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Credit Trends:

Global Financing Conditions: Bond Issuance Is Expected To Grow 3.8% In 2020

January 30, 2020

Key Takeaways

- The main components of our 2020 issuance forecast are little changed since last quarter: Slowing economic growth will likely work against a healthy refinancing pipeline and a favorable lending backdrop characterized by low borrowing costs.
- As of this writing, lingering sources of market volatility appear contained compared to last year. While these situations are not necessarily resolved, if current positive or neutral expectations prove correct, issuance growth could reach the higher ends of our current estimates.
- We expect bond issuance growth out of China to remain positive but slow, commensurate with lower growth targets and likely tighter funding conditions for some sectors.

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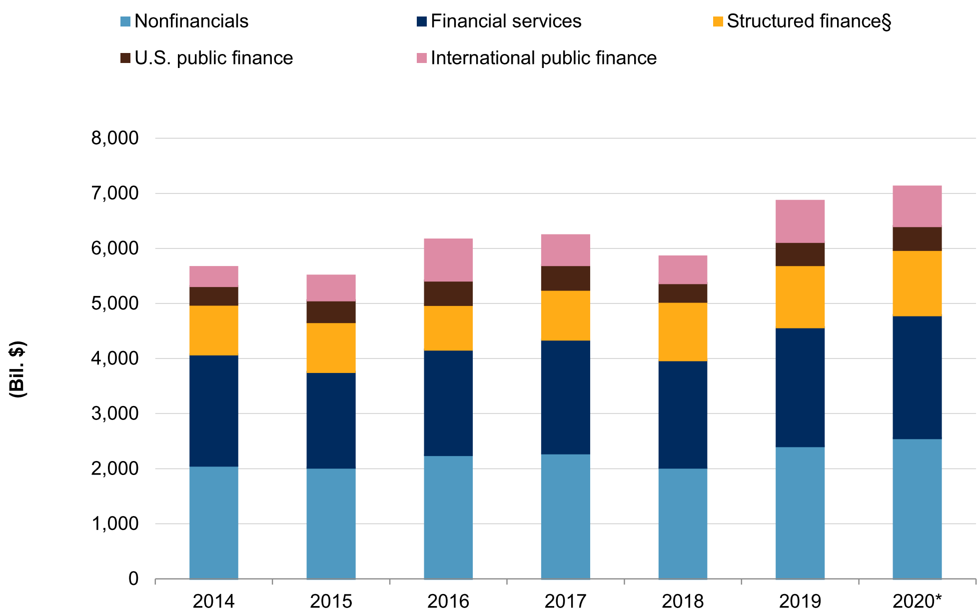
Chart 1

Historical Global Issuance And Forecast



*Full-year forecast. §Structured finance excludes transactions that were fully retained by the originator, domestically rated Chinese issuance, and CLO resets and refinancings. Sources: Harrison Scott, Thomson Financial, and S&P Global Ratings Research.

Table 1

Global Issuance Summary And Forecast

(Bil. $)	Industrials*	Financial services	Structured finance§	U.S. public finance	International public finance	Annual total
2009	1,704.2	1,827.5	572.0	409.7	295.7	4,809.1
2010	1,289.0	1,480.4	895.0	433.3	306.9	4,404.6
2011	1,337.5	1,331.3	942.4	287.7	336.3	4,235.2
2012	1,764.7	1,562.5	786.1	379.6	339.1	4,831.9
2013	1,884.6	1,525.9	803.5	334.1	316.2	4,864.3
2014	2,057.4	2,016.1	905.3	339.0	340.2	5,658.1
2015	2,018.0	1,737.6	905.0	397.7	446.5	5,504.8
2016	2,246.8	1,917.4	807.6	444.8	741.5	6,158.0
2017	2,277.8	2,069.0	901.8	448.6	542.1	6,239.3
2018	2,018.4	1,952.4	1,062.0	338.9	482.7	5,854.5
2019	2,409.7	2,158.9	1,127.9	421.7	743.5	6,861.8

Table 1

Global Issuance Summary And Forecast (cont.)

(Bil. $)	Industrials*	Financial services	Structured finance§	U.S. public finance	International public finance	Annual total
2020 full-year forecast (year-over-year % change)	6.0	3.5	5.0	2.0	(3.0)	3.8

*Includes infrastructure. §Structured finance excludes transactions that were fully retained by the originator, domestically rated Chinese issuance, and CLO resets and refinancings. Sources: Thomson Financial, Harrison Scott, and S&P Global Ratings Research.

S&P Global Ratings Research expects bond issuance to increase over the 2019 total by 3.8% in 2020. Most of our main assumptions for 2020 have remained intact since our last update: Economic growth projections for 2020 remain positive but muted, while central bank policies should continue to foster favorable financing conditions within the private sector. Potential disruptors to financial markets persist heading into an election year in the U.S. The U.S.-China trade dispute is currently in a "truce" stage, while the British government appears set to hold a more consistent position during this year's Brexit negotiations with the European Commission.

We expect issuance to remain resilient in the face of potential disruptors and a slowing global economy, at least through the majority of 2020. The Federal Reserve and European Central Bank (ECB) adopted looser monetary policies in 2019, and at this point, markets expect few to no additional changes from the two central banks in 2020. A continued search for yield should support demand for new issuance, but this search may be largely focused on investment-grade (rated 'BBB-' or higher) bonds, given most markets are exhibiting some caution toward debt rated 'B' and lower as global growth slows and earnings come under pressure.

2020 Forecasts

Nonfinancial issuance expected to grow 4%-8% in 2020

This forecast factors in our expectations for continued positive momentum from 2019, which should support nonfinancial issuance in the first half of the year. These expectations include continued easing of monetary policy by the Fed, the ECB's recent stimulus package (which opens the door to direct purchases of corporate debt), a healthy pipeline of maturing debt over the next three years globally, and the relative attractiveness of corporate debt amid ultralow (and negative) yields on benchmark government bonds in developed countries.

Since our last forecast, the pipeline of pending merger and acquisition (M&A) activity has increased, returning to the historical trend in the fourth quarter of 2019 after a few quarters of decline. That said, refinancing needs will take on a greater role this year, and over $1 trillion of debt issued out of China is scheduled to mature over the next three years.

The major risk to our forecast for continued nonfinancial issuance growth is the anticipated slowdown in the global economy, which prompted easing monetary policies in the first place. S&P Global economists expect GDP growth in the U.S. to slow to 1.9% in 2020, after a growth rate of roughly 2.3% in 2019. In Europe, they expect economic growth to slow to only about 1% in 2020 and grow to 1.2% in 2021.

Lower official economic growth targets for China, coupled with comparatively low manufacturing fixed asset investment and the likely turning of the property sector's growth, will invariably pressure demand for new issuance, which reached record highs in 2019. China's slowdown, unresolved trade technology issues, and diminished conventional policy space will also likely drag growth.

Financial issuance expected to expand 2%-6% in 2020

We expect recent trends in financial issuance to continue at least in the first half of the year, with continued strong totals out of China--albeit likely at a slower rate than the stellar 47.4% expansion of 2019--combined with a relative uptick in the U.S. and Europe, where looming maturities over the next three years total $2.8 trillion (at the time of issue) combined. China's issuance volume hit $578 billion in 2019, an all-time high and a full $186 billion over 2018's total--the prior record.

We feel lower interest rates will support issuance for nonfinancials to some extent globally, but the ECB's extension of a third round of targeted longer-term refinancing operations will give regional banks a cheap alternative to the bond market for funding. That said, with yields in the region falling to near zero for many highly rated issuers, the attraction of the ECB's next round of loans is reduced, particularly when considering the much longer average maturity lengths of funding via the bond market.

Market volatility has historically correlated negatively with bond issuance among financial services in the U.S. and Europe. As of this writing, the U.S. and China have signed their "phase one" trade deal, and the results of the recent elections in the U.K. have at the very least reduced the potential for internal political squabbling. While tensions between the U.S. and Iran during an election year in the U.S. may prompt market jitters in 2020, sources of market volatility are on net lower than those at the start of 2019, which could help push issuance to the higher end of our current range.

The upcoming maturity profiles of global financial institutions through 2022 will require sizable amounts of new debt for refinancing needs, particularly in China. The face value at issue of bonds maturing in China through 2022 is $874 billion. We expect this refinancing need to remain serviceable in 2020, especially in a "lower for longer" environment. We expect refinancing needs may outweigh economic growth as a driver of bond issuance, or at least take on a greater proportion of overall issuance than is typical.

Global structured finance issuance expected to increase roughly 5% in 2020

We expect global structured finance issuance to increase roughly 5% in 2020. Underlying fundamentals stymieing structured finance issuance in the U.S. and Europe in 2019 are expected to moderate in 2020, giving way to a 5% increase in overall global volume should economic conditions hold. Despite a softening global economy, the underlying fundamentals supporting structured finance issuance are expected to hold steady throughout the end of 2020.

In the U.S., mixed performance across the asset class will continue to be a common theme. Issuance in the asset-backed securities (ABS) and residential mortgage-backed securities (RMBS) sectors is generally expected to increase, while commercial mortgage-backed securities (CMBS) volume in 2020 will likely be in line with 2019. Collateralized loan obligation (CLO) volume is expected to deteriorate further in 2020, coming down from a postcrisis peak in 2018. Underlying leveraged loan issuance, a leading indicator of new-issue CLOs, has declined about 25% since July 2018 on a rolling 12-month basis.

Meanwhile, structured finance origination volume out of Europe is expected to rebound in 2020, increasing over 2019. In the first half of 2019, overall appetite for securitized products out of the region waned in light of the implementation of the EU's new Securitization Regulation and persisting uncertainty surrounding Brexit. However, an uptick in overall volume in the second half of the year sparked confidence in issuers and originators alike as they adapt to changes in regulation.

Further, a backlog of pent-up CMBS demand could also boost issuance in 2020, on investor expectations that supply may drive demand in the coming year. However, the ECB's swing back toward monetary policy easing could be a net negative for structured finance issuance. Rate cuts and renewed asset purchases may increase the relative attractiveness of the structured finance asset class for investors. Yet the recent restart of the ECB's targeted longer-term refinancing operations (the so-called TLTRO III) could dampen covered bond issuance, given the attractive terms of this central bank borrowing as a funding source.

Outside the U.S. and Europe, issuance is expected to be flat in 2020 compared to 2019, due to mixed performance across regions. Favorable conditions in the Australian housing market and expanding issuance from depository institutions are expected to support greater volume in 2020. Meanwhile, negative interest rates in Japan and a likely continuation of this year's political unrest in Latin America will likely restrain issuance in these two regions in 2020.

U.S. public finance issuance to continue growing in 2020

U.S. municipal bond issuance finished 2019 well ahead of the prior year's total, rising to $421.7 billion from $338.9 billion. Issuance accelerated in the second half of the year, averaging $41.5 billion from July to December, compared to $28.8 billion in the first six months.

Through the end of the year, new-money issuance represented 62% of all issuance, down slightly from the 69% from 2018 and much higher than the 43% annual average from 2011 to 2017. Refunding issuance was 25% of all issuance in 2019, up from 18% in 2018 and lower than the 2011-2017 average of 37%.

While issuance did accelerate from quarter to quarter in 2019, we anticipate volume will remain slightly below that in the years preceding the Tax Cuts and Jobs Act (TCJA). Although issuance finished strong in the fourth quarter of 2019, we do not foresee that pace continuing, with monthly issuance numbers in the near future to come in between $30 billion and $40 billion instead of the $40 billion to $50 billion range. For 2020, we predict issuance will come in between $420 billion and $440 billion. This compares to the average of $408 billion from 2014-2017 and is broadly similar to real GDP growth projected by S&P Global economists (1.9%).

