GLOBAL FUNDING TRENDS ON THE CAPITAL MARKETS IN 2014

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Introduction

Private-sector capital market funding returned to growth in 2014. The main sectors responsible were non-financial corporations (NFCs) and banks, both of which stepped up the rate at which they issued fixed-income instruments. The increase in the volume of debt issued by NFCs partly reflects the ongoing process of disintermediation,[1] while bank issuance is largely related to compliance with the new regulatory framework. By contrast, as a result of the fiscal consolidation process under way in the main advanced economies, the public sector reduced its issuing activity on debt markets, although the reduction was smaller than in previous years.

Issues did not progress uniformly over the course of the year, and varied across countries and market segments. The early part of 2014 was characterised by low volatility and a strong appetite for risk. During this period investors opted for a strategy of yield search, spurred on by a context of ample liquidity and low interest rates, which encouraged the issuance of securities in almost all segments and countries. However, in the summer the markets began to experience a series of upturns in volatility and yield search lost momentum. This favoured more secure issuers in detriment to those considered high-risk, such as high-yield NFCs or firms and sovereigns in emerging economies (hereafter EMEs).

This article describes the main features of issuing activity in international markets in 2014, including both advanced and emerging economies, paying particular attention to debt instruments and the activity of NFCs and banks. It also analyses developments in alternative markets to fixed-income issues, such as equities, syndicated loans and structured financial markets. The analysis is mainly based on data obtained from Dealogic, which reports issues with maturities of eighteen months or more.[2]

The macroeconomic and financial context in 2014

Fixed-income issuance in 2014 slightly exceeded that in 2013 (see Table 1 and Chart 1), although the rate of growth eased as market volatility and risk aversion increased in the second half of the year. It is therefore necessary to distinguish two different periods in order to characterise the main features of capital markets in 2014.

The biggest volume of issues was concentrated in the first half of the year. The strategy of yield search dominated international markets, in a context of abundant global liquidity encouraged by the main central banks' accommodative monetary policy stance. Nevertheless, uncertainties arose regarding a number of emerging countries in the first quarter, linked to specific factors, such as geopolitical tensions in Ukraine or fresh doubts about China's growth prospects. These affected global issuance, although their impact was limited. Despite the general dynamism of capital market activity, some signs of exhaustion were already apparent in February in high-risk segments that had been more dynamic in 2013, such as high-yield corporate debt and EME debt.

1 For example, according to ECB and Federal Reserve data, net capital market funding exceeded bank financing in both the euro area and the United States.

2 An analysis of financing with shorter maturities is highly relevant as regards liquidity. This article only considers non-securitised debt.

RECENT TRENDS IN DEBT MARKETS: ISSUE VOLUMES

TABLE 1

$bn

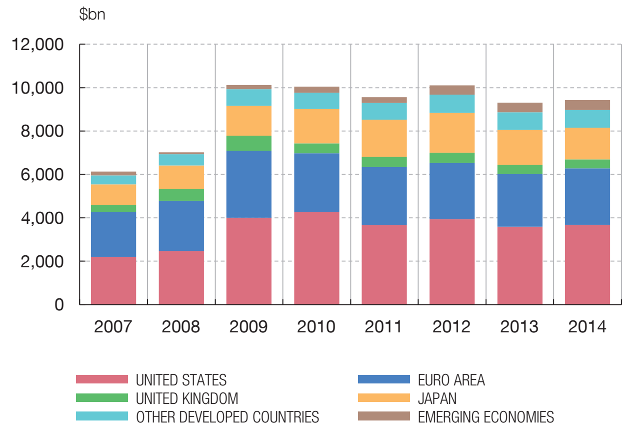
	2013	2014	Annual change 2014 (%)	2014			
				Q1	Q2	Q3	Q4
TOTAL BONDS (a)	**9,294**	**9,423**	**1.38**	**2,668**	**2,644**	**2,108**	**2,003**
TOTAL BONDS - DEVELOPED COUNTRIES	**8,860**	**8,951**	**1.04**	**2,550**	**2,475**	**2,019**	**1,908**
TOTAL BONDS - EMERGING ECONOMIES	**434**	**471**	**8.48**	**118**	**169**	**89**	**96**
TOTAL BONDS - BY COUNTRY							
Developed countries	8,860	8,951	1.04	2,550	2,475	2,019	1,908
United States	3,593	3,676	2.31	940	940	885	910
Euro area	2,420	2,599	7.41	892	803	468	436
United Kingdom	426	421	-1.15	112	120	109	80
Japan	1,615	1,462	-9.48	366	392	376	328
Other developed countries	806	794	-1.57	240	220	181	153
Emerging economies (b)	434	471	8.48	118	169	89	96
TOTAL BONDS, BY SECTOR/INSTRUMENT							
Public Sector	**6,329**	**6,178**	**-2.38**	**1,757**	**1,672**	**1,424**	**1,324**
Developed countries	6,224	6,055	-2.72	1,715	1,636	1,401	1,302
United States	2,468	2,472	0.13	624	610	633	605
Euro area	1,685	1,741	3.35	601	528	327	285
United Kingdom	242	207	-14.37	58	53	55	41
Japan	1,465	1,331	-9.10	336	357	331	307
Other developed countries	365	304	-16.69	96	89	55	64
Emerging economies	105	123	17.73	42	36	23	22
Non-financial corporations	**1,568**	**1,586**	**1.12**	**409**	**479**	**313**	**385**
Developed countries	1,313	1,340	2.01	352	387	271	330
United States	676	697	3.09	168	189	127	213
Euro area	320	334	4.22	107	111	57	58
United Kingdom	91	102	12.34	26	24	30	22
Japan	103	73	-29.43	12	23	25	12
Other developed countries	123	134	9.03	38	40	31	25
Emerging economies	255	246	-3.45	57	92	42	55
Banking sector	**1,104**	**1,340**	**21.42**	**438**	**398**	**289**	**216**
Developed countries	1,029	1,239	20.34	419	357	264	198
United States	285	355	24.73	115	91	80	70
Euro area	378	446	18.22	169	146	71	60
United Kingdom	53	90	70.53	24	30	21	14
Japan	37	46	23.40	15	9	18	5
Other developed countries	277	301	8.77	96	82	74	50
Emerging economies (c)	75	102	36.25	19	40	24	18
Other financial institutions	**293**	**318**	**8.65**	**64**	**95**	**82**	**78**
United States	164	153	-6.93	34	51	44	23
Euro area	37	78	108.41	14	18	12	33
United Kingdom	40	22	-45.99	3	13	2	3
Japan	10	12	18.28	2	3	3	5
Other developed countries	41	54	31.01	10	9	21	13
MEMORANDUM ITEMS							
Covered bonds (d)	**209**	**218**	**3.92**	**73**	**51**	**49**	**45**
Euro area	112	119	6.14	44	30	20	25
Other	98	99	1.38	29	21	29	20
High-yield bonds	**499**	**493**	**-1.15**	**130**	**179**	**105**	**79**
Developed countries	412	427	3.74	108	161	90	69
United States	244	250	2.42	60	74	61	54
Euro area	85	114	33.86	31	62	16	6
United Kingdom	43	31	-29.34	7	13	6	4
Japan	10	1	-94.02	0	0	1	0
Other developed countries	30	32	9.03	10	12	6	4
Emerging economies	87	65	-24.46	21	19	15	10
Syndicated loans	**4,407**	**4,665**	**5.85**	**1,027**	**1,358**	**1,160**	**1,119**
Developed countries	4,000	4,237	5.91	931	1,229	1,062	1,015
United States	1,559	1,505	-3.45	348	422	359	376
Euro area	810	970	19.78	182	296	270	222
United Kingdom	434	513	18.26	107	150	126	131
Japan	563	537	-4.57	142	131	134	130
Other developed countries	634	711	12.08	151	229	174	156
Emerging economies	407	428	5.24	96	129	98	104

