2023, with $498.7 billion. Annual maturities from the high technology sector are the highest among nonfinancial sectors in each year from 2019 through 2023. The peak maturity year for the high technology sector is 2021, when $122.8 billion is scheduled to mature (see table 3).

The companies that have issued the largest share of this high technology debt include Dell Technologies Inc. ('BB+'), Apple Inc. ('AA+'), International Business Machines Corp. ('A+'), Oracle Corp. ('AA-'), and Microsoft Corp. ('AAA'). The majority (69%) of the debt maturing through 2023 in this sector is investment grade.

While the high technology sector has the largest amount of nonfinancial corporate debt maturing through 2023, many companies in the sector are among those with the highest amounts of foreign cash holdings. As companies repatriate this overseas cash following recent tax reform, it should provide an additional supply of funding with which to pay down maturing debt.

Table 3

Nonfinancial Corporate Maturities By Sector

(Bil. $)	--Investment grade--						--Speculative grade--						Total
Sector	2018.2H	2019	2020	2021	2022	2023	2018.2H	2019	2020	2021	2022	2023	
Aerospace and defense	1.7	4.9	9.9	7.3	8.3	7.4	0.1	0.9	2.4	9.5	9.7	17.9	80.0
Automotive	5.3	20.1	34.8	25.7	14.0	23.2	0.0	3.8	0.9	9.2	12.1	12.3	161.4
Capital goods	10.7	31.6	40.4	30.9	28.7	23.3	0.5	2.0	7.8	9.3	11.0	12.6	208.7
Consumer products	14.1	38.2	59.5	56.9	47.9	45.4	0.6	4.3	10.9	20.9	35.0	36.6	370.3
CP&ES	5.4	25.3	16.9	28.1	19.6	16.0	1.4	1.6	16.2	13.6	22.3	24.9	191.2
Diversified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4
FP&BM	1.0	1.7	2.6	2.9	4.2	3.9	0.4	0.7	1.0	6.1	10.9	15.3	50.8
Health care	14.4	39.3	37.0	30.5	34.7	26.0	3.0	11.2	9.9	31.1	39.7	40.0	316.8
High technology	14.5	62.9	52.6	94.3	55.9	63.1	0.9	8.5	27.0	28.5	41.8	48.7	498.7
Home/RE	0.3	9.3	12.6	24.8	22.5	19.2	1.1	7.1	7.8	13.3	12.8	7.6	138.4
Media and entertainment	5.0	15.7	36.5	32.8	24.7	19.3	1.7	11.6	29.8	48.2	71.8	64.1	361.2

Table 3

Nonfinancial Corporate Maturities By Sector (cont.)

(Bil. $)	--Investment grade--						--Speculative grade--						Total
Sector	2018.2H	2019	2020	2021	2022	2023	2018.2H	2019	2020	2021	2022	2023	
Metals, mining, and steel	0.0	0.9	4.2	1.5	4.2	1.3	0.6	4.3	7.0	8.3	9.5	10.7	52.5
Oil and gas	6.4	16.4	20.9	16.6	29.5	17.3	2.9	19.5	22.0	26.6	31.6	20.1	229.9
Retail/restaurants	8.4	23.5	25.6	30.6	37.3	26.8	1.5	7.9	14.7	24.3	25.1	35.8	261.5
Telecommunications	3.8	23.2	33.1	35.3	39.8	44.1	4.7	10.4	16.0	29.0	32.9	37.1	309.4
Transportation	5.5	14.3	18.3	13.3	26.2	19.3	0.3	3.1	10.3	7.7	11.5	7.8	137.5
Utility	16.5	44.7	47.6	47.7	43.3	40.5	4.4	11.3	14.4	16.7	10.7	17.8	315.7
Total	113.1	372.0	452.6	479.2	440.8	395.9	24.1	108.4	198.1	302.2	388.7	409.4	3,684.5

Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. Home/RE--Homebuilders and real estate companies. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

The media and entertainment sector has the highest amount of speculative-grade nonfinancial debt scheduled to mature through 2023, with $227.2 billion. About 63% of the sector's rated debt maturing through 2023 is speculative grade, which is a modestly higher speculative-grade share than for nonfinancial companies overall. Total speculative-grade maturities in media and entertainment peak in 2022, when $71.8 billion is set to mature. The sector's debt rated 'B-' or lower that is maturing through 2023 represents less than 20% of speculative-grade debt from the sector.

