Junk Bond Sell-Off Deepens With Energy Hit the Hardest By Virus
2020-02-27 19:40:23.503 GMT

By Paula Seligson

(Bloomberg) -- The days-long sell-off in risky credit notched up a gear Thursday as energy and travel companies sunk amid investor fears about the spread of the coronavirus. Energy led the decliners as oil prices fell below $47 a barrel, while bonds of rental car Hertz Global Holdings Inc. slumped as much as six cents on the dollar. Leveraged loans tied to American Airlines Group Inc. and Travelport Worldwide Ltd. also slipped. The high-yield CDX index, which trades on price, was down a full point at one stage.

High-yield bond investors are trying to assess the big unknown: whether the coronavirus will be just a short-term problem if it can be contained, or, far worse, turn into a pandemic that could pose a long-term drag on the economy and spark a recession.

“The sell-off is accelerating,” said William Smith, a portfolio manager at AllianceBernstein. “Initially we were seeing more weakness in liquid securities, but today there are multiple situations where bonds are down more than five points.”

The jitters have spurred record outflows from the two biggest high-yield exchange-traded funds this week, and Refinitiv Lipper data due later on Thursday may show an outflow of about $4 billion for the week ended Feb. 26, according to JPMorgan Chase & Co analysts, which would be the most in more than six months. Risk premiums on high-yield bonds have jumped to 4.3%, about a percentage point higher than they were at the beginning of the year.

Some bond investors say it still looks too early to buy the dip.

“It’s hard to have a lot of conviction,” said Randy Parrish, head of U.S. credit at Voya Investment Management. “All the risks seem skewed to the downside. Any morning you can walk in and have a headline of further people diagnosed or factories shutting down.”

The volatility has brought high-yield new issues to a virtual standstill this week, with the exception of an unexpected deal from mining company Cleveland-Cliffs Inc. The company is looking to raise $950 million, but it could be a tough sell while commodity names come under pressure.
Bonds tied to metals and mining firms have posted losses in the last five trading days, while risk premiums have widened 62 basis points since last Friday to 451 basis points over Treasuries on Wednesday.

“It’s amazing to me that people are talking about new issues. The market’s been shut down, and will continue to be,” AllianceBernstein’s Smith said. Some companies weighing bond sales have put those plans on ice, he added.

Falling Knife

Energy companies are suffering the most as WTI crude oil fell for the fifth day in a row to trade around $46.56 a barrel. That’s caused even higher-quality issuers such as Continental Resources Inc. to fall below par.

“If oil is not at least $55 a barrel and gas around $3, you’re just on this sliding, eroding cliff where it’s not sustainable for the long run,” said Bloomberg Intelligence analyst Spencer Cutter. “Coronavirus just drives the view that we’re more likely to see a global slowdown. That’s going to weigh on the demand side for fuel.”

Despite the volatility, some investors say they’re finding opportunities to buy. Christine Todd, head of U.S. fixed income at Amundi Pioneer, said her firm was using the sell-off as an opportunity to add exposure to parts of energy they like, such as pipelines. UBS Group AG credit strategists led by Matthew Mish said in a note Thursday that they’ve grown less bearish on energy now that those risk premiums are the highest since 2016.

“The key here is to be patient -- we don’t think we’ve seen the floor in prices and the wides in yields,” Todd said in an interview with Bloomberg Radio Thursday. “This is not a wide buy recommendation, this is being very selective in the names that you pick.”

--With assistance from Claire Boston, Allison McNeely, Lisa Lee, Katherine Doherty and Gowri Gurumurthy.

To contact the reporter on this story:
Paula Seligson in New York at pseligson@bloomberg.net

To contact the editors responsible for this story:
Natalie Harrison at nharrison73@bloomberg.net
Molly Smith