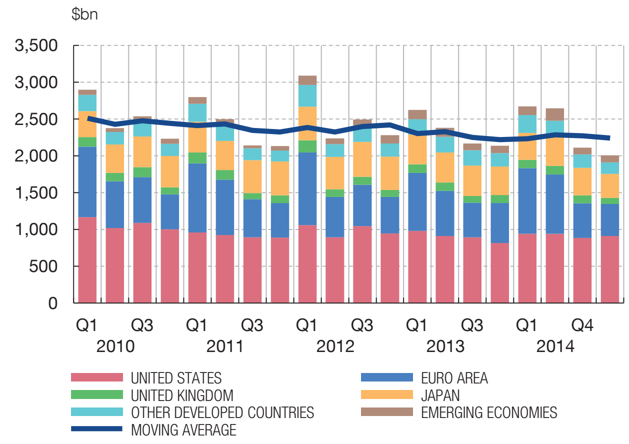
SOURCE: Dealogic.

a Estimated totals.
b Only issues on international markets included for emerging economies.
c The emerging economy banking sector includes other non-bank financial institutions.
d Covered bonds issued by all institutions are included, making the issuing base wider than the banking sector.

GROSS ISSUANCE OF BONDS BY ISSUER COUNTRY OR REGION

CHART 1





SOURCE: Dealogic.

Interestingly, unlike the situation in mid-2013 (the “taper tantrum”), the start of the process of reducing asset purchases by the Federal Reserve in December 2013 did not trigger negative market reactions, largely thanks to a successful communication policy. In this regard, conditions were conducive to activity in fixed-income markets being maintained and for investors’ strategies of yield search continuing until the summer.

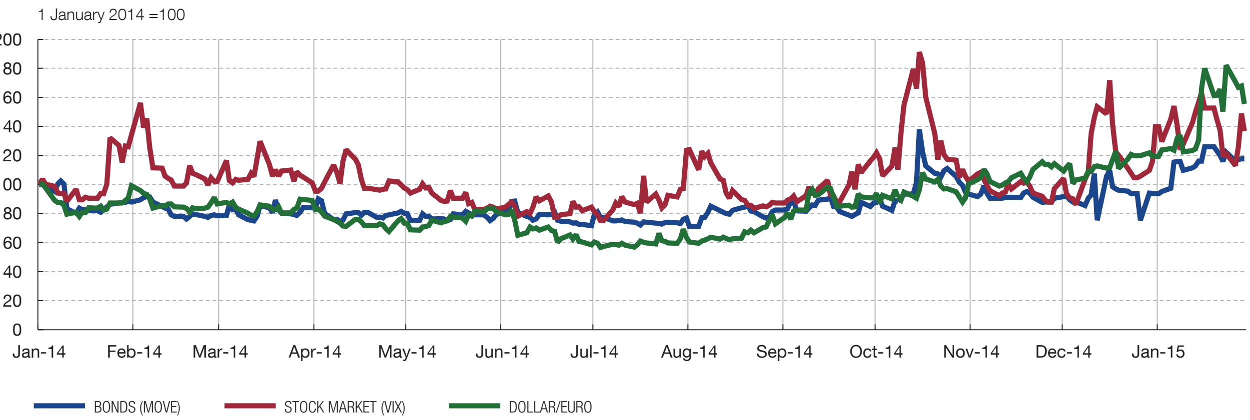
Market tone shifted in August as a number of different factors converged. Firstly, doubts about the strength of the economic recovery, particularly in the euro area, and the downward revision of potential growth in the emerging economies, as highlighted in the IMF’s growth forecasts, led to a worsening of market sentiment. This context of slower global growth—with some exceptions, such as the United States—combined with the lower inflation expectations in the advanced economies, which in some cases fell below central banks’ targets. Geopolitical risks also increased with renewed tension between Ukraine and Russia (triggering an episode of turbulence in August), conflicts in the Middle East and the political situation in Greece. Although markets briefly perked up in September, buoyed by factors such as the encouraging US data, volatility returned in mid-October, driven by the rapid fall in oil prices. The plummeting oil price, due to both supply- and demand-side factors, exacerbated market uncertainty. Although this trend, which continued into early 2015, is good news for oil-importing countries and for the global economy as a whole, it has increased the downward pressure on inflation rates, which were already very low in the advanced economies, and it has had a negative impact on exporting economies. The short-term impact on each producer country has differed, depending, among other factors, on the buffers accumulated. In the case of Russia, which has also been affected by the economic and financial sanctions imposed for its role in the conflict in Ukraine, the impact has been very strong.