The health care and retail and restaurants sectors have the highest amounts of debt rated 'B-' or lower that is set to mature through 2023. The health care sector has $52.3 billion in debt rated 'B-' or lower that is set to mature through 2023. The largest share of this debt is from Community Health Systems Inc. ('CCC+'). While Community Health Systems is currently rated in the 'CCC'/'C' category, the issuer credit rating was lowered to 'SD' (selective default) in June 2018 after the company conducted a distressed exchange to address most of its 2019 and 2020 debt maturities.

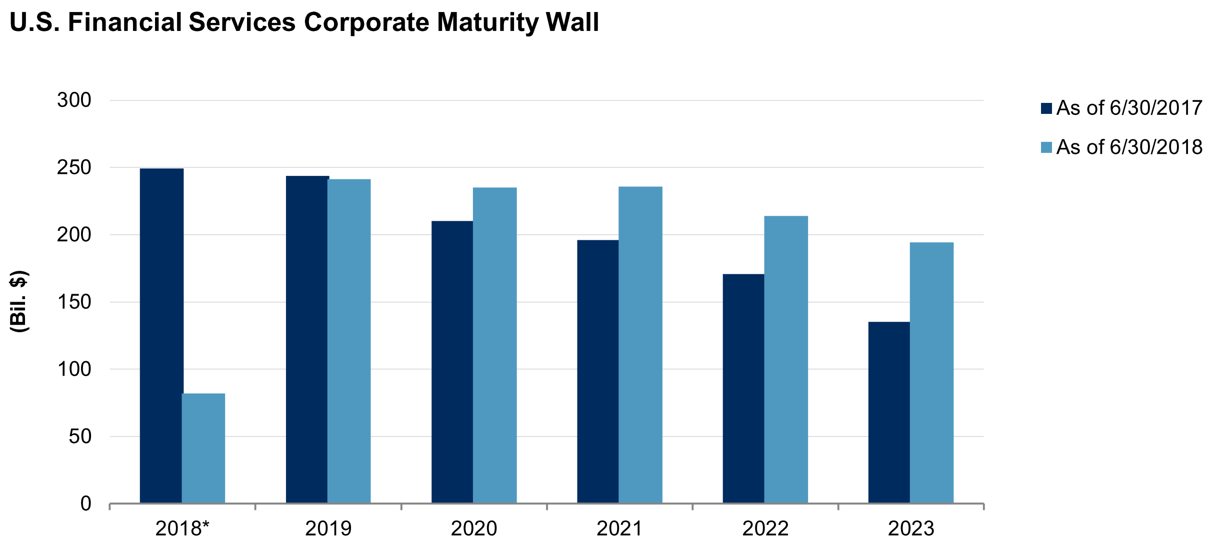
The retail and restaurants sector has $47.2 billion in debt rated 'B-' or lower that is set to mature through 2023. This sector continues to face deteriorating credit conditions and credit tightening as companies adjust to shifting consumer demands and rising competition from online retailers. The U.S. retail and restaurants sector has an elevated distress ratio (defined as the number of distressed credits divided by the total number of speculative-grade issues), at 14% as of July 16, 2018, narrowly behind the telecom sector's distress ratio of 14.1%. Companies that have debt trading at distressed levels face diverse credit conditions and higher interest rates, which can create challenges as the companies seek to refinance debt as their outstanding bonds reach maturity. While the retail and restaurants sector has an elevated distress ratio, this ratio has fallen from 17% as of Jan. 15, 2018, which could signify that investors consider risk in the sector to be subsiding.

Financial Services Maturities Steadily Decline After 2019

Financial services companies have nearly $1.2 trillion in rated debt instruments maturing through 2023. These maturities peak in 2019, when $240.8 billion is set to come due. After 2019, annual maturities are set to gradually decline, falling to $193.5 billion in 2023. Compared with nonfinancial issuers, financial services companies tend to have a higher share of debt maturing in the near term, and often their maturities are set to peak in the current or upcoming year.

Over the 12 months to June 30, 2018, the peak maturity year for financial services companies was pushed back by one year, to 2019 from 2018. Over the same period, financial services companies paid down or refinanced more than two-thirds of the debt that had been scheduled to mature in 2018. Of the remaining debt that is set to mature in the second half of 2018, we expect that some may already have been accommodated by the credit market, given normal data-reporting lags (see chart 7).

