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Corporate Finance in a low rate environment

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The Swedish Capital Market

The corporate bond market has evolved after the financial crisis 2008/09, outstanding volume 600 bn SEK

Dominated by large listed companies with weak docs, domestic MTN documentation

High share (47%) of interest rate sensitive Real Estate companies

Investment funds own 42% of the corporate bonds in Sweden, makes the market flowdriven

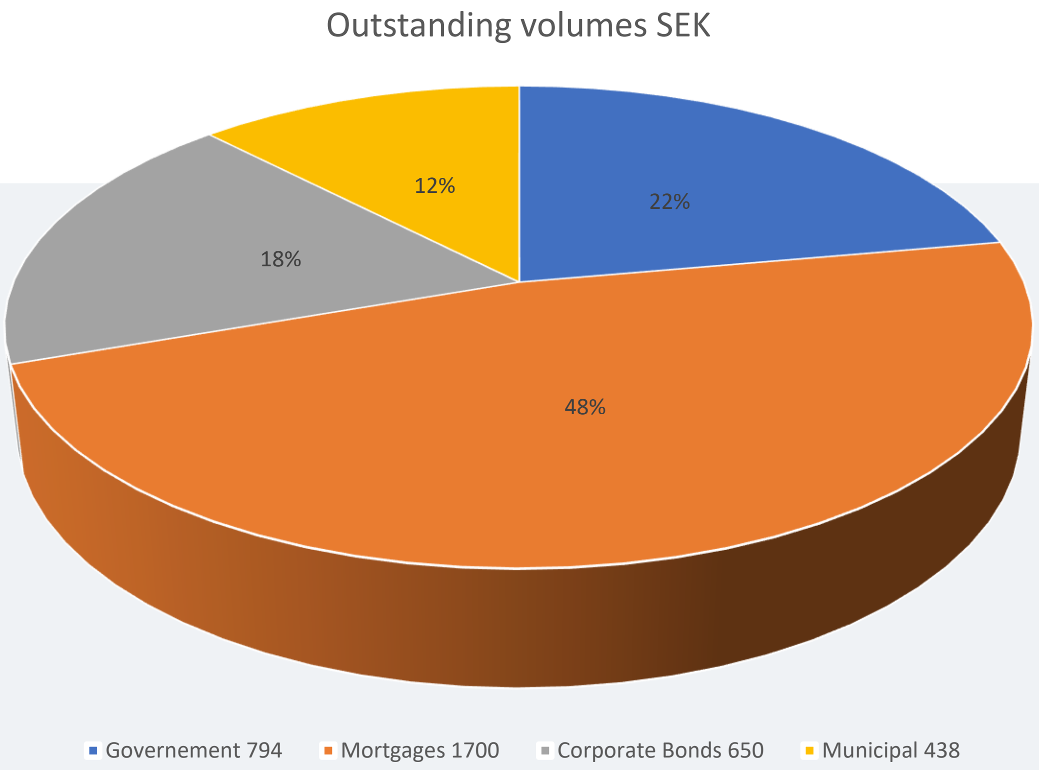
It is the borrowers market due to hunt for yield and lack of supply

Limited liquidity due to size and lack of transparancy – OTC market

Large stock of pension capital invested in mortgage bonds and an increased share of alternative investments, such as infrastructure and real estate