In this adverse setting, markets became more sensitive to bad news, risk aversion increased and there was a series of upturns in volatility, as shown by the implied volatility indices (see Chart 2). In parallel, there was a flight to safe assets, which drove down yields on the main economies’ long-term debt, favouring issues with the highest credit ratings.

During 2014 a scenario of cyclical divergence between the main advanced economies also took root. Thus, while the economic recovery gained traction in the United States and the United Kingdom, activity in the euro area and Japan lost momentum over the course of the year, and both inflation data and medium-term expectations fell below their targets. Thus,

VOLATILITY INDICES FOR BONDS (MOVE), STOCK MARKET (VIX) AND DOLLAR/EURO VOLATILITY

CHART 2



SOURCE: Datastream.

the markets began to discount increases in official US and UK rates, while in the euro area and Japan they anticipated further rounds of quantitative easing and official rates being kept at minimum levels. The divergence between the advanced economies in terms of their monetary policy outlook and the risk of inflation expectations becoming de-anchored in some of them complicated decision-making by the monetary authorities and heightened market uncertainties over the path of monetary policy normalisation, particularly in the case of the Federal Reserve. These divergences have shown up clearly in foreign-exchange markets, with a strong rise in the dollar.

Since the summer of 2014 the scenario has therefore been complex, markets having been dominated by a "risk-on/risk-off" dynamic, with short-lived recoveries, mainly linked to measures taken by central banks. With the start of monetary policy normalisation in the United States looming, the risks deriving from the possible overvaluation of certain segments, such as high-yield or debt issued by certain EMEs, which had benefited from the yield search context, gained prominence.

Main features of international private debt issuance in 2014

BOND ISSUES BY NON-FINANCIAL CORPORATIONS REMAIN STRONG

The activity of NFCs in capital markets remained significant, with a volume of issues higher than that in 2013, continuing the trend begun in this segment in 2012 (see Chart 3). This trend was influenced by the process of financial disintermediation, particularly in the euro area, which is giving greater prominence to funding obtained through capital markets, in detriment to bank finance.[3] However, the increased volume issued has not led to a rise in aggregate leverage levels in the corporate sector when measured in relation to GDP.[4] A high degree of variation is seen across countries in terms of the pace of issues, with a strong increase in the United Kingdom, and a more moderate increase in the euro area and the United States. By contrast, issuance declined in Japan compared to 2013, as a result of the Japanese economy's poor progress and weak domestic demand, which will have led firms to postpone their investment plans.[5] The EMEs as a group saw a moderate drop

3 The fact that bank loans to euro area NFCs had a net negative balance of €58 billion in 2014, while net issuance of corporate bonds by NFCs grew by €63 billion to November, illustrates how disintermediation has continued in 2014. In the United States, an economy where historically NFCs have been less reliant on bank financing, disintermediation was less apparent, although in the first three quarters of 2014 net issues of NFC bonds ($182 billion) exceeded the net flow of bank loans ($152 billion).

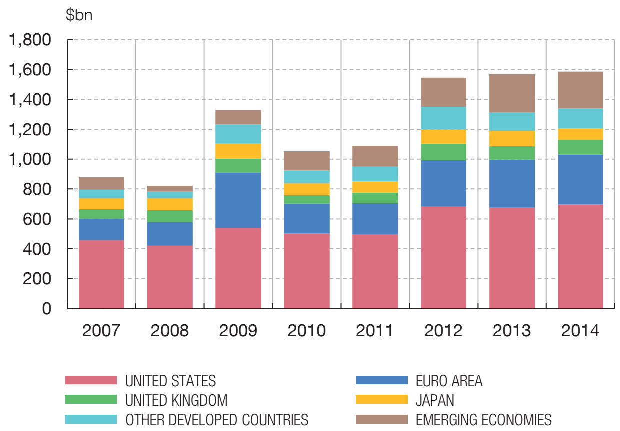
4 See "Debt and (Not Much) Deleveraging", McKinsey Global Institute, February 2015.

5 The volume of NFC issues in Japan was very small, despite the currently favourable financing conditions in the context of the BoJ's expansionary monetary policy. In view of the shortage of corporate bonds on offer from Japanese companies and the low yields on public debt, there has been strong growth in Samurai bonds —i.e. bonds issued in yen by non-Japanese NFCs.

NFC BOND ISSUANCE AND COST OF FUNDING IN THE EURO AREA

CHART 3

GROSS ISSUANCE OF CORPORATE BONDS BY COUNTRY/REGION



EURO AREA NFCs: COST OF FUNDING

SOURCES: Dealogic, ECB and JP Morgan.

in issuance. In net terms, progress was positive both in Europe and the United States, although the net volume was much larger in the latter, almost doubling that of Europe.

This behaviour of primary corporate fixed-income markets has been shaped by a context in which demand remains characterised by investors' strong risk appetite, and supply is characterised by good financing conditions, with costs lower than those of bank credit (see Chart 3). Moreover, the expectations of a possible rate rise by the Federal Reserve could influence some corporations' financing decisions, encouraging them to bring them forward and increase maturities in 2014. As regards the composition of corporate fixed-income issues, developed economies' issues of high-yield securities reached a new peak in 2014 ($332 billion), almost 25% of the total issued by the NFCs. Given the idiosyncrasies and risks of both the corporate and banking high-yield segment, developments in this area are discussed later in more detail.

The strength of NFCs' debt issues seems to contrast with the weakness of aggregate business investment, as illustrated by various IMF reports (see WEO (2014) and GFSR (2014)). Nevertheless, an analysis of the end-purpose of NFC debt issues in 2014 lends some support to the existence of a trade-off between companies' financial and economic risk-taking.[6] For example, in the United States, investments in non-productive activities and those geared towards maintaining stock-market valuations and increased leverage through equity buy-backs continued to gain in importance. Additionally, merger and acquisition (M&A) operations, which represent greater business value in the medium term, rose by 26% from 2013 levels and reached $3.6 trillion dollars, their largest volume since 2007.[7]

No significant changes in the purpose of corporate issues are anticipated in 2015, although some companies involved in the extraction and distribution of oil and gas, which have been highly active in fixed-income markets in recent years, are expected to scale back their investment plans. Moreover, some of these companies could face a more adverse scenario when refinancing their current debt given the worsening financial situation, in

6 Dealogic does not give detailed information on the purpose of NFC issues, but does specify which are intended for mergers and acquisitions.

