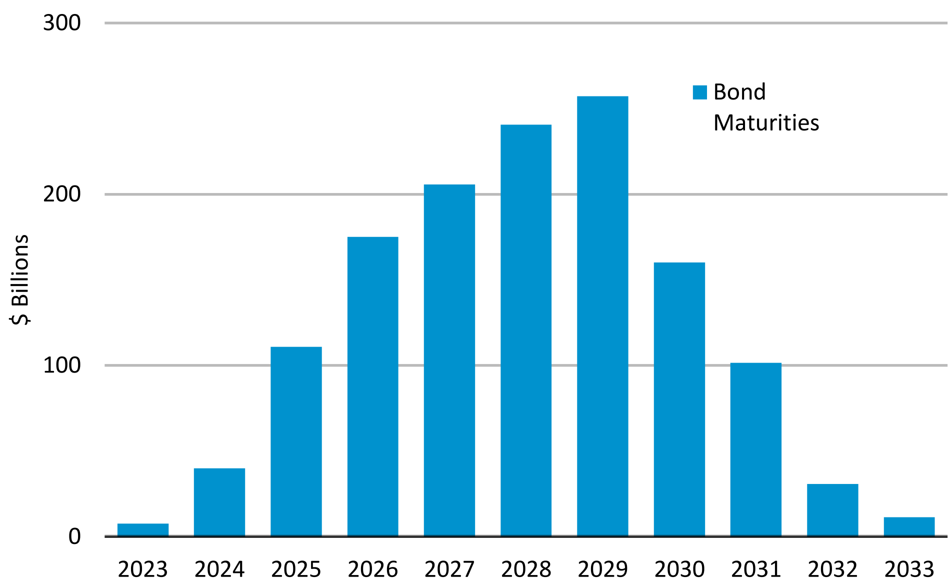
October 2023 High Yield Market Insights

- High yield refinancing needs will begin to increase from 2025
- Some believe this “maturity wall” will widen spreads
- Average annual issuance since 2009 has been larger than any year of the “wall”

One mystery of the current cycle is that high yield spreads (yield premiums to US treasuries) have stayed narrow. Some argue that a “maturity wall” is bearing down on the high yield market. The “maturity wall” idea has arisen previously as a threat to high yield, US treasuries, and emerging market debt. It is the boogeyman that has never managed to crawl out from under the bed. There is no precedent for a technical condition, like impending maturities, to catalyze a selloff in any bond market.

The US high yield market, as currently constituted, has $1.36 trillion in bonds outstanding. Maturities are small until 2025. From then through 2029, the bulk of the market will need to be refinanced. The buildup up in maturities from 2025-2029 is the “maturity wall” referred to above. Is it realistic to believe the need to refinance this wall of debt will cause spreads to widen sharply? In a word, no.

Figure 1: High yield bond maturities



Source: BAML, Concise Capital as of 9/30/2023

Severe spread widening in high yield bonds has been associated with economically driven crises in the credit markets. Sometimes, those crises originate in the high yield market, as in 2000-2002, with the overbuilding of internet infrastructure, and in 2015-2016, when a plunge in oil prices sent many junk-rated energy companies into distress. Sometimes, they originate in other markets and high yield becomes collateral damage. Examples include bouts of spread widening triggered by the Asia crisis (1998), the European sovereign crisis (2011) and the Covid-19 sell-off (2020). A technicality, like the need to refinance, triggered none of these crises. Maturities in 2025 represent 9.8% of the high yield market or about $130 billion, an amount smaller than this year’s meager new issuance. Refinancing such an amount should not be a problem. The first year of recovery from the GFC, 2009, saw $150 billion issued.

Excluding 2020-2021, annual issuance since 2010 has averaged $256 billion per year. In the end, the wall is likely to be a mirage in the desert, something hovering just beyond the horizon, never to see the light of day.