Chart 7



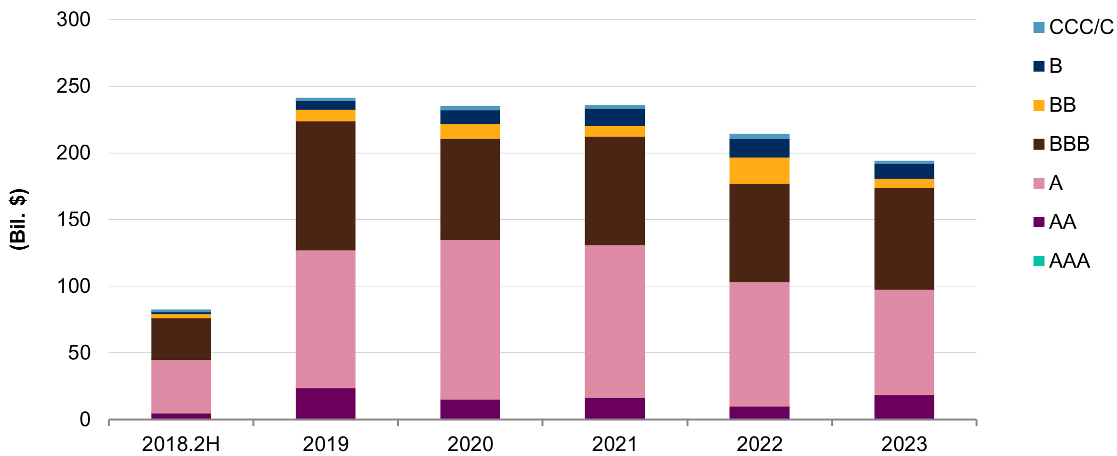
Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings on the respective reporting date. Foreign currencies are converted to U.S. dollars on the respective reporting date. *2018 maturities estimated as of 6/30/2018 reflect debt scheduled to mature in the second half of the year.
Source: S&P Global Fixed Income Research.

While a relatively high share of financial services companies' debt is maturing in the second half of 2018 through 2019, more than 90% of this debt is investment grade. By rating, the largest share of financial services debt maturing through 2023 is in the 'A' category, at 46%, followed by the 'BBB' category, at 36% (see chart 8). In comparison with financial services issuers globally, U.S. companies have a higher share of debt rated in the 'A' and 'BBB' categories and a lower share rated in the 'AAA' and 'AA' categories.

Relative to the rest of the world, the U.S. also has a higher share of financial services debt that is rated speculative grade (at 10%). Globally (excluding the U.S.), less than 5% of financial services debt maturing through 2023 is speculative grade.

Chart 8

Financial Services Maturities By Rating Category



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Financial services companies have $121.4 billion in speculative-grade debt that is scheduled to mature through 2023. Annual maturities for speculative-grade financial services debt rise from $16.6 billion in 2019 to a peak of $36 billion in 2022. This debt is primarily from nonbank financial institutions, including finance companies, brokerages, and asset managers, as well as some insurance brokers and third-party administrators.

The largest share of speculative-grade debt from financial services companies is rated in the 'BB' category, and the largest issuers include nonbank financial institutions such as Ally Financial Inc. ('BB+'), Navient Corp. ('BB-'), and OneMain Holdings Inc. ('B+'). Just $16.7 billion in financial services debt rated 'B-' or lower is set to mature through 2023, and this debt is largely from insurance brokers, finance companies, and insurance third-party administrators.

Table 4

Maturing Financial Services Corporate Debt

(Bil. $)	2018.2H	2019	2020	2021	2022	2023	Total
Investment grade	76.8	224.2	211.3	213.1	177.5	174.3	1,077.2
Financial institutions	65.5	195.3	180.1	184.0	147.9	138.4	911.2
Insurance	11.3	28.9	31.2	29.1	29.7	35.9	166.0
Speculative grade	4.6	16.6	23.0	22.2	36.0	19.2	121.4
Financial institutions	3.6	14.4	19.7	13.9	25.4	10.9	88.0
Insurance	1.0	2.2	3.3	8.2	10.6	8.3	33.5
Financial institutions (total)	69.1	209.7	199.9	197.9	173.3	149.3	999.2

Table 4

Maturing Financial Services Corporate Debt (cont.)