7 M&A activity reached an all-time high in the United States in 2014, accounting for 45% of the global total.

view of their large volume of maturing debt in the next few years and the strong growth in their issuance since 2010.[8]

BANK ISSUES: DYNAMISM UNDER THE NEW REGULATORY REQUIREMENTS

Although there has been a progressive shrinking of bank balance sheets since the start of the crisis, this trend did not prevent banks from increasing their debt issues in 2014. Specifically, their activity grew by 21% relative to 2013, to reach $1,340 billion, although this figure falls short of that for 2012. This increase was seen across the board in both developed countries and EMEs (see Chart 4). These trends represent a gradual change in the composition of bank liabilities as they adapt to the new regulatory requirements. In this regard, alongside retail deposits, the most stable sources of financing, such as bonds, or equities issues, have been gaining in prominence (BIS, 2011).

Once again the bulk of these issues was concentrated in the first two quarters of the year, when the banks took advantage of the favourable funding conditions on capital markets. The slowdown in issuance in the third quarter coincided with markets' heightened risk aversion, which affected most segments (Chart 4 shows this pattern over the course of 2014). Again, other factors more specific to the banking sector could have had a negative influence on debt markets in the second half of the year. For example, in the case of European banks, the publication of the AQR/stress tests in October could have encouraged issues to be brought forward to the early part of the year in anticipation of the exercise. Similarly, the ECB's TLTRO (Targeted longer-term refinancing operations) in September and December may have replaced the banks' other sources of funding. Weaker demand in the two auctions in 2014 could be a sign of banks having smaller liquidity needs in this period.

The composition of issues in terms of unsecured and secured debt (i.e. covered bonds, in the case of the latter) reflected the favourable market conditions existing up until the summer. Unsecured debt securities predominated in the euro area (67% of total issuance in 2014), in a context in which public debt risk premiums were falling, improving banks' access to markets in the countries worst affected by the sovereign debt crisis (Chart 4).

For their part, covered bonds remained as sluggish in 2014 as they had been in 2013. Broken down by country, although over half of issuance was in the euro area, the region's activity was well below that in previous years (Chart 5). As regards secured debt issued outside the euro area, which had been vigorous in previous years, 2014 was similar to 2013. The largest issues were by banks in Australia, Canada, Switzerland and the United Kingdom. The weakness of secured debt responds to both supply-side factors—associated with deleveraging and the lack of origination of assets for use as collateral—and demand-side factors, given the low returns on these securities. Furthermore, in late 2014 the ECB launched its third covered bond purchase programme (CBPP3) and the first ABS purchase programme, each lasting for two years. These ECB purchase programmes are subject to less restrictive admission criteria than the previous programmes. To date, the implementation of this initiative has encouraged a narrowing of spreads in this market, particularly in the case of multi-issuer covered bonds.

Finally, issues of hybrid products such as contingent convertible bonds (CoCos) were also strong in 2014.[9] Given that these instruments are eligible as Tier 1 or Tier 2[10] capital on

8 For example, of the total volume of corporate bonds issued by a sample of large oil companies, 34% mature in the next three years, while 37% have maturities beyond 2020.

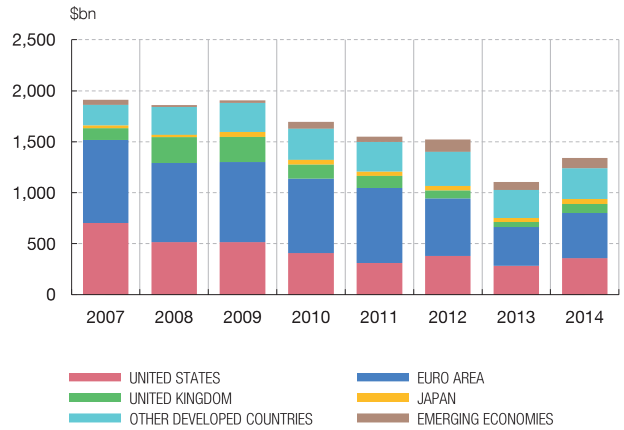
9 See Avdjiev et al. (2013) for a detailed description of the structure and design of the CoCos market.

10 The instruments included as Tier 1 are those with the highest subordination level among the bank's liabilities, they are perpetual in nature and are those for which the issuer has full discretion over cancellation of dividends or coupons for investors. Tier 2 instruments, on the other hand, are the following creditors in the subordination level, they have a maturity of over five years and in certain cases may be subject to limitations on the payment of coupons or dividends.