International public finance will be hard pressed to top 2019

International public finance volume finished over 50% higher in 2019, reaching a new annual high of $743.5 billion. Strong growth within Asia, particularly China, led the increase.

For 2020, we project a decline of 1%-5%. Chinese growth is expected to slow, possibly to under 6%, while the pipeline of maturing bonds is set to also slow in 2020. That said, a comparably massive supply of maturing debt will come due between 2021 and 2024.

Because we report our issuance figures in dollars, exchange rate fluctuations are always a consideration. Some recent depreciation in the U.S. currency has occurred since the Fed's final 2019 interest rate cut in October. At this time, we generally expect any further fluctuations to be mild to moderate, limiting any positive or negative impact on our dollar-based issuance figures.

2019 Summary

Global new bond issuance in 2019 totaled $6.86 trillion, up 17% from 2018. Every sector experienced an increase. The international public finance sector led with an increase of 54%, to $743.5 billion. Unexpected at the beginning of the year was the stellar growth in U.S. public finance--up 24.4% to $421.7 billion. Global nonfinancial issuance (including infrastructure) hit an all-time high of $2.4 trillion, up 19.4%. Financial services also hit a new annual high, at $2.16 trillion, up 10.6% after a strong fourth quarter. Finally, global structured finance rounded out the list, up 6.2% at $1.1 trillion.

These figures include only long-term debt (maturities greater than one year) and exclude debt issued by supranational organizations. All references to investment-grade (rated 'BBB-' or higher) and speculative-grade (rated 'BB+' or lower) debt refer to those issues rated by S&P Global Ratings.

After An Eventful End To 2019, U.S. Financing Conditions Get Off To An Optimistic Start To 2020

Last year began on the back foot, starting with a continuation of what would become the longest drought of speculative-grade corporate bond issuance since the financial crisis. This came alongside other sources of market stress, such as quickly falling oil prices, a decline in equities, and increased volatility. Calls were made for the Fed to lower interest rates, and eventually it did so in the summer. Starting at its July meeting, the Federal Open Market Committee lowered rates by a quarter of a point three times before year-end as an "insurance" measure against slowing growth and concerns over the deteriorating U.S.-China trade negotiations. This helped corporate bond issuance in the U.S. to expand 12.5% for the year.

At this point, markets generally don't expect the Fed to move on interest rates for most, if not the entirety, of 2020, based on the CME FedWatch Tool. This is consistent with S&P Global economists' expectation that the Fed's next move will be an increase in rates, which likely won't happen until 2021.

Low rates amid expectations for no additional central bank moves should support stable financing conditions, including low borrowing costs. However, slower economic growth could keep issuance growth muted. After reaching an expected 2.3% growth rate for 2019, U.S. economic growth is forecast to fall back to 1.9% in 2020 and 1.8% in 2021.

After some increased consternation in October, the U.S.-China trade dispute ended the year on a positive note, with the "phase one" deal signed on Jan. 15. Market reactions were indisputably positive, with the VIX falling to just under 14 by year-end--and further since--from roughly 20 in the first week of October. Speculative-grade bond spreads also fell over the fourth quarter, to just under 400 basis points (bps) by year-end from a relative high of 466 bps in the first week of October.

That said, the substance of the agreement is somewhat thin, with nearly all previous U.S. tariffs still in place and a general sense that a formal enforcement procedure is relatively lacking, allowing for straying from the deal. Still, considering markets generally don't expect the Fed to move interest rates this year (based on the CME FedWatch Tool), financial markets appear convinced of the ceasefire nature of the agreement, at least.

If this ceasefire plays out, it will remove a large source of financial market disruptions this year. Given the current state of the trade situation, we expect market volatility to fall in 2020, all things being equal. However, given heightened tension with Iran and the general election, there is no shortage of potential stressors on the horizon. For now, U.S. financing conditions as of the end of 2019 appear broadly supportive, with the additional boost of positive market sentiment on the heels of improved trade conditions (see table 2).

Table 2

Indicators Of Financing Conditions: U.S.

	Restrictive	Neutral	Supportive	2019*	2018*	2017*
M1 money supply (year-over-year % change)		x		7.4	4.1	7.6
M2 money supply (year-over-year % change)		x		6.9	4.2	4.8
Triparty repo market - size of collateral base (bil. $)§			x	2,456.9	2,105.4	1,803.6
Bank reserve balances maintained with Federal Reserve (bil. $)		x		1,633.9	1,641.5	2,123.7
Three-month nonfinancial commercial paper yields (%)	x			1.68	2.55	1.55
Three-month financial commercial paper yields (%)	x			1.79	2.67	1.65
10-year Treasury yields (%)			x	1.92	2.69	2.43
Yield curve (10-year minus three-month) (bps)		x		37	24	104
Yield to maturity of new corporate issues rated 'BBB' (%)			x	3.31	4.66	3.37
Yield to maturity of new corporate issues rated 'B' (%)			x	6.73		7.09
10-year 'BBB' rated secondary market industrial yields (%)			x	3.44	4.80	3.82
Five-year 'B' rated secondary market industrial yields (%)			x	6.61	8.70	6.05
10-year investment-grade corporate spreads (bps)			x	121.2	172.6	115.8
Five-year speculative-grade corporate spreads (bps)			x	399.7	481.9	327.8
Underpriced speculative-grade corporate bond tranches, 12-month average (%)			x	13.6	17.4	14.7
Fed Lending Survey For Large And Medium Sized Firms†		x		(2.9)	(15.9)	(3.9)
S&P Global Ratings corporate bond distress ratio (%)			x	7.5	8.7	7.4
S&P LSTA Index distress ratio (%)		x		5.7	3.3	3.0
New-issue first-lien covenant-lite loan volume (% of total, rolling three-month average)			x	92.6	64.2	72.8
New-issue first-lien spreads (pro rata)		x			323.3	316.7

Table 2

Indicators Of Financing Conditions: U.S. (cont.)

	Restrictive	Neutral	Supportive	2019*	2018*	2017*
New-issue first-lien spreads (institutional)			x	278.0	452.1	346.2
S&P 500 market capitalization (year-over-year % change)			x	27.3	(7.9)	18.4
Interest burden (%)‡		x		10.9	11.2	10.7

*Data through Dec. 31. §Data as of Nov. 30. †Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices For Large And Medium-Sized Firms; through third-quarter 2019. ‡As of Sept. 30. Sources: IHS Global Insight, Federal Reserve Bank of New York, S&P LCD, and S&P Global Ratings Research.

Certainly, one consequence of the falling interest rates in 2019 has been a relative tightening of financing conditions for leveraged loans, at least relative to those for speculative-grade bonds. That said, the share of institutional loans with light covenants remains near an all-time high--and now accounts for nearly all institutional loans in the U.S.--while spreads on institutional loans remain supportive for lenders.

Corporate issuance growth exceeds 12% for 2019

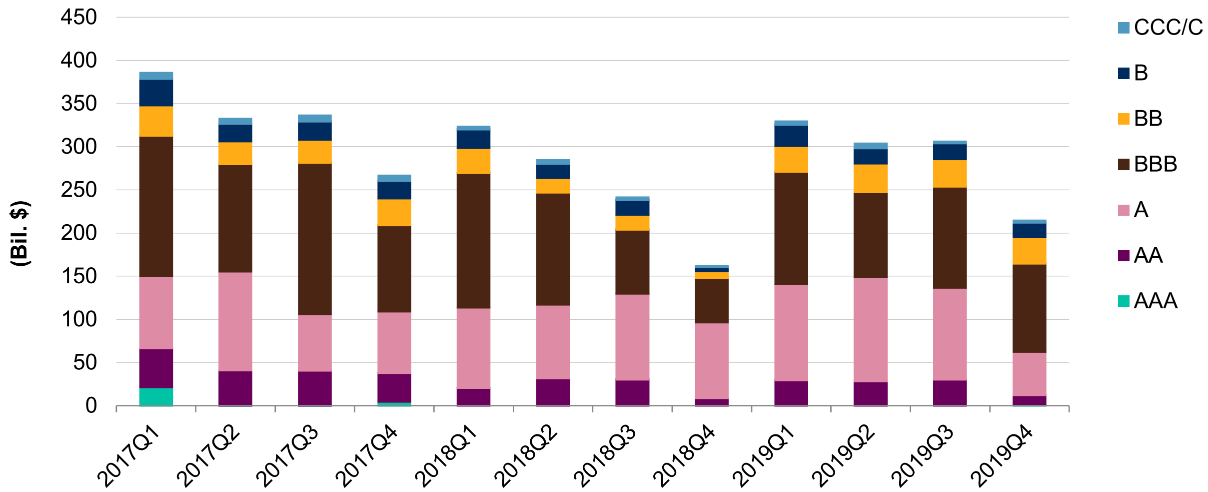
U.S. corporate bond issuance grew to $1.25 trillion in 2019, locking in an advance of 12.6% over the $1.1 trillion recorded in 2018. The majority of growth came in the second half of the year; the combined issuance volume from the third and fourth quarters exceeded the comparable 2018 total by 32%. This was, of course, not unusual, given the particularly poor totals from the fourth quarter of 2018.

Nonfinancial corporate bond issuance was entirely responsible for the growth in corporate bond issuance in 2019, increasing 25% over 2018 to $813 billion. Conversely, issuance among financial services declined by 5.25% to $438 billion in 2019, marking the second consecutive year of declining volume. In fact, 2019 posted the lowest annual total for financial services since 2013. This was somewhat expected, given the trend of recent years, which shows issuance declining on the heels of declines in banks' excess reserves with the Fed, as banks likely tap into these reserves as a funding source in place of bond issuance.

Backed by three interest rate cuts by the Fed, speculative-grade corporate bond issuance increased over 50% to a total of $216 billion in 2019. Though the Fed didn't cut rates until July, markets clearly anticipated several rate cuts well in advance, as every quarter in 2019 saw an increase relative to 2018 (see chart 2). Meanwhile, investment-grade corporate bond issuance grew as well, but by just under 8%, finishing 2019 at $937 billion.

Chart 2

Quarterly U.S. Corporate Rated Bond Issuance



Sources: Thomson Financial and S&P Global Ratings Research.

Topping the list of U.S. corporate bond issuers in December were two utility companies (see table 3). Leading the pack was Cameron LNG LLC, which came to market on Dec. 5 with $3 billion in a four-part senior secured note offering. The entire proceeds of the offering were used to replace undrawn commitments and repay Cameron's $2.915 billion uncovered loan facility, which was subsequently retired, and to pay swap termination and other transaction costs.

Table 3

Largest U.S. Corporate Bond Issuers: December 2019

Issuer	Sector	(Mil. $)
Cameron LNG LLC	Utility	3,020.0
Calpine Corp.	Utility	2,650.0
Chubb INA Holdings Inc.	Insurance	1,548.9
PNC Bank N.A.	Banks and brokers	1,400.0
US Bank N.A., OH	Banks and brokers	1,399.3
Charter Communications	Media and entertainment	1,325.5
AT&T Inc.	Telecommunications	1,265.0
CenturyLink Inc.	Telecommunications	1,250.0
Branch Banking & Trust Co.	Banks and brokers	1,247.9
CCO Holdings LLC	Media and entertainment	1,213.5
Berry Global Inc.	Banks and brokers	1,196.3
Lumentum Holdings Inc.	Consumer products	1,050.0
Terrier Media Buyer	High technology	1,015.0

Table 3

Largest U.S. Corporate Bond Issuers: December 2019 (cont.)

Issuer	Sector	(Mil. $)
MUFG Union Bank N.A.	Banks and brokers	1,000.0
Steel Dynamics Inc.	Metals, mining, and steel	998.1

Note: Includes issuance from Bermuda and the Cayman Islands. Sources: Thomson Financial and S&P Global Ratings Research.

