Bonds boom like never before

Like a householder juggling credit cards, bank loans and a big overdraft after a spending binge on a new car, a loft conversion and holidays in the Alps and the Caribbean, so the corporate world is busy shoring up balance sheets after the years of commercial excess.

The market for **corporate bonds** has seen nothing like it.

By the time of the traditional close season for new issues in high summer, corporate bond sales in Europe had surged to an all-time high of $1.1 trillion. That beats the previous record in 2007 – and that was for the whole of the year. US companies alone issued $851bn of bonds, the busiest year in at least a decade.

But of course the market is a two way-street. Investors have been lured by the prospect of the best returns from fixed-income products since at least 1998.

"It's been a win-win situation for investors and borrowers," said Nick Burns, a London-based credit strategist at Deutsche Bank. "Spreads have been high, benefitting investors, but the overall cost of borrowing for companies hasn't been overly excessive."

Georg Grodzki, head of credit research at Legal & General, said: "Money has been pouring into corporate bond funds as equities looked unpredictable and government bond yields were too low to appeal. At the same time, companies were willing to pay significant spread premiums to raise their liquidity buffers and to replace bank loans."

Pharma led the way.

The biggest bond issue came from Swiss drugmaker Roche, raising $15.8bn to help fund its acquisition of US biotech firm Genentech.

Swiss rival Novartis kept coming back for more. Initially raising $5bn in a two-tranche, dollar-denominated issue, it raised a further €1.5bn from a seven-year bond. The fundraisings followed last year's $11bn acquisition of a 25% stake in eye-care company Alcon from Nestlé, which came with an option to buy Nestlé's remaining 52% holding in 2010.

And Pfizer also raised cash to pay for previous acquisitions, tapping the market for €7bn to help pay for its $68bn acquisition of healthcare company Wyeth.

High-yielding bonds were in fashion, with Italian mobile phone group Wind raising $3.8bn in dollar and euro notes, Europe's second largest sale of junk-rated debt ever.

Demand has at times been breathtaking. A €4bn issue by German industrial giant Siemens attracted bids totalling €16bn.

And there was also a first ever corporate bond offering from Microsoft, which raised $3.75bn.

The market for **rights issues** has spilled over into a second year of historically high levels, with companies in Europe raising nearly $110bn selling stock this year so far.

Records have been tumbling. Following the beefy £4.1bn rights issue from miner Xstrata earlier in the year, rival Rio Tinto topped that with a $15.2bn offering – to honour cash commitments, bring down its debt mountain and stave off a row with shareholders over a previous plan to bring in Chinalco of China as an investor.

Rio Tinto's issue was beaten only by a £12.5bn biggie from HSBC, which, according to chairman Stephen Green, was aimed at shoring up solvency ratios and riding out any more unforeseen circumstances in the financial markets rollercoaster.

These monster fundraisings were huge moneyspinners for the companies' financial advisers, most notably this year's go-to broker JP Morgan Cazenove, which played a part in all three deals.

Whither **equities**? UK indices covering different market segments show markedly different performances in shares in the year so far.

The FTSE 100 index of blue chips, which had a much vaunted unbroken 11-day run of rises during the summer, is less than 10% up since the start of the year, although 33% higher than the nadir it reached in March.

There is a different story on the FTSE Aim 100 of leading companies on London's junior stockmarket of entrepreneurial companies, which has boomed 33% since the start of 2009.

But over a longer timeframe while the FTSE 100 is down around a fifth year on year, the Aim 100 remains down by around 40% over the past 12 months.

And there's a different story again among the technology stocks of the FTSE TechMark 100, where volatility might be assumed to be greater. Instead, the TechMark's fall and rise has been far less marked, with the index up less than a fifth in 2009 and off just 10% year on year.

Robert Lea is City correspondent of the London Evening Standard.

BONDS

DEAL PRICING DATE	DEAL TYPE	ISSUER PARENT	COUPON	TRANCHE VALUE	MATURITY DATE	BOOKRUNNERS
08/07/2009	Investment grade	Peugeot SA	8.375%	€750m	15/07/2014	BNP Paribas, Deutsche Bank, Natixis
10/07/2009	Investment grade	SABMiller plc	4.5%	€1,000m	20/01/2015	Barclays Capital, BNP Paribas, JP Morgan, Bank of America Merrill Lynch, RBS
17/07/2009	High yield	Virgin Media Inc	9.5%	$600m	15/08/2016	Goldman Sachs, BNP Paribas, Deutsche Bank, HSBC, JP Morgan, UBS

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