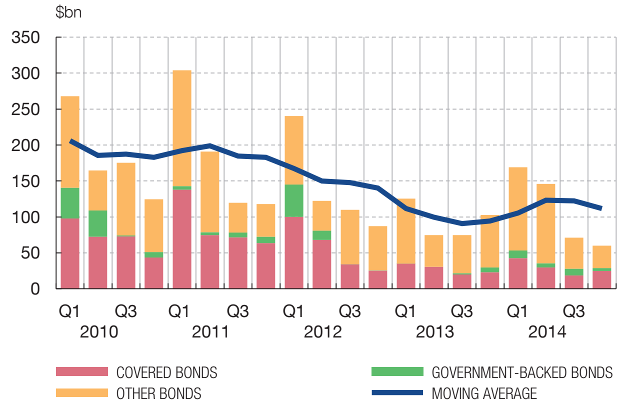
BANKING SECTOR BOND ISSUANCE

CHART 4

BY ISSUER COUNTRY OR REGION



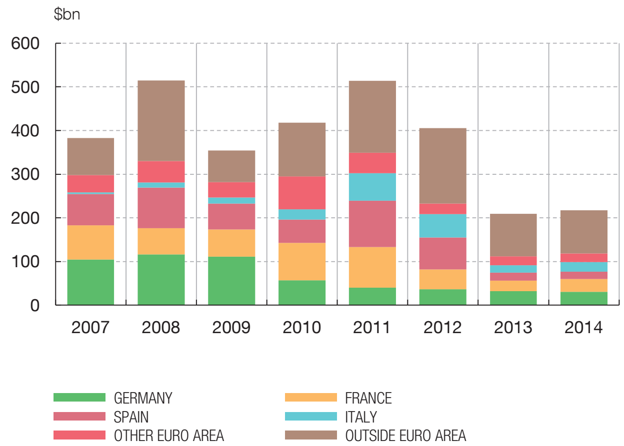
GROSS INTERNATIONAL ISSUANCE OF EURO AREA BANKING SECTOR BONDS

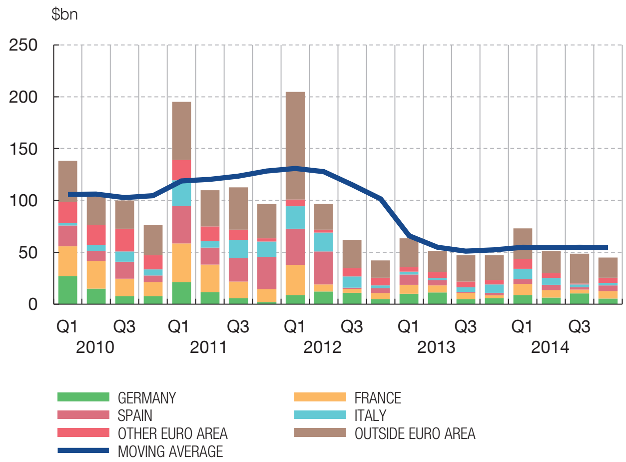


SOURCE: Dealogic.

ISSUANCE OF COVERED BONDS BY ISSUER COUNTRY OR REGION

CHART 5





SOURCE: Dealogic.

banks' balance sheets, their strength in 2014 responded to the goal of adapting to the new regulatory capital requirements under Basel III without having to turn to other markets to increase capital. Indeed, the approval of TLAC (Total Loss Absortion Capacity) last November and its application to systemic banks (G-SIBs) will lead to bigger issues of these instruments in the future (see Box 1 for more details). Nevertheless, certain obstacles are still hampering faster growth of the convertible bond segment, such as the need for uniform characteristics or a wider variety of issuers.

HIGH-YIELD DEBT: STRENGTH WITH SIGNS OF WEAKNESS

An analysis of lower credit quality debt issues in 2014 is of particular interest, given the vulnerability of these firms to a change in monetary policy stance. In this regard there is growing concern about the factors driving the development of these markets in recent years, in that they mainly respond to yield search, meaning that markets have not distinguished sufficiently between issuers. The volumes of high-yield debt issued contracted slightly in

Issues of contingent convertible bank debt (CoCos) grew significantly in 2014, the growth rate being the highest seen since 2011 and almost three times that in 2013. This hybrid instrument has loss-absorbing characteristics that allow it to be included in solvency ratio calculations.

There are several reasons for this growth. On the demand side, investors have become more familiar with this type of instrument while interest rates have been kept low, creating an environment in which assets offering higher returns —and higher risks— have been well received. Additionally, in 2014 the main rating agencies finalised their methodologies for rating CoCos and other bank capital instruments, and in some cases this type of debt has started to be included in fixed-income indexes. On the supply side, there has also been significant progress, as the process of implementing Basel III has advanced in various countries while the tax treatment of the coupons on these issues has been clarified. Similarly, in November 2014 the Financial Stability Board (FSB) published a consultative document on a new regulatory requirement (Total Loss Absorption Capacity, TLAC) to endow global systemically important banks (G-SIBs) with sufficient loss absorption capacity to ensure their orderly resolution, while avoiding the use of public funds and guaranteeing the continuity of their critical functions, so as to minimise the impact on financial stability. Although this requirement is still at the calibration phase, the consultation offers a sufficiently concrete framework to calculate capital requirements, and particularly to estimate the debt with loss absorption capacity that both banking groups and certain subsidiaries should issue on the markets in the next few years.[1]

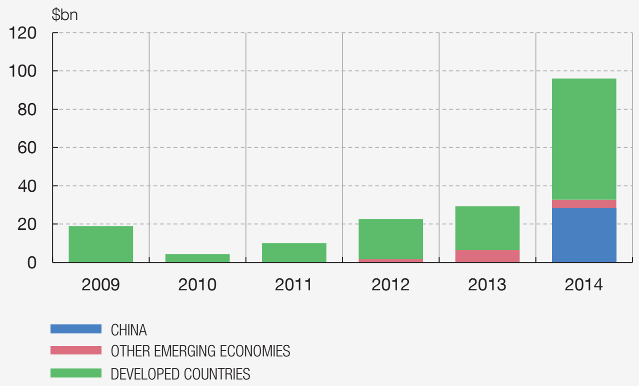
1 The FSB's consultative document establishes a resolution requirement for the institution (external TLAC) as well as a minimum requirement for each of the material subsidiaries. In the case of banking groups with a single entry point, the debt necessary for both requirements may be issued from a parent, while in the case of groups with multiple entry points, the necessary debt must be issued by the subsidiaries that are resolution institutions.

Other more idiosyncratic factors also influenced the volume of issues of these bonds by banks in 2014. Thus, in Europe issues were boosted by the need to strengthen solvency ratios in the context of the stress tests and asset quality evaluation ahead of the Banking Union coming into being. Meanwhile in China, the stimulus for the development of its financial system led to the first issues by the country's banks, with volumes accounting for almost 30% of the year's total issuance (see accompanying Chart), in contrast with the scant appetite for these products in other emerging country regions, such as Latin America.