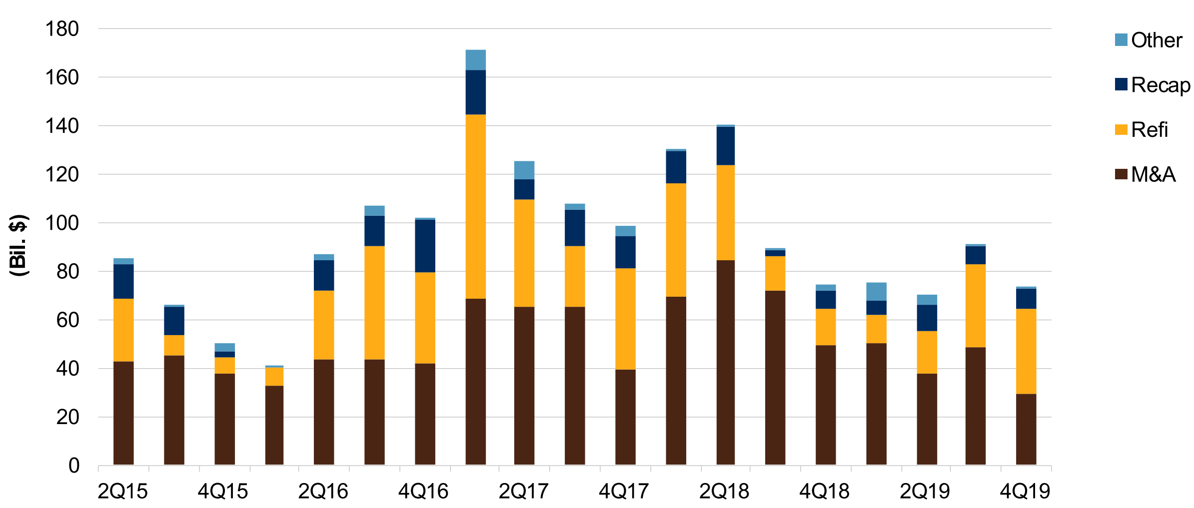
Opportunistic funding dominated leveraged loan market in the fourth quarter

Growing investor aversion to the riskier corners of the leveraged loan primary market took hold in the fourth quarter in the U.S. as M&A volume stumbled to a multiyear low while opportunistic, high-rated issuers stepped in to pick up some of the slack.

Institutional volume for the quarter was $73.2 billion, down from $91.1 billion in third-quarter 2019 but on par with the $73.2 billion average issuance from fourth-quarter 2018 to second-quarter 2019. Just $29.2 billion of new supply was mustered to support leveraged buyouts (LBOs) and other acquisitions, a decline of 40% from the third quarter and marking the lowest output for any quarter since second-quarter 2013. A solid period for refinancing ($35.2 billion) provided some supply, while another $8.1 billion backed recap deals.

Chart 3

Institutional Loan Volume



Source: LCD, an offering of S&P Global Market Intelligence.

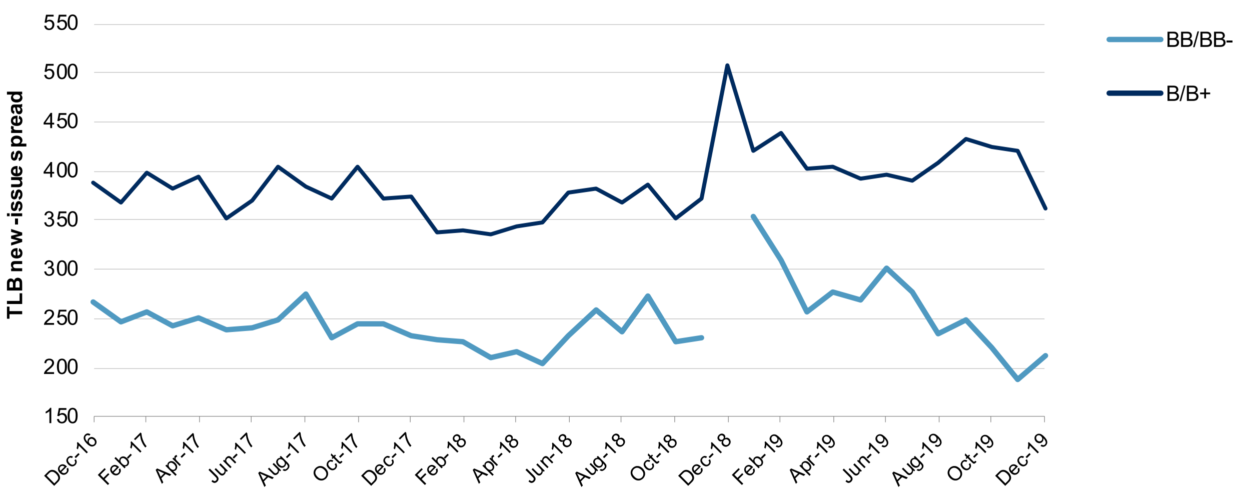
The fourth quarter began with an already pronounced (and growing) separation of high- and low-quality assets amid an exodus from riskier credits. Amid the constant undercurrent of concern about geopolitical risks, lingering trade war tensions, and global economic growth, CLO investors have become increasingly wary of the 'B-' segment--which accounted for an all-time high of 14.3% of the S&P/LSTA Leveraged Loan Index as of Dec. 31, based on facility rating--and those deals' potential to be downgraded to 'CCC', thus straining CLO ratings baskets.

That risk-off sentiment is significant, as the CLO market absorbed roughly 71% of all institutional issuance in 2019, the highest share ever, according to S&P Global Market Intelligence's Leveraged Commentary & Data (LCD). This comes as retail investors continue their retreat; loan fund flows were deeply in the red in 2019 (the net outflow through Dec. 25 was $27.2 billion, according to Lipper).

These diverging fortunes increased the gap between 'BB' and 'B' clearing spreads in the institutional new-issue market, a gap that peaked at 233 bps in November amid a swarm of 'BB' repricings to L+175, which pulled spreads on higher-rated deals downward.

Chart 4

Spread Gap Between 'BB' And 'B' Loans

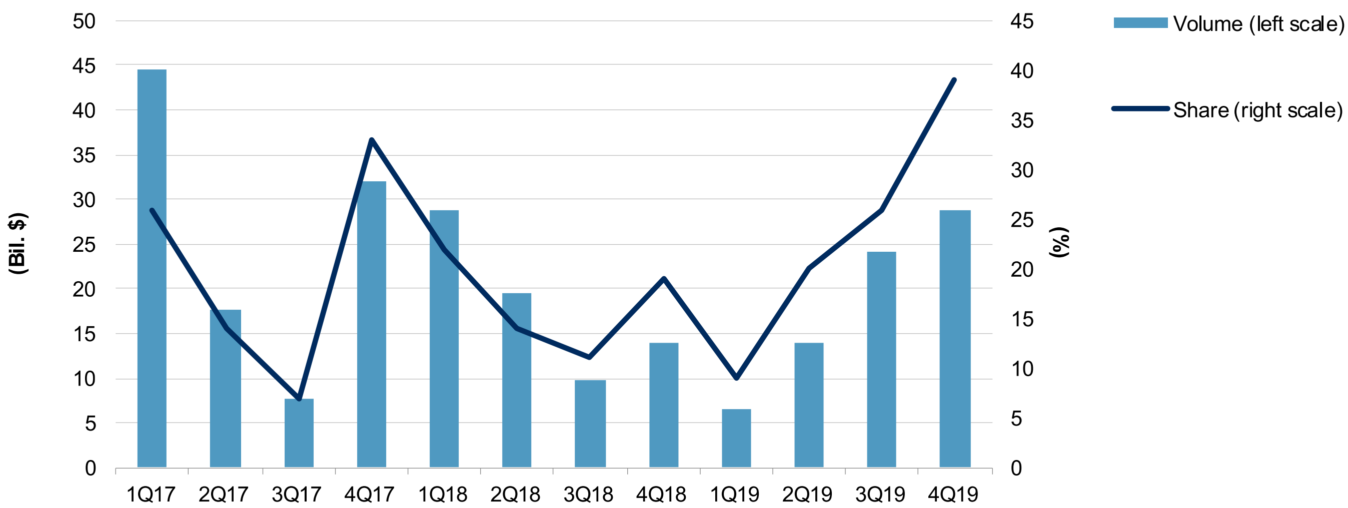


Source: LCD, an offering of S&P Global Market Intelligence.

As investors clamored for higher-quality assets, issuance from 'BB' borrowers increased to $28.7 billion in the fourth quarter, or 39% of total issuance, largely fueled by refinancing. This volume is the highest since first-quarter 2018.

Chart 5

'BB' Rated Issuers' Institutional Loan Volume And Share

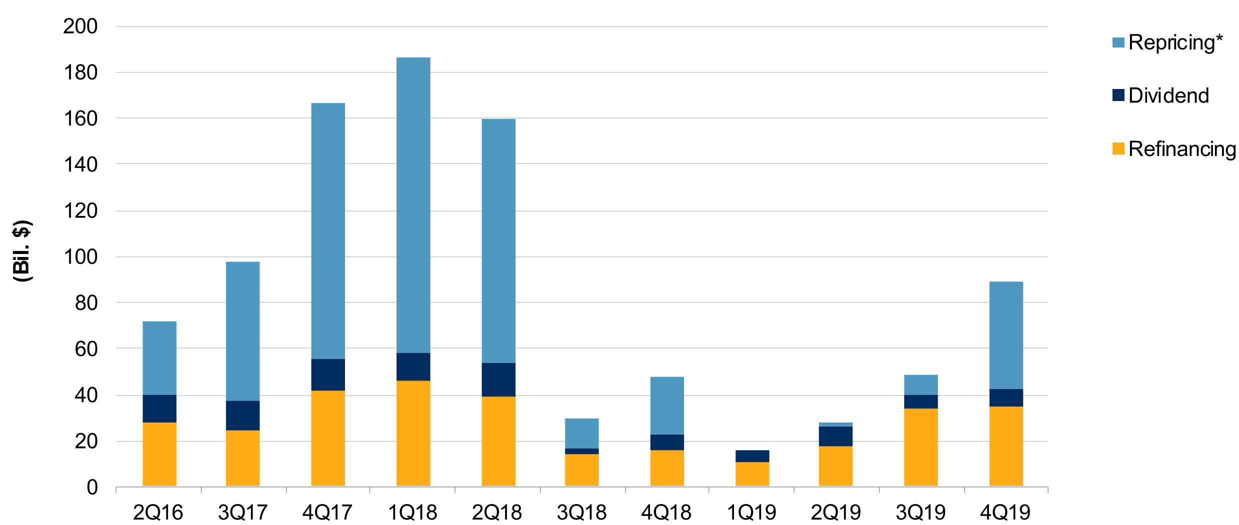


Source: LCD, an offering of S&P Global Market Intelligence.

Against that backdrop, quarterly opportunistic volume (including refinancing, repricing, and dividend recapitalization) hit its highest level since second-quarter 2018, largely fueled by those 'BB' deals. A reawakening of the market for repricings led volume to $46.5 billion during the quarter, also a six-quarter peak. In fact, that total nearly matched the cumulative tally over the prior five quarters.

