Corporations Have Aggressively Exploited Low Interest Rate Climate

U.S. Corporate Bond Yields to Maturity, Issuance & Maturities

View from the Observation Deck

1. In our blog post on 9/10/13, we provided a snapshot of the 2014 earnings growth estimates for 18 major equity indices. The outlook is encouraging, in our opinion.

2. One of the factors that influences corporate earnings is the cost of capital, and interest rate levels play a big role in determining how much capital companies can raise at any given time.

3. The average yield to maturity on the BofA ML U.S. Corporate Index declined from 7.85% in 2000 to 3.22% in 2012 (see chart). From 2010-2012, the index’s average yield to maturity was just 3.78%.

4. As interest rates trended lower from 2000-2012, the amount of new issuance and length of maturities headed higher (see chart).

5. New issuance rose from $588 billion in 2000 to $1.36 trillion in 2012. Issuance included both investment-grade and high yield corporate bonds. High yield accounted for approximately 15% of annual issuance, on average.

6. The average maturity of the bonds issued rose from 7.2 years in 2000 to 13.7 years in 2012. By extending maturities, companies have been able to lock in lower rates, which helps keep their cost of capital down.

7. J.P. Morgan noted in August 2013 that the interest coverage (ability to pay interest) on corporate debt remains well above “post-crisis lows” and that the impact of more debt outstanding has been mostly offset by lower coupons.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The BofA Merrill Lynch U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.