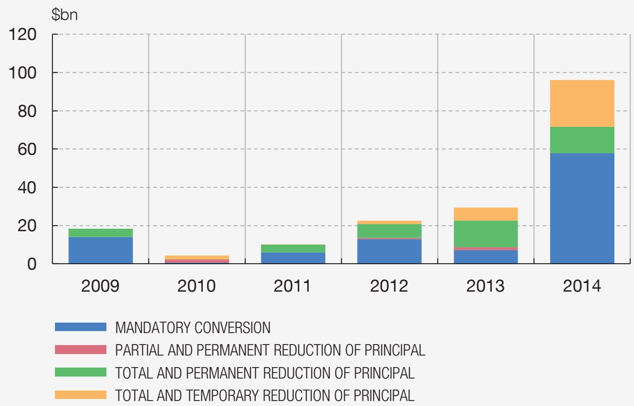
A certain degree of innovation relating to these instruments and an increase in the number of jurisdictions in which they are issued continue to be seen. Additionally, debt characteristics remained highly diverse during the year, reflecting differences in national interpretations of the solvency regulations, different restructuring and resolution frameworks, and non-uniform tax treatment. Nevertheless, something of a preference for convertible debt issues (debt which is automatically and irrevocably converted into capital when a specific triggering event arises) was apparent in 2014 (see chart) and issues eligible as top quality or Tier 1 capital predominated. In any event, the characteristics of these instruments are highly diverse, and the outstanding balance relative to other types is still very small. For example, despite their strength in 2014, the volume issued did not reach half of that of covered bond issuance, in a particularly weak year for this market. These traits hamper the creation of a broad and diverse base of investors, the development of a degree of liquidity in their trading on secondary markets, and their widespread inclusion in the main fixed-income indices.

CoCos ISSUANCE

1.1 CoCos ISSUANCE BY MARKET



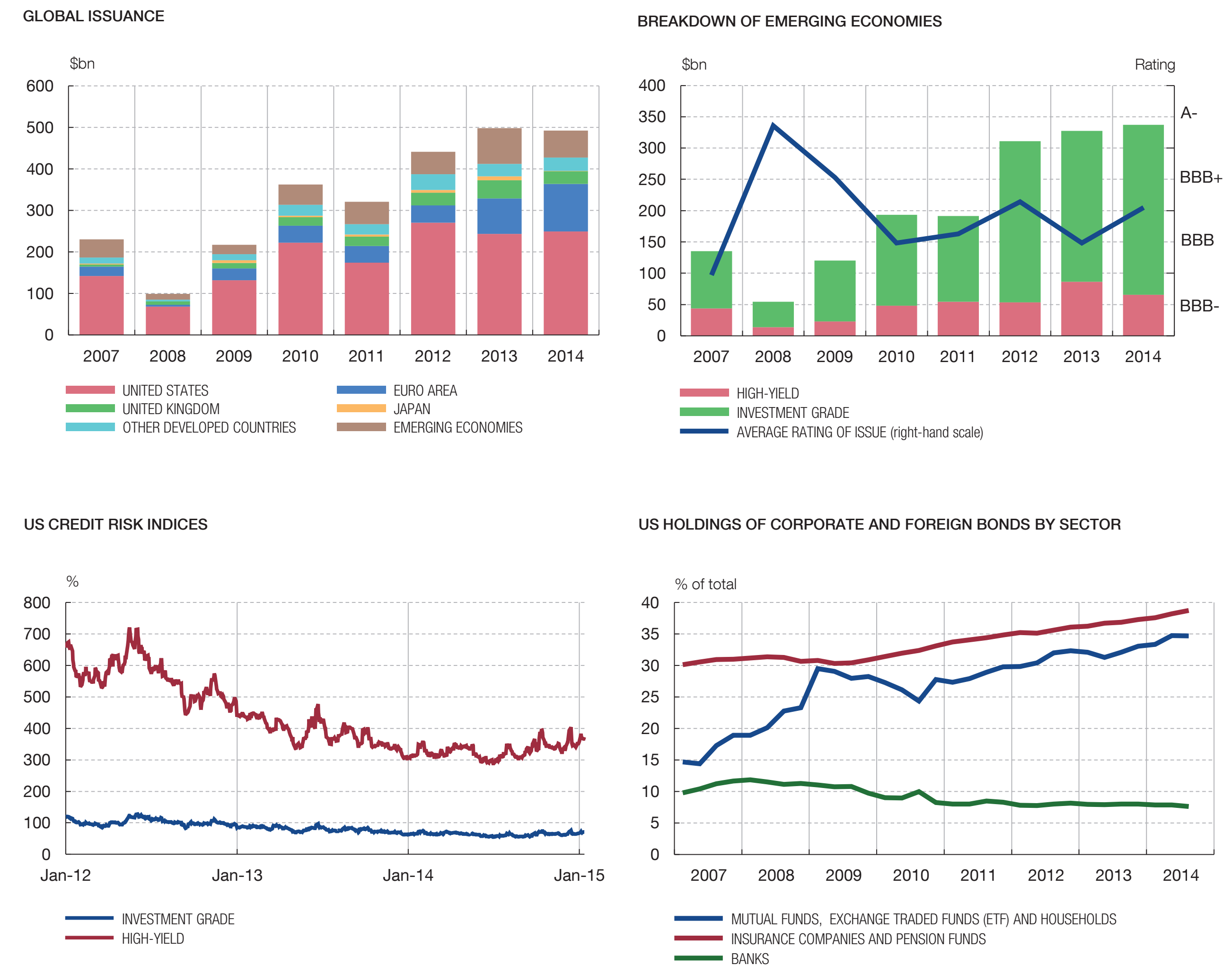
1.2 CoCos ISSUANCE BY LOSS ABSORPTION MECHANISM



SOURCE: Bloomberg.

ISSUANCE OF HIGH-YIELD BONDS

CHART 6



SOURCES: Dealogic, JP Morgan and Federal Reserve.

2014, although they remained close to their 2013 peak. In the developed economies, this activity reached a new record, with a volume of $493 billion (see Chart 6).