(Bil. $)	2018.2H	2019	2020	2021	2022	2023	Total
Insurance (total)	12.3	31.0	34.4	37.3	40.2	44.2	199.5
Grand total	81.4	240.8	234.3	235.2	213.5	193.5	1,198.7

Note: Includes bonds, loans, and revolving credit facilities rated by S&P Global Ratings. 2018.2H--Debt set to mature from 7/1/2018 through 12/31/2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

Issuance Slowed In The First Half Of 2018

Funding conditions tightened incrementally in the first half of 2018, following increased market volatility and interest rate hikes. U.S. corporate bond issuance declined in the first half of the year to its lowest level since 2014. The amount of rated bond issuance from U.S. companies fell by 16% (to $601 billion) in the first half of 2018, led by a decline in nonfinancial issuance (see chart 9).

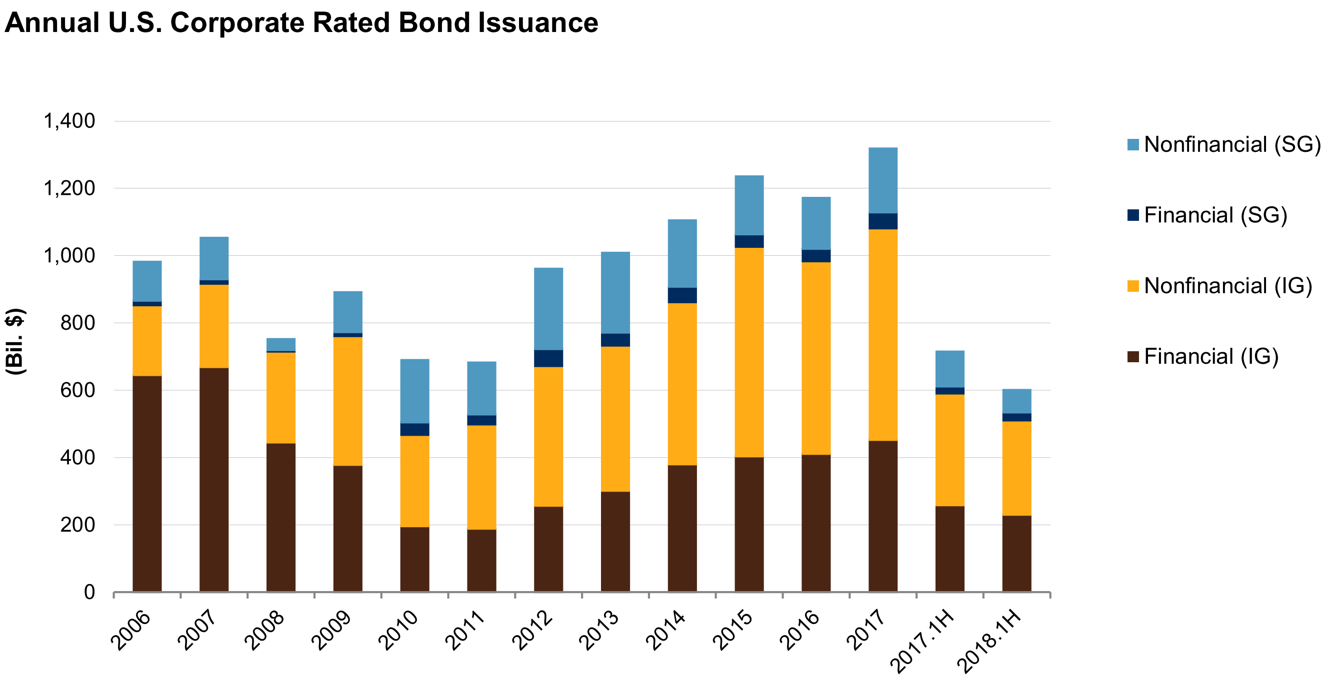
Financial services bond issuance fell by 9% (to $254 billion) in the first half of 2018. While this marks a noticeable decline in issuance from the same period in 2017, this total is more than sufficient for financial services' upcoming refinancing demands, since it exceeds total debt maturities from financial services in the peak year of 2019.

Nonfinancial corporate bond issuance had a steeper decline in the first half of 2018. Investment-grade issuance was down 15% (to $281 billion), while speculative-grade bond issuance was down 36% (to $66.6 billion). In part, this steep decline in speculative-grade bond issuance resulted from more companies turning to the loan market for funding. Rising interest rates have boosted investor demand for floating-rate debt. Surging issuance of collateralized loan obligations and strong investor inflows to leveraged loan exchange-traded funds have contributed to high demand for new loan issuance.

