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U.S. Corporate Bond Issuance Set for Strong September

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U.S. corporate dollar bond issuance is expected to make September one of the busiest months for investment-grade supply this year, even as Treasury yields face volatility and hopes for a larger Federal Reserve interest rate cut fade, according to bankers and market strategists.

Historically, September has averaged about $140 billion in investment-grade bond issuance, based on data from Informa Global Markets (IGM). In 2023, companies set a record for the month, issuing over $172 billion as they took advantage of strong investor demand for higher yields.

Recent U.S. inflation figures have tempered expectations for substantial interest rate cuts in the near term. Data released this week showed producer prices rising more than anticipated, while consumer prices matched forecasts. This combination has led markets to reduce the probability of a significant rate cut from the Federal Reserve next month.

Despite this shift, bond market participants expect September to deliver another round of strong corporate issuance. According to Victor Forte, head of investment-grade capital markets and U.S. debt syndicate at Mizuho Americas, changes in the Fed's expected path are unlikely to deter corporate treasurers.

"Data pointing to some delay in interest rate cuts probably does not influence corporate bond issuance in September," Forte said. "It is traditionally a busy month and is expected to be so again, regardless of small changes in spreads or yields."

Corporate credit spreads, the premium over Treasuries paid by companies, widened slightly this week on some issues but remain relatively stable. Forte noted that these small movements are not significant enough to alter issuance plans.

"Their decision to issue bonds in September hinges more on corporate finance needs than it is trying to predict when the Fed may cut interest rates," he added.

According to the ICE BAML index, average corporate spreads tightened by around 1 basis point this week and currently stand at 77 basis points. Just 3 points from their tightest levels since 1998, when they reached 74 basis points. Bond yields were last at 4.94%, about 41 basis points below levels seen in January.

Overall, the combination of stable spreads, manageable borrowing costs, and long-standing seasonal trends is expected to drive substantial issuance this month. Market participants say corporate borrowing activity remains guided more by internal financing strategies than short-term interest rate speculation.