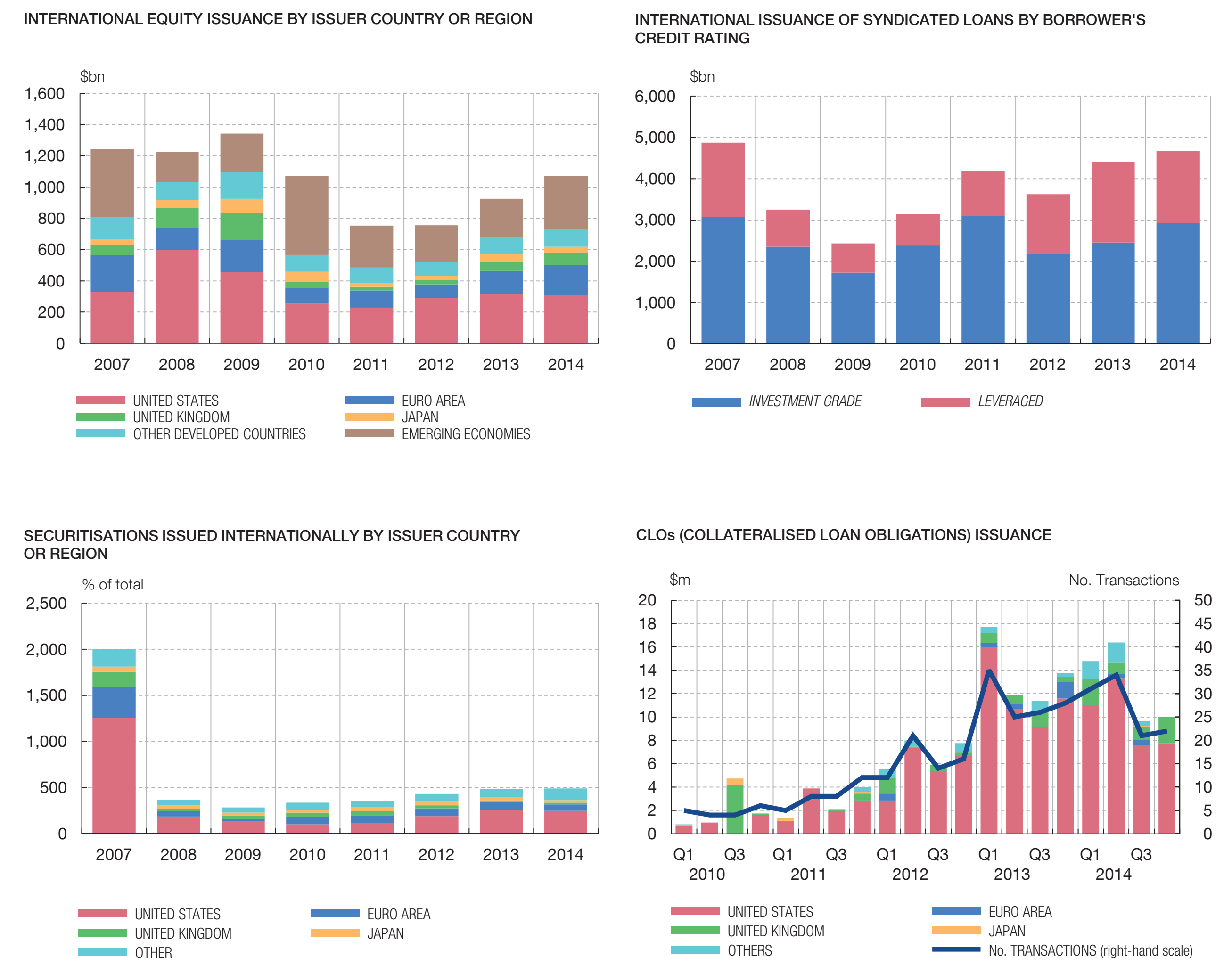
Euro area issues made the biggest contribution to this performance, with only a slight increase in the United States. In the case of the euro area, expectations of a more expansionary monetary policy from the ECB propped up investors' demand given the slender returns on lower-risk assets. Issuing activity in EME high-yield debt markets decreased, despite investment-grade debt issuance by these countries growing by 26%. This trend could be explained by certain factors specifically affecting these countries, such as their worsening growth prospects, falling oil prices and the rising dollar. Indeed, the BIS recently warned of the risks of these firms' dollar-denominated liabilities, given the possible currency mismatches on their balance sheets (Chui et al., 2014).

Concerns about possible overvaluation in developed countries' high-yield markets grew as the year wore on.[11] In this regard, in the case of the United States, the credit risk index

11 In this regard, for example, the president of the Federal Reserve, Janet Yellen, at her appearance before Congress in May, mentioned the possibility that investors may be increasing their risks in their search for yield, particularly in sectors such as the high-yield corporate sector.

INTERNATIONAL ISSUANCE ON OTHER MARKETS

CHART 7



SOURCE: Dealogic.

on these issues rose progressively in the second half of last year (see Chart 6). There is also uncertainty about the negative impact rising official interest rates could have on higher-risk and lower-liquidity debt markets, such as high-yield debt.[12]

Activity in other markets

DYNAMISM OF EQUITY ISSUES

In 2014 equity issues[13] reached their largest volume since 2009 (see Chart 7), confirming the recovery observed in 2013 in the developed countries and EMEs. This strength in the primary market was driven by almost universal gains in the stock-market indices of the main developed countries, particularly the United States, where they were buoyed by improved growth prospects, among other factors. By country, emerging markets saw high growth in their equity issues, although the figure was influenced by the large scale of a single issue.[14] The euro area and the United Kingdom also contributed to the dynamism in this segment, with volumes at record highs since 2009, while activity declined in Japan.

As with other instruments, more equities were issued in the first half of the year, while the second half was affected by the more uncertain environment. In particular, stock markets

12 See, for example, the IMF's GFSR of October 2014.

13 Primary (by the entity itself) and secondary (sale of shares by existing shareholders of the entity) issues are included.

14 The stockmarket flotation of the Chinese firm Alibaba (e-commerce), with an IPO of $25 billion, the biggest on record.

fell sharply in October, as a result of the worsening outlook for global growth alluded to above. Moreover, heightened geopolitical risks and falling oil prices shaped an environment in which demand for safe-haven assets increased and the appetite for equity declined. Thus, worldwide flows into shares were smaller than those into bonds.[15] In terms of valuations, despite the occasional corrections, over 2014 as a whole the ratio between share prices and expected corporate profits increased in the developed countries, rising to a level above the average for the 2005-2014 period.[16]

By sector, NFCs accounted for the lion's share of issues, although the banking sector saw the highest growth, driven by the new regulatory requirements and one-off factors such as the stress tests and asset valuations undergone by European institutions. By instrument class, the biggest volume was concentrated in follow-on offerings,[17] while initial public offerings (IPOs) experienced strongest growth. The year 2014 saw the largest volume of stock-market flotations in developed countries since 2007, with the euro area and the United Kingdom being particularly dynamic.