Chart 6

Opportunistic Loan Volume

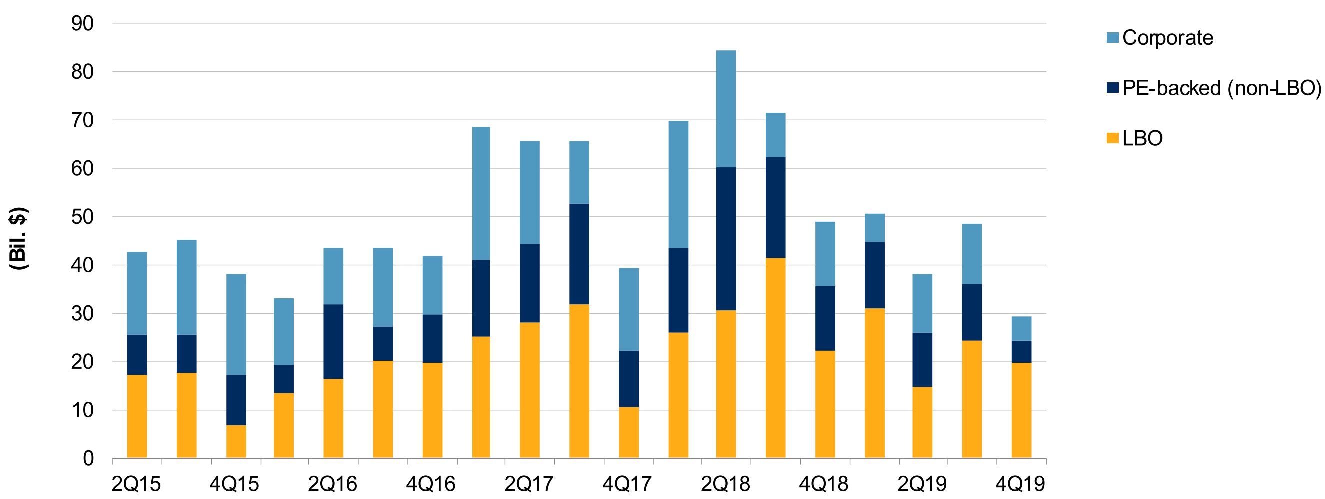


Reflects repricings done via an amendment. Does not include resyndicated repricings, which are included in the refi or dividend category. Source: LCD, an offering of S&P Global Market Intelligence.

In all, 80% of the repricing volume in the quarter was from borrowers with either 'BB' or split 'BB'/'B' ratings, including benchmark issues from Charter Communications, Restaurant Brands, and Berry Global. Meanwhile, acquisition-related issuance fell to its lowest level since second-quarter 2013, at $29.2 billion. Corporate M&A of $4.9 billion and sponsor-backed M&A (excluding LBOs) of $4.7 billion were the lowest readings since fourth-quarter 2012 and fourth-quarter 2011, respectively.

Chart 7

Institutional M&A Loan Volume



Source: LCD, an offering of S&P Global Market Intelligence.

The decline in LBO-related loan issuance was not as severe: Volume was $19.6 billion, down 19% from the prior quarter, though that still represents 22% of 2019's total buyout volume of $89.3 billion. The quarter brought several deals with new institutional loans of at least $2 billion: Buckeye Partners, Cox Media Group, and Genesee & Wyoming (three deals that also benefited from 'BB' ratings).

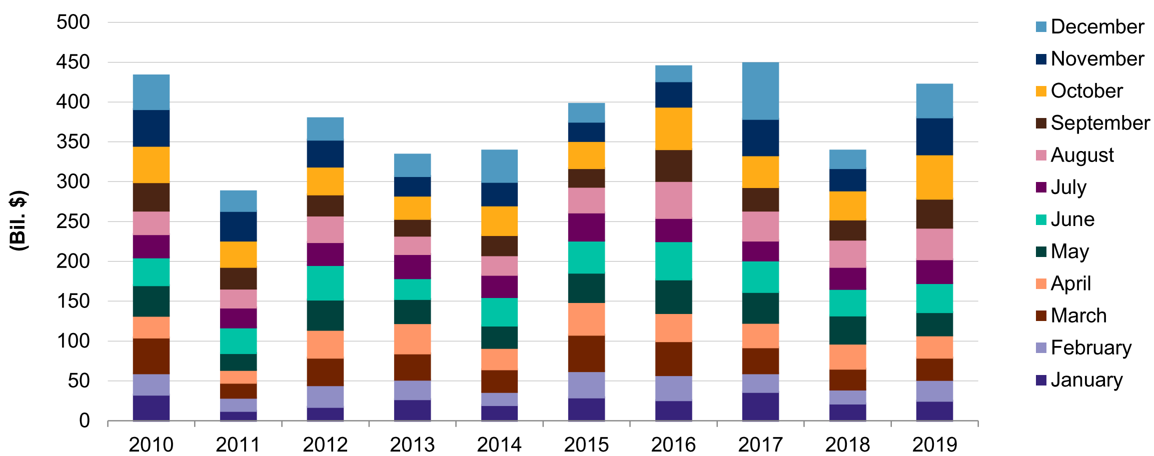
Municipal volume back to pre-2018 levels

The municipal volume of $40.8 billion in December was lower than November's $46.7 billion total and higher than the December 2018 total of $22 billion. For the whole year, municipal volume was up to $421.7 billion from $338.9 billion.

The exclusion of refunding bonds from tax exemption under the TCJA had changed municipal bond issuance, but refunding issuance recently surged, finishing the year at $107 billion, much higher than the 2018 total of $59 billion. Combined sources finished much closer, at $52 billion, up from $44 billion.

Chart 8

Annual Municipal Volume



Sources: Thomson Financial and S&P Global Ratings Research.

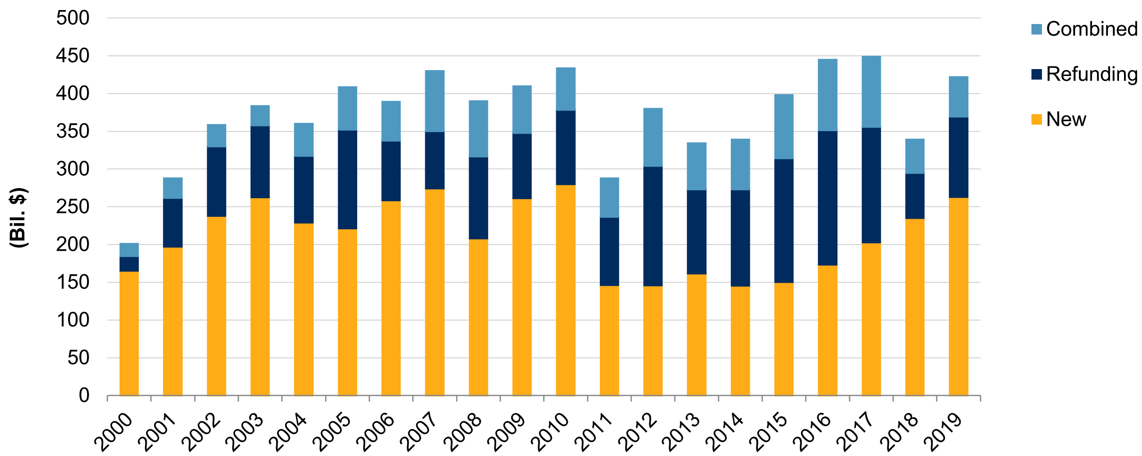
A rush at the end of 2017 was one of the main causes of a decline in municipal volume in early 2018. S&P Global Ratings believes the general trend of lower volume than prior to the revised tax code will continue, but 2020 volume should be modestly higher than the depressed issuance at the start of 2019. The issuance of new-money bonds in 2018 was its highest since 2010, which indicates greater demand for investment in roads, bridges, schools, hospitals, water systems, and other assets funded by municipal debt.

Yet even with an increase in new-money proceeds of $33 billion over 2017, overall volume in 2018 fell 24.4% lower than in the previous year. Roughly the same pattern repeated in 2019, with issuance climbing due to a growing economy and rising costs to state and localities. Without a change to tax law or a significant infrastructure initiative at the federal level, state and local issuance will settle into a lower baseline than over the past two decades.

Chart 9 shows the marked decrease in refunding volume in 2018 and a slight increase in 2019, though the total is still far below the pre-reform average of $149 billion per year from 2012 to 2017. About 38% of 2019 volume has been for refunding or issues that combine refunding with new money--a little higher than the proportion in 2018, which finished at 31%. In 2017, about 55% of volume went toward refunding or combined uses.

Chart 9

Municipal Bond Volume By Type



Sources: Thomson Financial and S&P Global Ratings Research.

We expect volume to increase in 2020 to about $435 billion. Before 2018, the baseline of municipal issuance was about $400 billion annually, a figure that the market approached in 2015 and surpassed in 2016 and 2017. In the current legislative and economic landscape, the new standard for municipal volume will likely settle at a baseline of about $400 billion, below where the baseline would have been absent the changes from the TCJA.

In the short term, the most significant impact of the TCJA in 2018 regarding municipal bonds was the elimination of the tax exemption on advance refunding bonds. These bonds represented $91 billion of issuance in 2017. Removing this tool brought all refunding activity in 2018 to just $59 billion, the lowest figure since 2000. Refunding exceeded $100 billion from 2012-2017. It is possible that refunding activity will return to near its former level once bonds that would have been eligible for advance refunding reach their call date. In a few years, bonds that would have been advance-refunded may be refinanced without penalty. However, the lack of advance refunding will delay issuance for refinancing into later years.

The New York State Dorm Authority issued the largest transaction in December, for $3.4 billion, followed by the New Jersey Transportation Trust Fund Authority with $1.56 billion (see table 4).

Table 4

Largest U.S. Municipal Issues: December 2019

Issuer	(Mil. $)	Date
New York State Dorm Authority	3,404.6	12/18/2019
New Jersey Transportation Trust Fund Authority	1,566.1	12/4/2019
Metro Washington Airports Authority	1,269.4	12/5/2019
Texas PAB Surface Trans Corp.	1,202.9	12/10/2019
New York City Transitional Finance Authority	1,150.0	12/12/2019

Table 4

Largest U.S. Municipal Issues: December 2019 (cont.)

Issuer	(Mil. $)	Date
Michigan Finance Authority	1,091.0	12/5/2019
Metro Nashville Airport Authority	919.6	12/5/2019
Foothill-Eastern Transportation Corridor	897.1	12/10/2019
California	894.6	12/13/2019
Metropolitan Pier and Exposition Authority	881.9	12/3/2019

Sources: Thomson Financial and S&P Global Ratings Research.

New York-based entities issued more than those in any other state in December, with $7.98 billion. For the full year, California has issued the most debt, with $60.2 billion, up from $47.9 billion in 2018. Florida, the fourth-highest issuer, was up 63.5% from the previous year (see table 5).

Table 5

Top 10 States By Bond Sales: December 2019

	--2019--			--2018--		
State	Rank	Volume (mil.)	July volume (mil.)	Rank	Volume (mil.)	Change from previous year (%)
California	1	60,172.1	5,692.6	1	47,880.7	+0.3
New York	2	45,449.9	7,983.4	2	42,690.8	+0.1
Texas	3	43,666.5	3,247.6	3	33,294.3	+0.3
Florida	4	21,787.8	1,406.1	4	13,324.9	+0.6
Pennsylvania	5	17,914.5	605.4	5	13,115.8	+0.4
Massachusetts	6	13,790.0	382.5	6	12,531.1	+0.1
Colorado	7	12,626.6	1,179.2	7	11,267.6	+0.1
Ohio	8	12,548.6	1,335.9	8	10,694.1	+0.2
New Jersey	9	11,701.0	2,809.3	9	9,205.4	+0.3
Georgia	10	11,104.2	279.7	10	8,517.3	+0.3

Sources: Thomson Financial and S&P Global Ratings Research.

Structured finance issuance ends the year strong

In the U.S., structured finance issuance once again climbed to a postcrisis high in 2019, raking in $537 billion. Despite a slow start to the year for both dollar volume and origination count, coupled with marketwide caution surrounding potential capital market volatility and trade war exposure, structured finance issuance finished the year up 6.66%.

Performance across asset classes was mixed. Only the RMBS and CMBS sectors posted gains above 2018, both resulting from a surge in volume in the fourth quarter of 2019. Annual volume fell back in both the ABS and structured credit subsectors in 2019.

