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CREDIT MARKETS

Apple Leads Corporate Bond Bonanza

Investment-grade companies are scrambling to issue bonds at record-low yields

Apple launched its first bond deal since 2017 and is looking to raise $4 billion to $5 billion. **PHOTO:** RICHARD VOGEL/ASSOCIATED PRESS

By Matt Wirz and Nina Trentmann

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Apple Inc. AAPL **1.70%** ▲ on Wednesday joined U.S. companies including Deere DE **0.60%** ▲ & Co. and Walt Disney Co. in a recent sprint to issue new bonds, taking advantage of the steep decline in benchmark interest rates and a surge in investor demand.

Apple launched its first bond deal since 2017, selling $7 billion of debt. All three companies issued 30-year bonds with yields below 3%, a first for the corporate debt market.

Twenty-one companies with investment-grade credit ratings issued bonds totaling about $27 billion on Tuesday, said Andrew Karp, head of investment-grade capital markets at Bank of America Corp. "That's equivalent to a busy week for us—in one day," he said. About 20 more companies were expected to issue investment-grade bonds Wednesday.

The issuance boom is one consequence of a rally in debt that has driven down Treasury yields, which fall as bond prices rise, to near-record lows. Spurred by concerns that slowing growth and a mounting trade conflict will end the decadelong global economic expansion, investors have swept up government bonds around the world, pulling yields in many countries into negative territory. Bonds issued by name-brand corporations give investors a relatively safe alternative that still pays more than government bonds.

The yield on the 10-year Treasury note—which helps set borrowing costs for individuals, companies and state and local governments—settled Wednesday at 1.456% compared with around 2% in July. The fall has dragged down corporate borrowing costs in lockstep, with the yield of Disney's bond due in 2046 sliding to 2.83% from 3.3% since the start of August, according to data from MarketAxess.

"It's kind of unbelievable that three 30-year corporate bonds were issued with sub 3% yields in the past 48 hours but with $17 trillion negative yielding debt out there, it makes sense," said Tom Murphy, a portfolio manager at Columbia Threadneedle Investments, which manages $25 billion of investment-grade corporate bond investments.

Coca-Cola Co. and health insurer Anthem Inc. also announced new bond sales Wednesday, according to S&P Global Market Intelligence.

Kilroy Realty Corp. , a Los Angeles-based real-estate investment trust, or REIT, on Tuesday offered $500 million of senior notes maturing in 2030, with an interest rate of 3.050% a year. Timing was crucial for Tuesday's offering, said Tyler Rose, the company's chief financial officer.

"We decided to access the market on Tuesday to take advantage of an attractive all-in rate and to get ahead of the large supply of REIT debt that we understand is coming later this month," Mr. Rose said. "We ended up with the lowest 10-year coupon in our history by a wide margin."

The new batch of bonds is primarily being used to refinance near-term debt, helping companies lower their interest expenses by replacing existing debt with lower yielding bonds. The bond boom is the corporate version of the refinancing rush that hit the mortgage market last month as homeowners moved to lock in cheaper loans.

Blackstone Group was able to reduce the coupon for a 10-year bond maturing in 2021 by more than half, Chief Financial Officer Michael Chae said. The company sold $900 million in bonds on Tuesday and some of the proceeds will be used to retire the 2021 bond early, Mr. Chae said. Blackstone offered a coupon of 2.50% for the 10-year bond it sold alongside a 30-year-bond on Tuesday, compared with 5.875% for the 10-year bond in 2010. “It is our strategy to put ourselves into the position to opportunistically take advantage of these windows in the market,” Mr. Chae said. The company not only reduced its average cost of debt, but also lengthened the maturity profile of its debt, Mr. Chae said.

United Airlines Holdings Inc. sold $1.2 billion of secured bonds to finance the purchase of new aircraft.

“[Tuesday] was really the first opportunity for us and other issuers to be in what I would describe as a robust market,” United’s chief financial officer, Gerry Laderman, said, referring to the end of the August vacation season.

The airline managed to lower its coupon from over 4.0% to 2.85% compared with a debt sale earlier this year, he said.

A surge in demand for investment-grade corporate debt in recent months is helping to drive yields lower, said Gibson Smith, founder of Denver-based Smith Capital Investors.

“The flows are presenting issuers with an opportunity to borrow at new lows,” he said.

Mutual funds focusing on corporate investment-grade bonds took in $32 billion over the past three months compared with $77 billion of outflows from all stock funds over the same period, according to data from Thomson Reuters Lipper.

The asset class is still attracting inflows because it occupies a sweet spot in the fixed-income landscape. Some investors worried about slowing economic growth and geopolitical risks are switching out of stocks and high-yield debt into investment-grade bonds.

“We always do a go-or-no-go call on the day and took advantage of the turmoil in equity markets on Tuesday,” said Robert Frenzel, the finance chief of Xcel Energy Inc., which on Tuesday issued $600 million bonds due in 2050 at a yield of 2.99%. Xcel is in the midst of a $4.5 billion expansion program to grow its fleet of wind farms and expects to be back next year to issue more bonds. Mr. Frenzel said. “We are always looking for an attractive market,” he said.

Conversely, government-bond investors that need to make up for the declining yields in their core investments are increasing exposure to corporate debt with high credit ratings.

“We’re seeing more flows into credit-oriented products as an alternative to core bond funds that would be more invested in Treasurys and mortgage-backed bonds,” said Andrew O’Brien, a bond portfolio manager at Lord Abbett. Despite some recent signs of weakness, the U.S.

economy is still in good shape and that makes the incremental yield pickup in corporate bonds a good play, he said.

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