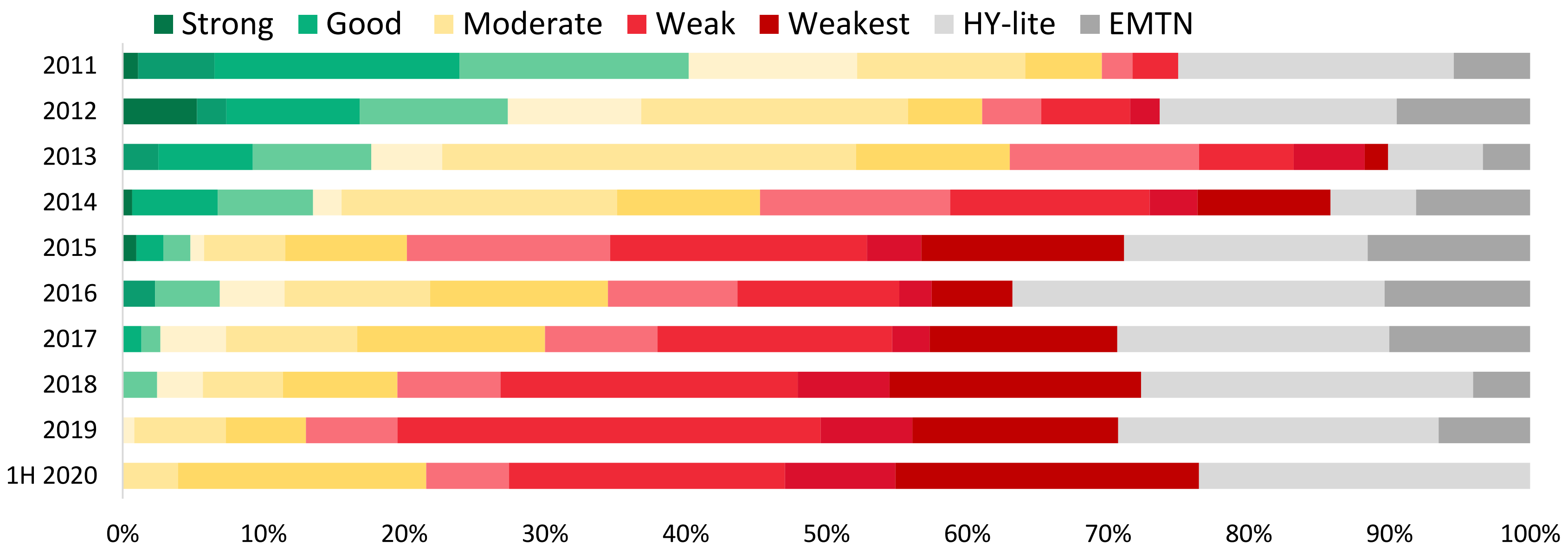
Outstanding volumes per asset class SEK

Limited amount of free float due to QE in Gov bonds (50%)



Weak covenants survive coronavirus

Distribution of Moody's Covenant Quality Assessments (CQA) Scores



- CQAs assess the strength of speculative grade bonds restrictive covenants: prohibitions on incurrence of debt and cash leakage
- Full package bonds are scored from 1 (strongest) – 5 (weakest); and are represented by the coloured bars. HY-lite (bonds lacking debt incurrence and/or cash leakage protections); and are represented by the coloured bars
- B-rated bonds are almost all secured and full package. Although security is frequently limited to share pledges. Ba-rated almost all unsecured and HY-lite.
- Covenant scores have been stable since 2017. During the pandemic issuance has been largely been limited to repeat issuers, using existing covenant packages. As these have easily cleared the market it is unlikely that there will be wholesale push back from investors against current standards being used by new issuers.

Implications in a low rate environment

Supply and demand is disturbed, TINA and FOMO

The large share of FRN contracts in Sweden becomes fixed bonds due to stiborfloors

The Central Banks stimulus makes TED spreads disappear

Makes it possible for less creditworthy companies to issue – more volatility (50% of the stock is unrated in the Swedish bond market vs 15% in Europe)

Borrowers get away with weak documentation (previous slide)

The long downward trend in rates has given investors a false feeling of safety, this spring was a sanity check

Improvments (for the bond market)

Increased transparancy, retain the turn over reporting as it was before Mifid

Introduce some kind of liquidity buffer for investment funds

Discuss a light market maker model for corporate bonds

Improve the standard MTN documentation i Sweden

Dicuss the Issuer paying model for the Rating Institutes