Structured finance issuance in December 2019 amounted to $35 billion in total. Surprisingly, both

CMBS and structured credit recorded their highest monthly volumes of 2019 in December, while the ABS and RMBS sectors recorded their lowest volumes.

New-issue CLO volume fell back to $113 billion in 2019, a decline of 18% year over year, on the back of a postcrisis high of over $138 billion in new CLO issuance in 2018. A surge of $13 billion in new originations in December alone, which was the highest volume recorded for any December after the crisis, was not enough to bring issuance past the 2018 total. Throughout 2019, declining underlying leveraged loan issuance, a leading indicator of CLO volume, hampered originations at the CLO level. Leveraged loan origination fell to just $487 billion in 2019 from $624 billion in 2018, representing a 22% decline.

The leveraged loan sector has continued to attract the scrutiny of central banks and supranational watchdogs amid ongoing concerns surrounding deteriorating credit standards and documentation, with potential implications for financial stability when the credit cycle eventually turns.

We note that our CLO issuance figures here do not include additional U.S. CLO pricings that take the form of resets and refinancings of legacy transactions. Significant spread tightening on CLO liabilities over the past few years has motivated CLO collateral managers to refinance transactions that they structured when spreads were higher, calling the outstanding securities and reissuing debt with lower coupons. However, there is a declining stock of outstanding transactions for which refinancing makes economic sense, given that CLO liability spreads have recently been widening, and refinancing and reset activity declined significantly in 2019. Overall in 2019, CLO refi and reset volume amounted to 28% of 2018's volume.

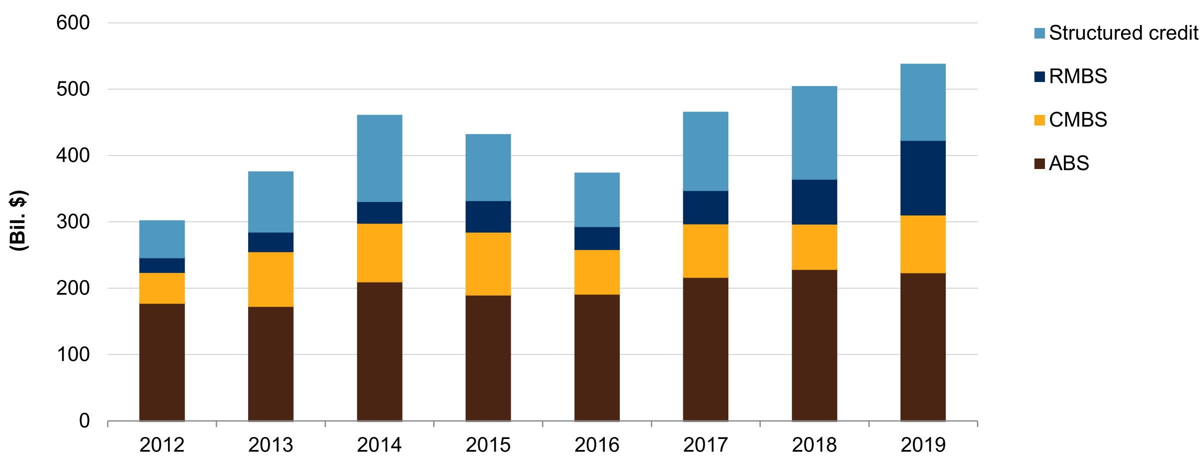
The ABS sector came in at $224 billion in 2019, down 2.1% from $228 billion recorded in 2018. In the same fashion as the other structured finance sectors, issuance volume picked up in the second half of the year, following an anemic start. However, a total of just $5 billion in December was not enough to carry the sector past 2018.

Among the diverse underlying collateral assets backing ABS originations, auto loans were the only subsector to reach record-high issuance volume in 2019. Despite weakness in light-vehicle sales through the year, origination volume for auto loan ABS ended the year up 16% at $97 billion.

Meanwhile, the credit card ABS subsector fell back 31% to $20 billion for the year, amid interest rate volatility and caution in the face of the rising indebtedness of U.S. consumers. Student loan ABS totaled just $14 billion in 2019, down 25% year over year, due in part to declining originations under the Federal Family Education Loan Program, which ended loan originations almost a decade ago.

Chart 10

U.S. Structured Finance Issuance*



*Excludes transactions that were fully retained by the originator and CLO resets and refinancings. Sources: Harrison Scott and S&P Global Ratings Research.

RMBS issuance hit a postcrisis high of $112 billion in 2019, corresponding to an increase of 66% over 2018, boosted largely by origination surges in both the nonqualified mortgage and nonperforming loan subsectors. However, in December, issuance was a mere $3 billion to cap off the year. Originations from RMBS in 2019 spanned many of the usual subsectors, with prime RMBS taking the greatest share with 20% of the total, followed by nonperforming loans with 19%.

The CMBS sector was the only remaining sector to post a gain in issuance over 2019, rising to $87 billion, an increase of 27% over 2018 and the highest annual total since the $95 billion recorded in 2015. For most of 2019, originations from CMBS lagged behind 2018, but in the third quarter, issuance of conduits began to pick up and offset anemic volume from single-borrower transactions. In December alone, new volume reached $14 billion, the highest total for any month since the financial crisis.

In the coming year, we expect net growth in U.S. structured finance issuance, given the current low interest rates, coupled with a strong labor market, which support our stable credit outlook for most sectors. Growth is expected to emanate from the RMBS and CMBS sectors primarily, propelled by higher nonqualified mortgage originations and single-asset, single-borrower transactions, respectively.

ABS volume could contract, but we expect auto loan ABS volume to remain stable despite the expected reduction in new-vehicle sales in 2020. Deterioration in origination volume of CLOs in 2020 could further dampen overall issuance volume.

Europe Starts The New Year Off Testing The Limits Of Favorable Conditions

After yields on many sovereign bonds fell further into negative territory in Europe in 2019, this phenomenon has somewhat reversed recently. By year-end, only German and Dutch 10-year bonds had negative yields, and in the case of the Netherlands, by only eight-tenths of a basis point. Nonetheless, yields on corporate issuance continue to fall across nearly every rating category. Though based on only a very small population of issues, even the 'B' category saw its lowest monthly average yields since 2008 in December.

Despite the stock of negative-yielding financial instruments declining in recent months, financing conditions--particularly private-sector yields--remain extremely supportive of lenders in Europe (see table 6). The looser stance in monetary policy taken by the ECB last year, along with a global hunt for yield, has seemingly outweighed both geopolitical stressors as well as a slowing economy.

As in the U.S., geopolitical stress has been a regular feature of European financial markets in 2019, but they have generally taken it in stride. The Brexit process will continue to dominate European politics in 2020, with the current administrations in the U.K. and the European Commission starting the year far apart on a reasonable duration for the divorce process. Still, the resounding election victory of the Conservative party in the U.K. has produced a much more concentrated bargaining position for Prime Minister Boris Johnson, which may at least reduce internal sources of political instability.

Economic stress in the manufacturing sector is expected to persist in 2020, particularly for Germany and Italy. But as in the U.S., European consumers have remained resilient, considering the combination of low inflation and comparably healthy wage growth. Global trade deterioration remains a risk, however, with the potential to add more stress to the manufacturing sector that could spill over to the broader economy. This would continue the region's reliance on internal demand for economic growth. As such, S&P Global economists have revised their expectations for 2020 growth down to 1%, after growth hit 1.2% in 2019. Growth is then expected to return to 1.2% in 2021.

Everything considered, it would appear that markets are generally still optimistic regarding the relative risk of fixed income in Europe and are ready to lend at very favorable terms. This is despite apparently limited upside for substantial returns.

Table 6

Indicators Of Financing Conditions: Europe

	Restrictive	Neutral	Supportive	2019	2018	2017
M1 money supply (year-over-year % change)*		x		8.3	6.9	8.0
M2 money supply (year-over-year % change)*			x	6.1	4.4	4.8
Three-month euro-dollar deposit rates (%)	x			1.92	2.85	1.75
ECB Lending Survey of Large Companies§			x	(1.41)	(3.05)	(3.97)
Yield to maturity of new corporate issues rated 'A' (%)			x	1.50	1.53	3.05
Yield to maturity of new corporate issues rated 'B' (%)			x	5.23		5.68
European high-yield option-adjusted spread (%)†			x	3.08	5.06	2.79
Underpriced speculative-grade corporate bond tranches, 12-month average (%)			x	20.5	29.9	19.9
Major government interest rates on 10-year debt			x			
S&P LCD European Leveraged Loan Index distress ratio (%)			x	2.93	2.81	1.17

Table 6

Indicators Of Financing Conditions: Europe (cont.)

	Restrictive	Neutral	Supportive	2019	2018	2017
Rolling three-month average of all new-issue spreads: RC/TLA (Euribor +, bps)			x	337.5	293.3	329.2
Rolling three-month average of all new-issue spreads: TLB/TLC (Euribor +, bps)			x	371.6	375.8	342.3
Cov-lite institutional volume: share of institutional debt (%, rolling three-month average)			x	93.7	61.7	79.3

Data through Dec. 31. *Through Nov. 30. §European Central Bank Euro Area Bank Lending Survey for Large Firms; third-quarter 2019. †Federal Reserve Bank of St. Louis. Sources: IHS Global Insight, ECB, S&P LCD, and S&P Global Ratings Research.

Corporate bond issuance in Europe expanded 10% in 2019

Corporate bond issuance out of Europe grew 10% in 2019, to a total of $1.25 billion for the year, all but offsetting most of the loss of 10.7% seen in 2018. Interestingly, this is essentially the same dollar-based total as seen in the U.S. in 2019. Nonfinancial corporate bond issuance was responsible for the majority of growth, reporting an 18% advance to $472 billion. Growth on the financial services side was more muted but still healthy at 6%, finishing the year at the equivalent of $780 billion.

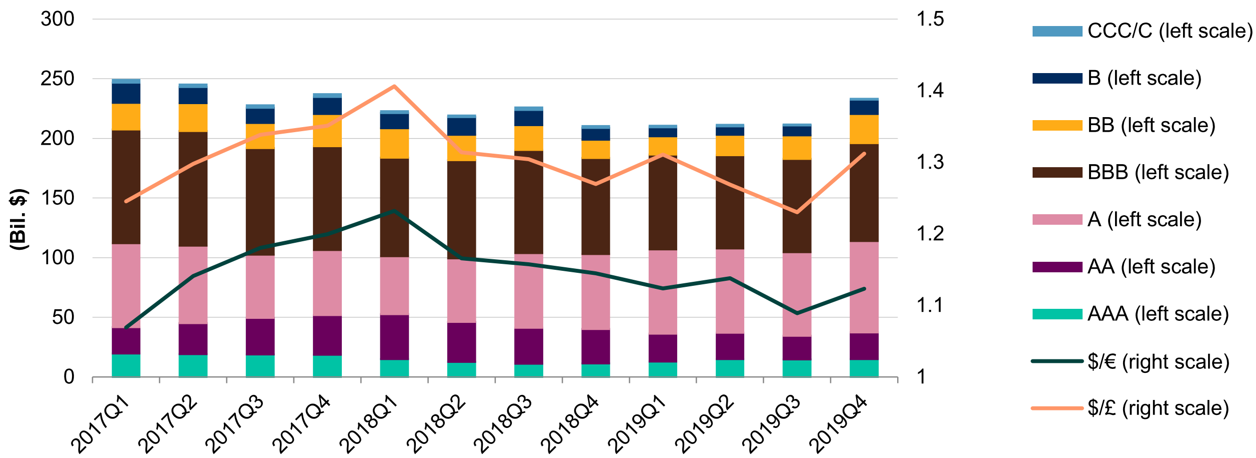
Some of the increase in the issuance totals in 2019--at least toward the end of the year--were partly attributable to appreciations in both the euro and the pound as the two currencies experienced some back-and-forth valuations, as opposed to their mutually consistent declines over 2018 (see chart 11).