While speculative-grade nonfinancial corporate bond issuance had its slowest first half of the year since 2009, institutional term loan issuance had its second-highest volume on record, just 9% below last year's record-setting $271 billion. Nearly 37% of this leveraged loan issuance in the first half of 2018 was used for refinancing, according to S&P Global Market Intelligence's Leveraged Commentary & Data.

Despite the incremental tightening in the credit market, recent issuance volumes of corporate bonds and leveraged loans are more than sufficient for U.S. nonfinancial companies to meet upcoming maturity demands.

Chart 9



IG--Investment grade. SG--Speculative grade. Data as of June 30, 2018. Sources: Thomson Reuters and S&P Global Fixed Income Research.

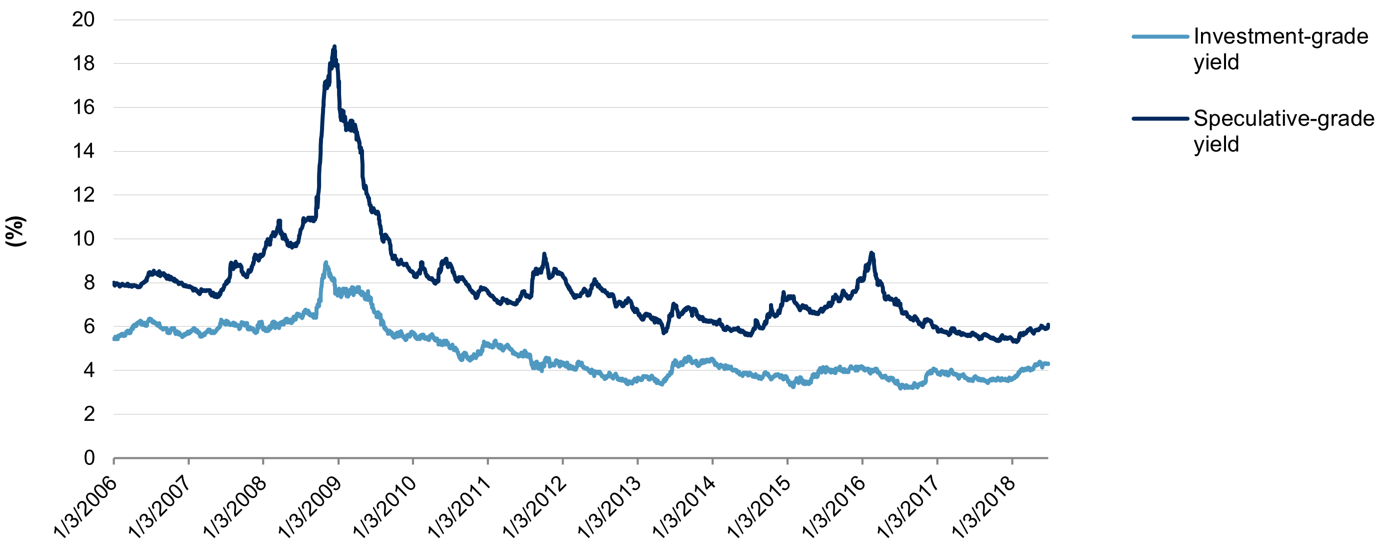
Corporate Bond Yields Are Rising Yet Remain Below Average

Corporate funding costs have risen modestly this year as the Federal Reserve hiked interest rates twice during the first half of 2018. Year to date through June 30, the investment-grade corporate bond yield has risen by 73 basis points (bps) to 4.3%, while the speculative-grade corporate bond yield has risen by 57 bps to 6.1% (see chart 10). Despite this increase, the speculative-grade bond yield remains below its 10-year average of 7.7%, while the investment-grade yield is modestly lower than its 10-year average of 4.5%.

S&P Global economists expect that the Fed will raise benchmark interest rates two more times this year, followed by three more rate hikes in 2019. With rising interest rates and a higher likelihood of increased market volatility, financing conditions are likely to be more restrictive in the second half of 2018, but financing conditions for U.S. companies remain broadly supportive. Given these supportive conditions, annual debt maturities should be generally manageable for U.S. companies. However, companies with weaker credit profiles or fewer sources of funding could face refinancing challenges should investors become more risk averse or market conditions turn more sharply than expected.