SOUND PERFORMANCE OF INTERNATIONAL ISSUES OF SYNDICATED LOANS

Syndicated loans are loans granted by a group of banks to a single borrower, usually a large corporation.[18] This spreads the default risk between the banks while avoiding the costs of a bond issue. In 2014, activity in the syndicated loan market increased for the second year running, by 6%, to reach a volume of $4,665 billion (see Chart 7).[19] Despite the increase in overall activity in syndicated loans, the proportion of leveraged loans, i.e. those with higher risks and returns, dropped in 2014 to 37% of the total, after standing at 44% in 2013 (see Chart 7).[20] These figures point to the reduced appetite for risk prevailing in the markets, particularly since the summer. Despite this decline, the volume remains significant. Additionally, 45% of leveraged loans were granted to oil and gas producing companies, which could represent bigger risks for lenders in the wake of the drop in oil prices.[21]

Lastly, the main purpose of these syndicated loans was debt refinancing, which accounted for 44% of the total, the largest share since 2007. This may be an indication of the growing burden that debt represents for firms' corporate decisions, as in 2008 just 15% of the funds raised through syndicated loans were used for debt refinancing. The growth in the volume of loans for M&A activity is also noteworthy, as they account for 14% of the total, the largest share since 2008.

STRUCTURED FINANCE MARKETS REMAIN SLUGGISH

International securitisation issuance was similar to that in 2013, a sign of the market's lacklustre performance since 2008 (see Chart 7). Nevertheless, there has been a slight recovery since 2010 and issues in 2014 rose by 1%, to $488 billion.[22] Given the meagre development of European securitisation markets in 2014, various initiatives have been considered to revive them. For example, in May the ECB and the Bank of England published

15 JP Morgan, Global Fixed Income Research, 22 December 2014.
16 See, for example, IIF, Capital Markets Monitor, January 2015.
17 Follow-on offerings may involve offering shares on the primary market (the company itself decides to increase its share capital, diluting earnings per share) or on the secondary market (shareholders in the company sell some of their shares, so the number of shares is not increased and the earnings per share not diluted).
18 Certain bilateral loans (accounting for around 5% of the total sample) are also considered to be syndicated loans.
19 By lender region, growth was particularly pronounced in the EMEs (30% y/y), followed by the United Kingdom (18% y/y) and the euro area (14%). By contrast, both the United States and Japan experienced a slight drop compared to 2013.
20 This category includes companies with a credit rating of BB+ or lower.
21 See http://www.ft.com/intl/cms/s/0/70cc637a-845c-11e4-8cc5-00144feabdc0.html#axzz3PvK13wDL
22 By region, there was a notable decline in the euro area (-23% y-o-y), with more moderate drops in Japan (-17%) and the United States (-13%), while the United Kingdom saw the largest increase (23% y-o-y).

a document introducing the concept of “qualifying securitisation”.[23] The idea is to define a series of standards and characteristics geared to constructing a securitisation market with simple, transparent and structurally robust products that lend themselves to fair treatment by regulators while being easy for investors to assess.

Additionally, in November the ECB launched a programme for the purchase of structured financial products, particularly ABSs (asset backed securities), to complement other previous measures to leverage the impact of monetary policy on the real economy. This programme aims to facilitate banks’ access to new sources of funding and stimulate the provision of credit. The volume of ABSs bought by the ECB had reached €2.1 billion in mid-January 2015. By collateral type, there was a marked decline in issues of CLOs (collateralised loan obligations). CLOs are backed by loans to NFCs as collateral, characterised by high levels of risk. Thus the decline may again be explained by markets’ diminished yield search. The amount of CLOs issued in 2014 dropped by 7% compared to 2013, to a total of $51 billion (see Chart 7).

Concluding remarks

Private sector issuing activity in 2014 maintained the high volumes reached the previous year, while issues of government bonds in the main economies continued to decline in the context of consolidation of the public accounts. This high level of activity was largely the result of the context of favourable monetary conditions, ample liquidity and low market volatility, which, since 2012, has been encouraging investors to look for returns. This favourable context explains the strength of NFC issues in the developed economies and that even the high yield issues, associated with higher risk, are near all-time highs. The financial sector has also taken advantage of low interest rates, and the banks increased their issuance considerably compared to previous years, so as to adapt to the new Basel III regulatory capital requirements. Nevertheless, this favourable setting changed in the second half of 2014, as various factors converged to create conditions of increased volatility and lower risk appetite, which has had an impact on the pace of issues in certain higher-risk segments.

As regards the outlook for 2015, the context is more complex than in previous years, as a scenario of global liquidity remains, but with dollar-denominated financing becoming progressively more expensive. Moreover, the outlook for world growth and the trend in oil prices may curtail investment plans in certain sectors, such as energy, which had been raising large sums on the capital markets. In the banking sector, adaptation to the new regulations, and in particular, compliance with the new total loss absorbing capacity requirements, will determine banks’ issuing strategies over the coming months. Finally, the accentuation of the cyclical divergence between the United States and the rest of the world is also creating a more complex setting for monetary policy decision-making, in which the volatility of capital markets and their sensitivity to bad news are likely to increase.

A fundamental factor in how issuance markets develop in 2015 will be the nature of the likely increase in volatility. A gradual rise in volatility would point to an anticipated process of normalisation, while episodes of sharp rises, possibly linked to developments that are either unexpected or contrary to market expectations, would constitute a more worrying scenario, in that the higher-risk segments would, in this case, be hardest hit. These higher-risk segments are those most closely linked to yield search dynamics , such as corporate high-yield debt or debt issued by EMEs other than those habitually active on capital markets. There are also factors that may amplify possible future upturns in volatility, such

23 See BoE and ECB (2014).

as the growing presence of institutional investors (investment funds, ETFs, pension funds and insurance companies) in less liquid products on secondary markets, or the difficulties that some firms, such as oil companies, may face rolling over their issues at maturity.

To a certain extent, some of these risks lie outside the banking sector, and thus outside the perimeter of current regulations. In this respect, the process of banking disintermediation brings new challenges for the future, highlighting the importance of monitoring developments in the capital markets.

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