Speculative-grade corporate bond issuance expanded by the greatest margin in 2019, up 40% to a total of $149 billion. This is consistent with expectations after the ECB lowered rates and resumed quantitative easing midyear. It is also similar to the experience of U.S. markets, which also saw their speculative-grade bond totals increase (by 52%), while in both regions, leveraged loan totals declined by double digits from particularly strong 2018 sums. Meanwhile, investment-grade corporate bond issuance grew 6.7%, reaching $784 billion.

The speculative-grade portion of both nonfinancial and financial corporate bond issuance increased in 2019. Within the nonfinancial segment, the share of speculative grade originations rose to 61%, from 59% in 2018. Financial corporate bonds saw a rise in the speculative-grade share to 9% in 2019, from 6% in 2018.

Chart 11

Quarterly European Rated Corporate Bond Issuance



Note: Issuance data expressed as rolling four-quarter averages. Sources: Thomson Financial, IHS Global Insight, and S&P Global Ratings Research.

Consistent with the characteristic December slowdown for corporate issuance in Europe, the list of largest issuers in December did not include any especially large deals (see table 7). With six of the largest 10 issuers, the banks and brokers sector led the way in December with over 57% of the monthly total.

Table 7

Largest European Corporate Bond Issuers: December 2019

Issuer	Country	Sector	(Mil. $)
Skandinaviska Enskilda Banken	Sweden	Banks and brokers	1,749.7
JAB Holdings B.V.	Netherlands	Banks and brokers	1,640.4
China Huaneng Group (Hong Kong)	British Virgin Islands (U.K.)	Banks and brokers	1,497.0
Pfandbriefbank Schweizerischer	Switzerland	Banks and brokers	1,450.9
Siemens N.V.	Netherlands	High technology	1,391.0
EDF S.A.	France	Utility	1,329.6
Kapla Holding SAS	France	Banks and brokers	954.8
Ageas S.A.	Belgium	Insurance	831.1
Barclays PLC	U.K.	Banks and brokers	827.8
Ocado Group PLC	U.K.	Retail/restaurants	776.2
Experian Finance PLC	U.K.	Retail/restaurants	742.3
BPCE S.A.	France	Banks and brokers	673.1
Ellaktor Value PLC	U.K.	Financial institutions	666.1
DNB Bank ASA	Norway	Banks and brokers	657.0

Table 7

Largest European Corporate Bond Issuers: December 2019 (cont.)

Issuer	Country	Sector	(Mil. $)
Sisal Pay SpA	Italy	Banks and brokers	586.0

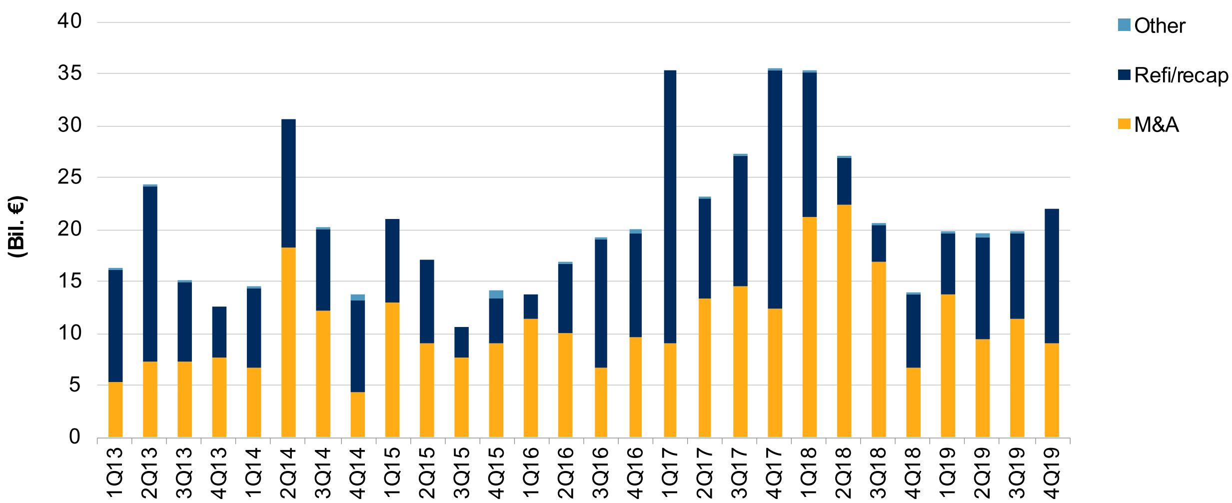
Sources: Thomson Financial and S&P Global Ratings Research.

European loan market ended 2019 on a strong note

The fourth quarter recorded the highest quarterly volume of 2019 in the European loan market, at €21.93 billion, boosted by a year-end surge in opportunistic activity. Recaps and refinancings made up 59% of the deal flow at €12.90 billion, which is the highest such quarterly volume seen in 2019.

Chart 12

European New-Issue Loan Volume

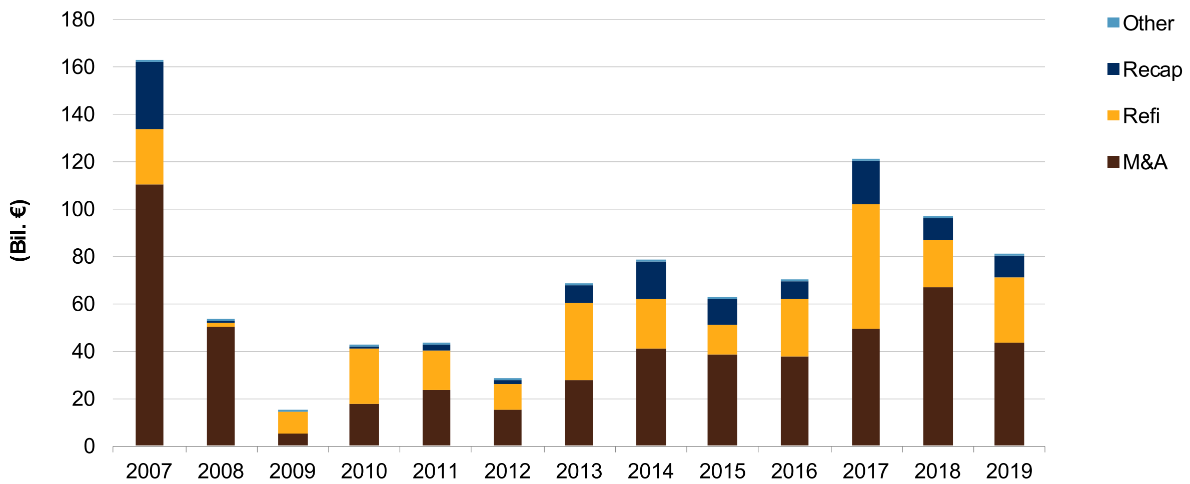


Source: LCD, an offering of S&P Global Market Intelligence.

Although European total loan volume in 2019 fell short of that recorded in 2018, this performance should be put in context, as loan deal flow has been strong over the past three years. Total loan volume for 2019 was €80.95 billion, compared to €96.80 billion in 2018, according to LCD data. However, this still beat 2014's €78.7 billion in issuance, which was the highest volume posted in between the bookends of record issuance in 2007 and 2017.

Chart 13

New-Issue Loan Volume Diversification



Source: LCD, an offering of S&P Global Market Intelligence.

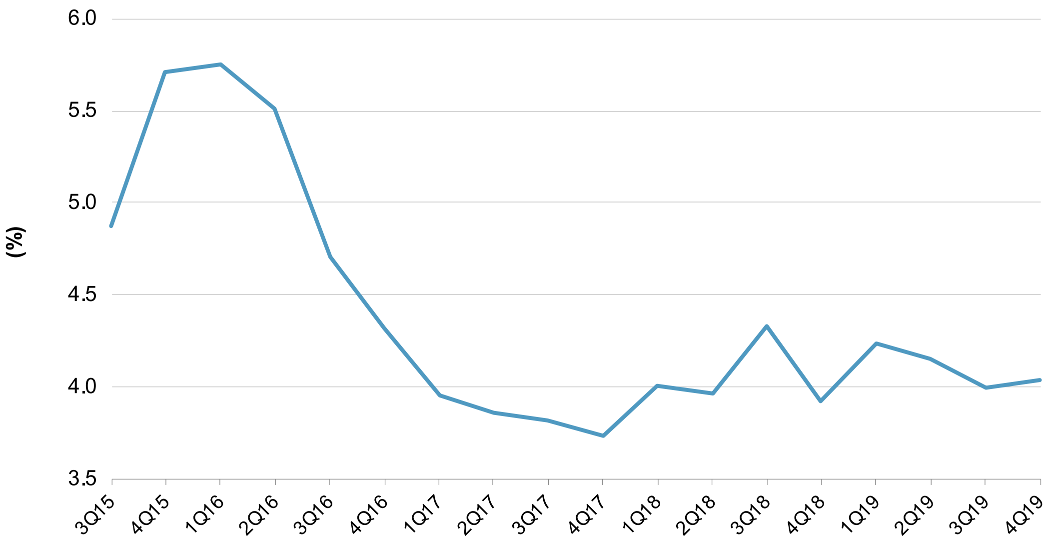
In 2019, M&A-related financings made up 54% of supply--which is down from 2018 (when 70% of deal flow was for this purpose) but higher than 2017 (when only 41% of funding was acquisition-related). Buyouts in 2019 were balanced across two market windows, with Power Solutions, Ahlsell, and Amer Sports all wrapping jumbo LBO financings in March, and Merlin Entertainments and CRH Europe coming after the summer break.

Refinancing supply for 2019 was €27.38 billion (34% of the overall volume), up substantially on 2018, when it came in at €19.91 billion (21%). This volume was boosted by a late-year surge in opportunistic activity; as many of the large M&A transactions have been digested, investor money has continued to flow into the asset class, and spreads and yields have compressed.

In the fourth quarter, the average euro-denominated 'B' term loan B (TLB) spread compressed to 383.9 bps, from 386.3 bps at the end of the third quarter and 400 bps at the end of the second quarter. The yield to maturity for euro-denominated 'B' TLBs was at 4.04% in the rolling three months to the end of December--from 4.15% at the end of the second quarter and 4.24% at the end of the first quarter.

Chart 14

Yield To Maturity At Issue For Euro-Denominated TLBs Rated 'B'

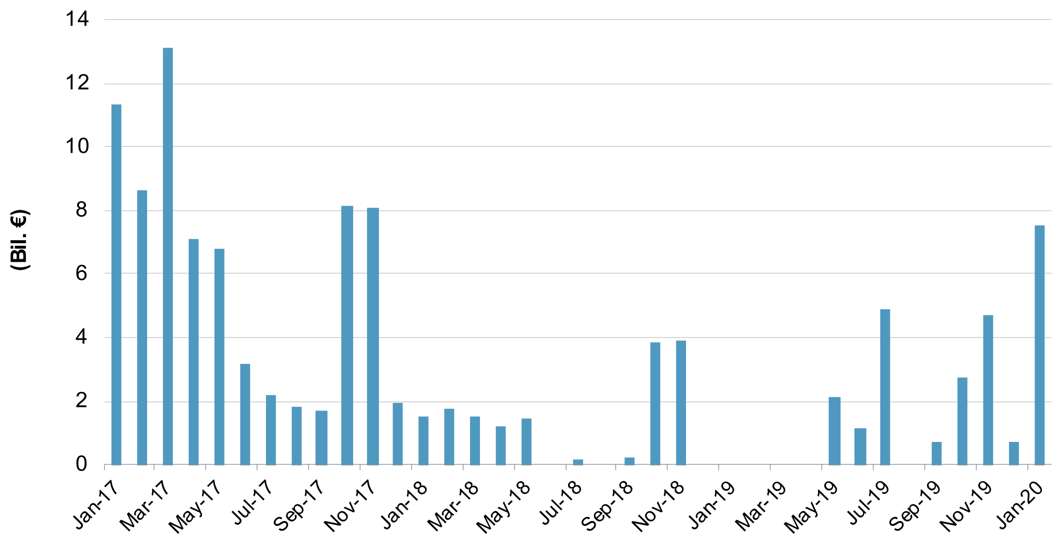


Source: LCD, an offering of S&P Global Market Intelligence.