Chart 10

S&P Global Ratings U.S. Investment- And Speculative-Grade Corporate Bond Yields



Note: Bond yields for U.S. corporates, calculated as a composite. Investment-grade yields based on bonds with a 10-year maturity; speculative-grade yields based on bonds with a five-year maturity. Data as of July 2, 2018. Source: S&P Global Fixed Income Research.

U.S. Corporate Rated Debt Totals

For this study, we included the rated debt instruments of U.S. companies and their foreign subsidiaries and excluded debt instruments that were in default. Our dataset consists of approximately $9.24 trillion in rated corporate bonds, loans, and revolving credit facilities outstanding as of June 30, 2018. S&P Global Ratings rates about 71% of this debt investment grade (see table 5). Meanwhile, the U.S. speculative-grade market is also substantial, with $2.67 trillion in rated debt. More than half (54%) of this speculative-grade debt consists of loans and revolvers, while the other 46% is in bonds and notes.

Table 5

Total Debt Amount By Rating

	--(Bil. $)--			--Percentage of total (%)--		
Rating category	Financial	Nonfinancial	Total	Financial	Nonfinancial	Total
AAA	0.0	84.5	84.5	0	1	1
AA	132.5	427.4	559.9	1	5	6
A	935.2	1,408.6	2,343.8	10	15	25
BBB	871.8	2,708.8	3,580.6	9	29	39

Table 5

Total Debt Amount By Rating (cont.)

	--(Bil. $)--			--Percentage of total (%)--		
Rating category	Financial	Nonfinancial	Total	Financial	Nonfinancial	Total
BB	103.7	1,104.1	1,207.8	1	12	13
B	85.6	1,097.5	1,183.0	1	12	13
CCC and below	14.6	265.1	279.7	0	3	3
Investment grade	1,939.5	4,629.3	6,568.8	21	50	71
Speculative grade	203.8	2,466.7	2,670.5	2	27	29
Total	2,143.4	7,096.0	9,239.3	23	77	100

Note: Includes bonds, notes, loans, and revolving credit facilities rated by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on close of business on June 30, 2018. Data as of June 30, 2018. Source: S&P Global Fixed Income Research.

Data Approach

We investigated the potential refunding needs of financial and nonfinancial corporate debt rated by S&P Global Ratings in our analysis.

In the U.S. region (including Bermuda and the Cayman Islands), we included the rated debt of all U.S. companies and their foreign subsidiaries. We counted the debt of all of these companies regardless of the currency or market in which the debt was issued. We converted any non-U.S.-dollar-denominated debt to U.S. dollars based on the end-of-day exchange rates on June 30, 2018. We did not include in our totals foreign companies issuing debt in the U.S. market or foreign companies issuing debt through their U.S.-based subsidiaries, unless otherwise noted.

The issue types include loans, revolving credit facilities, bank notes, bonds, debentures, convertible bonds, covered bonds, intermediate notes, medium-term notes, index-linked notes, equipment pass-through certificates, and preferred stock. In the case of revolving credit facilities, the amount usually represents the original facility limit, not necessarily the amount that has been drawn. Debt amounts are tallied as the face value of outstanding rated debt instruments. We excluded individual issues that are not currently rated at the instrument level, as well as instruments from issuers currently rated 'D' (default) or 'SD' (selective default).

We aggregated the data by issue-level credit rating. We also aggregated sector-specific data according to the subsector of the issuer. The financial services sector is defined as all banks, brokers, insurance companies, asset managers, mortgage companies, and other financial institutions. We aggregated debt issued by financial arms of nonfinancial companies with the sector of their corporate parents. For the purposes of this study, the $400 million in maturing debt from the diversified sector has been aggregated with the utilities sector. We also excluded government-sponsored agencies such as Fannie Mae and Freddie Mac, project finance, and public finance issuers.

Related Research

- Distressed Debt Monitor: Frontier Communications Helps Nudge The U.S. Distress Ratio To 5.6%, Aug. 1, 2018
- Global Refinancing Study--Over $11 Trillion In Rated Corporate Debt Is Set To Mature Through

2023, July 26, 2018

- Global Financing Conditions: Issuance Is Forecast To Decline 4.2% To $6 Trillion In 2018, July 25, 2018

This report does not constitute a rating action.