This environment encouraged repricings. After peaking in the fourth quarter of the year, repricing supply reached an annual volume of €16.3 billion, topping the €15.6 billion recorded in 2018. And this looks set to continue in 2020, with a whopping €7.5 billion in supply already to Jan. 17. This volume has been from only six deals--with jumbo repricings from Refinitiv, Techem AG, and Nouryon (formerly known as Akzo Nobel).

Chart 15

European Repricing Loan Volume



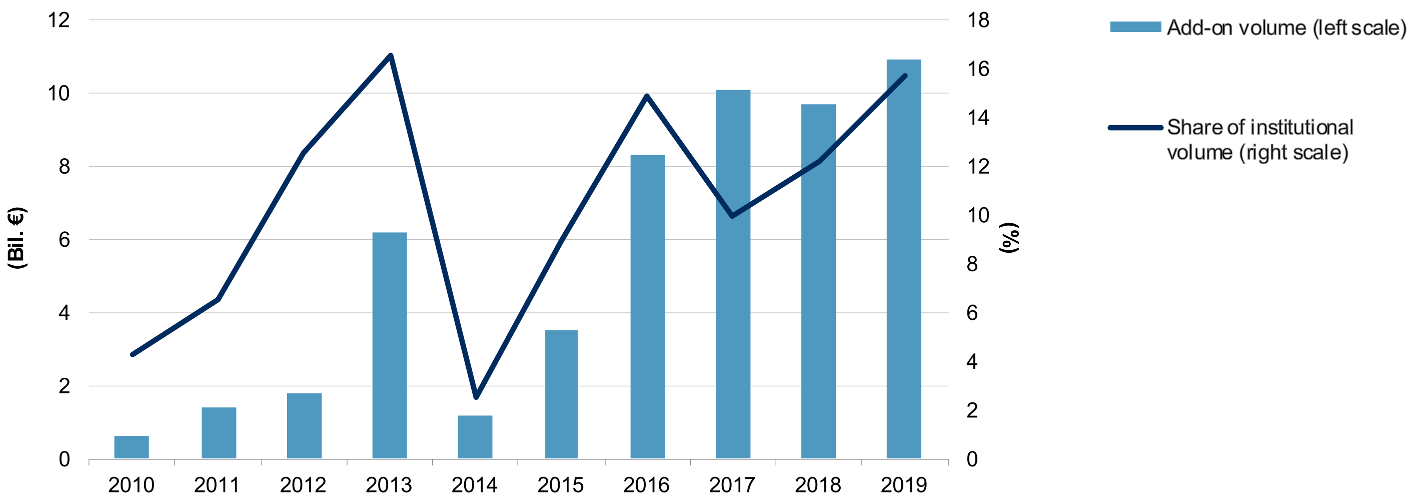
Source: LCD, an offering of S&P Global Market Intelligence.

Likewise, recap activity has continued. In 2019, €8.2 billion of institutional leveraged loan volume was used to fund dividends, with the rate of recaps rising in the fourth quarter of the year, compared with €6.5 billion in 2018.

Another trend in 2019 was increasing issuance in the form of add-ons. Some €10.9 billion of institutional add-on debt was completed in the leveraged loan market in 2019, representing the largest volume of these incremental facilities since the €13.9 billion recorded in 2007. The rise in add-ons in 2019 corresponds with a slump in the amount of LBO and large-scale M&A-related activity throughout the year, and while investors concede they would prefer to see more large-scale buyout transactions hit the market, 2019's add-ons at least brought new-money deals to the table--and sometimes large ones.

Chart 16

Institutional Add-On Volume And Share



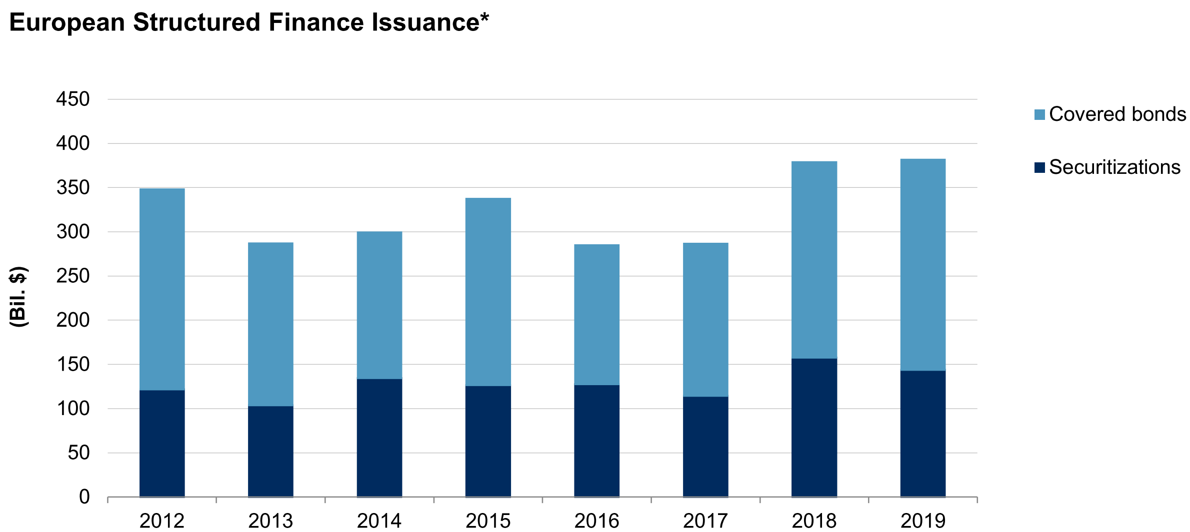
Source: LCD, an offering of S&P Global Market Intelligence.

Structured finance issuance holds near 2018 level

European structured finance issuance rose modestly in 2019, reaching $382 billion between both securitizations and covered bonds. Issuance from securitizations was subdued at the outset of the year in response to the implementation of the EU's Securitization Regulation. As participants and regulators fleshed out the new rules, issuance began to pick up in the latter half of the year, amounting to $144 billion, just an 8% year-over-year decrease in volume.

On the other hand, covered bond issuance was strong from the outset, consistently posting higher origination levels than the year prior, for a 7% year-over-year increase in volume to $238 billion. The combined activity resulted in an overall increase of 0.75% over the $379 billion recorded in 2018 (see chart 17).

Chart 17



*Excludes transactions that were fully retained by the originator and CLO resets and refinancings. Sources: Harrison Scott and S&P Global Ratings Research.

Diversity among securitization collateral waned across Europe in 2019. Originations from historically strong sectors such as German ABS, U.K. RMBS, and Dutch RMBS accounted for the majority of volume last year, while activity from more esoteric collateral was largely muted. The U.K. took the lead in terms of dollar volume originations during the year, at $49 billion, followed by Italy with $13 billion, which marks a postcrisis high for the country.

In terms of covered bonds, Germany and France originated the greatest amounts in 2019, with $48 billion and $40 billion, respectively. The most prominent growth in covered bond issuance over the year came from the U.K., Spain, and Italy, which all reported dollar volume growth greater than 50% compared to 2018.

In 2020, structured finance growth in Europe will enjoy a market that is now adjusted to the Securitization Regulation, which has lifted the waning securitization volumes seen in early 2019. For much of early 2019, the new set of regulations were being fleshed out, setting out guidance for an overhaul of the rules involving risk retention, investor due diligence, and disclosures, which are applicable to all securitizations.

Also under consideration at the start of 2019 was the introduction of the preferential treatment of "simple, transparent, and standardized" (STS) transactions. By the end of the year, many of the technical standards were all but finalized, inviting originators and investors back into play. Confidence in STS transactions steadily improved throughout 2019, and they ultimately accounted for more than 35% of all investor-placed European securitization issuance. The label has also begun to be applied to outstanding pre-2019 transactions retrospectively.

Growth in structured finance securitization is supported by growth rates for bank lending to households, which are holding at postcrisis highs, providing underlying support for new issuance funding. However, alternative funding schemes expanded the availability of products, and resulting costs for issuers may result in flat net issuance growth between the U.K. and the rest of Europe. European structured finance bank originations have been depressed in recent years, given the availability of cheaper funding options offered by the ECB and Bank of England.

In the U.K., while the Bank of England has been closed to new drawdowns since early 2018, the maturities of historical borrowings are approaching. We estimates some £17 billion will mature in the second half of 2020, with over £75 billion set to come in 2021, creating a favorable backdrop for U.K. bank issuers to once again tap the debt market.

However, a similar effect in the eurozone could be suppressed by the equivalent TLTRO scheme posed by the ECB, which has reopened to new drawdowns. While the renewed access to TLTRO funding for issuers may substitute for some covered bond issuance specifically, the ECB's ongoing negative yields and asset purchases could encourage supply.

Our issuance figures in this report do not include European CLO refinancings and resets, which accounted for about €11 billion of activity in 2019. CLO tranche liability spreads are currently similar to their levels of two years ago, though trending lower. Collateral manager and equityholder incentives to refinance or reset transactions that exit their noncall periods in 2020 are therefore finely balanced and sensitive to further spread movements.

Emerging Markets Post Their Strongest Annual Total On Record At Nearly $1.5 Trillion

Emerging markets got a boost from the Fed and ECB in 2019 as both central banks decided to lower interest rates while slowing or extending elements of their quantitative easing programs. Lower (or at least not rising) interest rates in developed economies should help put the brakes on their currencies appreciating, which should benefit local financing conditions and stimulate bond issuance.

That said, the economic benefits of lower rate policies from developed markets' central banks appear largely asymmetric, with debt costs falling for investment-grade issuance but falling less so for speculative-grade issues. In general, stronger foreign direct investment capital inflow has illustrated a shift away from quality diversification (that is, demand for low-rated borrowers) to geographic diversification as a method to quench the constant thirst for yield in a "low-for-longer" environment.

Emerging markets reported their strongest issuance total on record in 2019, hitting nearly $1.5 trillion, from an already strong $1.2 trillion in 2018. Leading the way was financial services' $801 billion haul--a 43% gain over the average of $562 billion annually from 2016-2018. Nonfinancials were also higher, at $695 billion, from $585 billion in 2019 (and $511 billion in 2018).

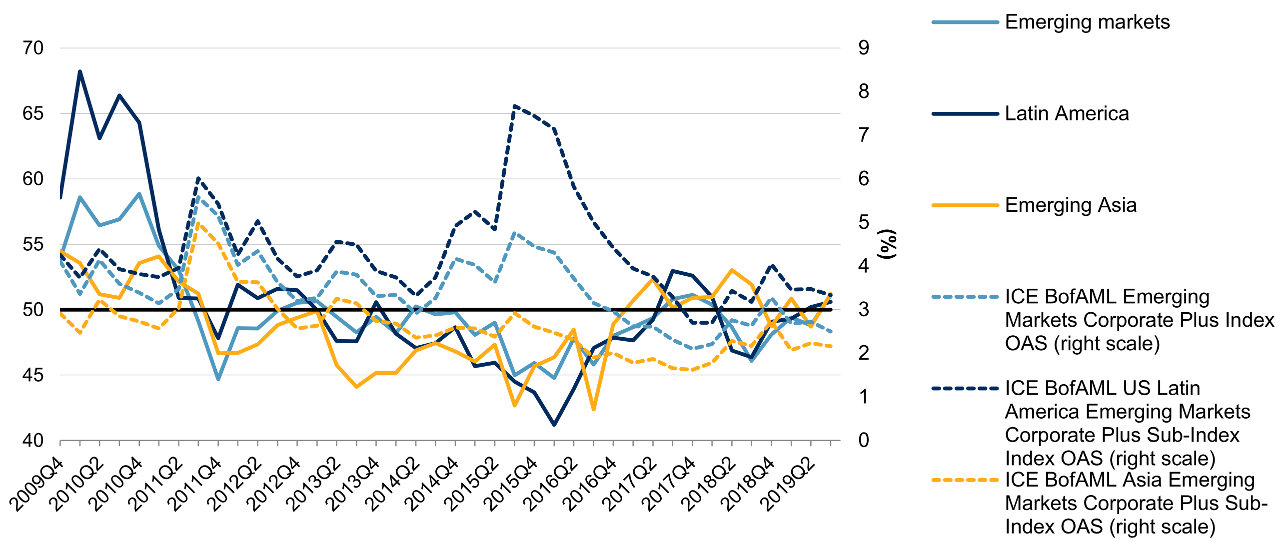
China's issuance volume hit $1.1 trillion in 2019, composed of $579 billion of financial issuance and $498 billion of nonfinancial issuance. Policy easing, partial U.S.-China rapprochement, and a turn in the electronic cycle have eased acute uncertainty, though it has not abated. The U.S. cut into China's exports in 2019, forcing China to pursue its economic targets via increased debt and reduce its conventional policy space in 2020--a partial explanation for both its rapid growth in 2019 and the expectation for softer growth in 2020.

In the third quarter of 2019, the Institute of International Finance (IIF) Lending Conditions Survey for emerging markets rose slightly above its neutral reading of 50, reflecting somewhat relaxed lending conditions. Loan demand and trade finance improved slightly, and credit standards, nonperforming loans, and funding conditions remained neutral to slightly negative. This index is a diffusion index, meaning readings below 50 indicate a tightening of bank lending conditions and those above 50 imply loosening conditions.

The survey also displays a broadly inverse relationship with regional corporate spreads, which have risen somewhat since the first quarter of 2019 (see chart 18). Some improvements in regional lending conditions and increasing investor appetite, especially through higher foreign direct investment, eventually caused spreads to tighten, according to ICE Bank of Merrill Lynch Emerging Markets Corporate Plus Index options-adjusted spreads. Both Asia and emerging Europe showed improvement and Latin America remained flat, though both Asia and Latin America saw spreads tighten from the beginning to end of 2019 by over 20%.

Chart 18

IIF Emerging Markets Bank Lending Conditions Indices And Corporate Spreads



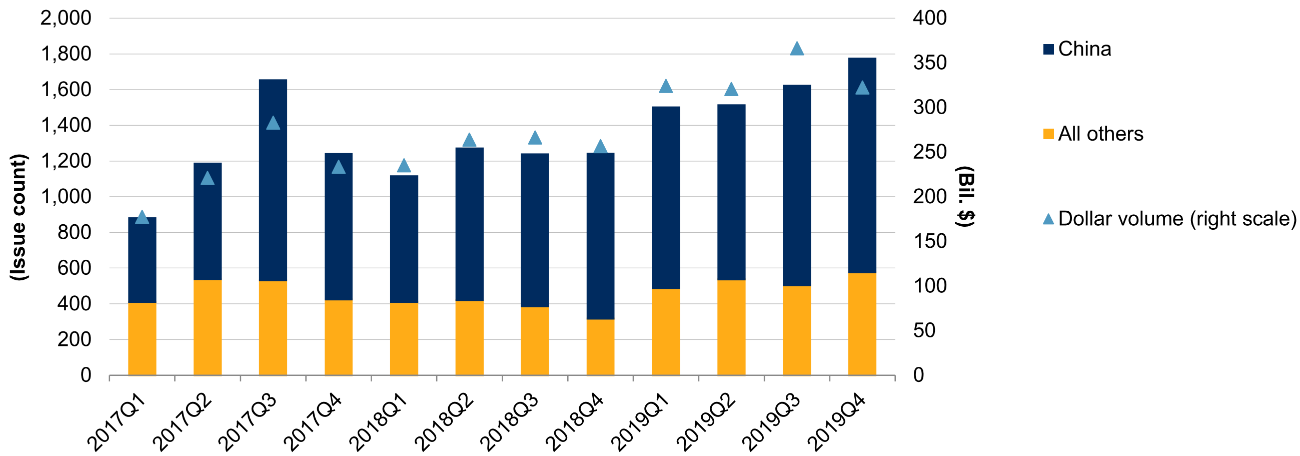
Note: 2019Q3 Lending Conditions Survey results are estimates from IIF. Data as of Nov. 21, 2019 (IIF EM Bank Lending Conditions Survey) and Jan. 10, 2020. Sources: IIF, Federal Reserve Bank of St. Louis, and S&P Global Ratings Research.

While debt servicing costs have fallen, investors are becoming increasingly risk averse and selective in their asset allocation, adding to a relatively high risk premium. Investment- and speculative-grade yields to maturity average 3.3% and 7.8%, respectively, across emerging markets.

Although rising geopolitical risks, trade disputes, and amplified capital market volatility will invariably weigh on bond markets, especially given their mutually reinforcing nature, central banks will likely remain highly accommodative for the remainder of 2019 and into 2020. This should support capital flow into emerging markets and provide room for monetary easing in several of those economies, thus supporting bond issuance, especially for issuers with stronger creditworthiness and Chinese domestic issuers.

Chart 19

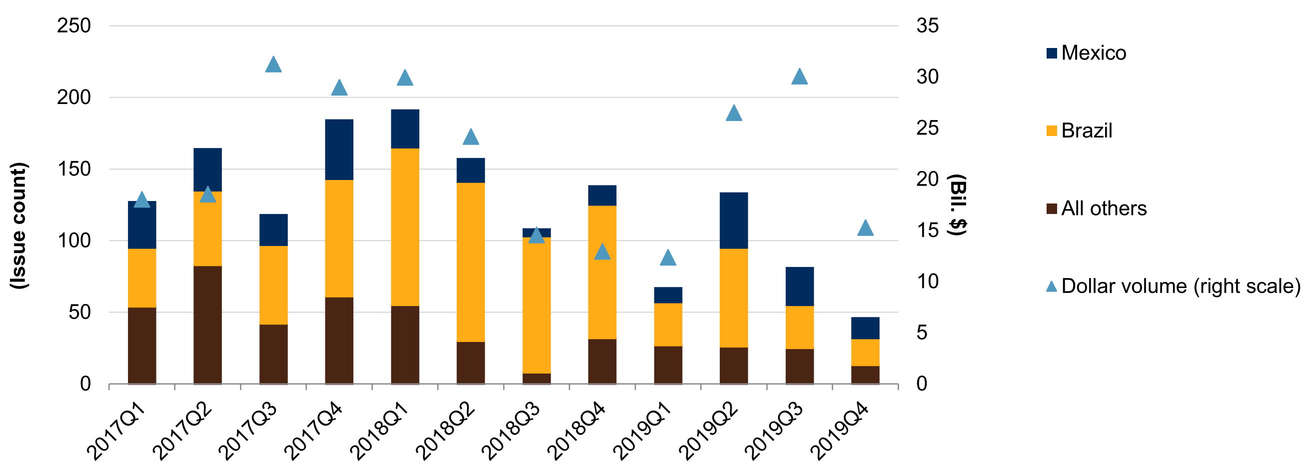
Quarterly Emerging Asia-Pacific Corporate Bond Issuance



Sources: Thomson Financial and S&P Global Ratings Research.

Chart 20

Quarterly Latin American Corporate Bond Issuance



Sources: Thomson Financial and S&P Global Ratings Research.

As is typical of most months, many of the leading issuers in December were Chinese banks, which accounted for roughly half of the largest 15 emerging market issuers (see table 8). Topping the list were nearly identical $5.7 billion totals out of China CITIC Bank Corp. Ltd. and the Bank of Communications Co. Ltd. For CITIC, the proceeds are slated to replenish additional Tier 1 capital of the bank.

Table 8

Largest Emerging Markets Corporate Bond Issuers: December 2019

Issuer	Country	Sector	(Mil. $)
China CITIC Bank Corp. Ltd.	China	Banks and brokers	5,687.6
Bank of Communications Co. Ltd.	China	Banks and brokers	5,686.0
The Export-Import Bank of China	China	Banks and brokers	4,869.5
Banco Actinver S.A. Institucion	Mexico	Banks and brokers	4,375.8
Ping An Bank Co. Ltd.	China	Banks and brokers	2,853.2
Shaanxi Coal & Chem Ind Group	China	Metals, mining, and steel	2,145.1
BOC Financial Asset Invest Co. Ltd.	China	Financial institutions	1,429.3
China Resources Land Ltd.	Hong Kong	Homebuilders/real estate companies	1,050.0
Bharti Airtel Ltd.	India	Telecommunications	1,000.0
Wynn Macau Ltd.	Macau	Media and entertainment	1,000.0
International Far Eastern Leasing	China	Banks and brokers	998.3
Power Construction Corp. of China Ltd.	China	Utility	997.4
China Communications Construction Co. Ltd.	China	Capital goods	995.5
True Move H Universal Commun	Thailand	Telecommunications	974.9
Beijing Haidian District	China	Banks and brokers	856.0

Sources: Thomson Financial and S&P Global Ratings Research.

International Public Finance Sets A New Annual High

Bond issuance from the international public finance sector was up 54% in 2019, setting a new all-time high. Asia-Pacific led this increase at 70% higher, while Europe was up 30%. China led the volume in Asia as local governments responded to Beijing's urging to step up infrastructure spending to counter the impact of the U.S.-China trade war.

Data on non-U.S. public finance volume are not reliable for determining the true size of borrowing, but the numbers can suggest major trends. The past four years have recorded the highest volume ever in international public finance, averaging over $627 billion annually.

Other Global Structured Finance

Combining covered bond and securitization volumes, overall structured finance issuance outside the U.S. and Europe reached $180 billion in 2018, up nearly 20% year over year. Most structured finance issuance activity in these other regions is in Australia, Canada, and Japan. Issuance in Asia-Pacific was up 14%, with volume increasing across several countries.

Growth continued in 2019, with $199.4 billion of issuance outside the U.S. and Europe, up 10.7% compared with 2018. In 2019, gains were largest in Japanese covered bonds, Asia (excluding Japan) securitization, and Australian securitization.

Our figures exclude Chinese securitization issuance rated only by domestic rating agencies, which has boomed in recent years to almost $300 billion in annual issuance. However, as the Chinese securitization sector develops, the volume of internationally rated issuance is expanding and could grow further in 2020. We anticipate that structured finance issuance outside the U.S. and Europe will continue to grow in 2020.

Related Research

- 2020 Vision: Global Macroeconomic Outlook Steady For Now, Dec. 4, 2019
- Fewer Signs Of Scrooge-ing Up U.S. Growth In The New Year, Dec. 4, 2019
- Asia-Pacific Quarterly: The Cost Of Uncertainty, Dec. 2, 2019
- Latin America In 2020: Low Growth, Low Interest Rates, High Risk, Dec. 2, 2019
- Eurozone Economic Outlook: Consumers Won't Give Up In 2020, Nov. 28, 2019
- European Refinancing--€3.8 Trillion Of Rated Corporate Debt Is Scheduled To Mature Through 2024, Sept. 25, 2019
- U.S. Refinancing--$5.2 Trillion Of Rated Corporate Debt Is Scheduled To Mature Through 2024, Aug. 15, 2019
- Global Refinancing--Rated Corporate Debt Due Through 2024 Nears $12 Trillion, July 31, 2019

This report does not constitute a rating action.