



April 27<sup>th</sup>, 2021

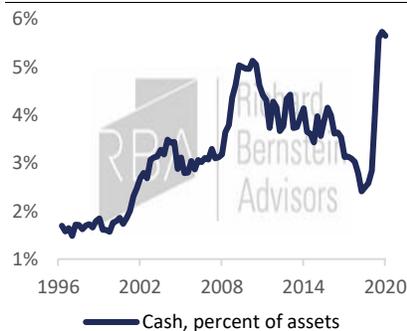
## Greatest Corporate Balance Sheet Repair in History

The coronavirus pandemic of 2020 created tremendous revenue and profit uncertainty. And with such uncertain times, Investment Grade companies did exactly what they were supposed to do: stop dividends and equity purchases, halt mergers, acquisitions and capital expenditures, and issue long-term bonds at rock bottom interest rates to refinance higher cost debt and increase liquidity. With little to no earnings, a consequence of these actions was to pad an already sizeable war-chest of cash (Chart 1) and to increase leverage to levels never seen before (Chart 2).

In 2021 most of the dynamics that played out in 2020 will reverse. We expect earnings to accelerate and as we've seen so far in 2021, net issuance to remain low (Chart 3). Furthermore, when factoring in the increase in Treasury yields since September last year, companies are now facing higher funding costs. When combined with the inefficiency of holding cash on corporate balance sheets, corporate Treasurers and CFOs will likely pull from the coffers, rather than issue debt, to increase capex and equity friendly activity. A consequence of less issuance and higher earnings will be a decrease in leverage and an acceleration in interest coverage (the ratio of earnings to interest payments).

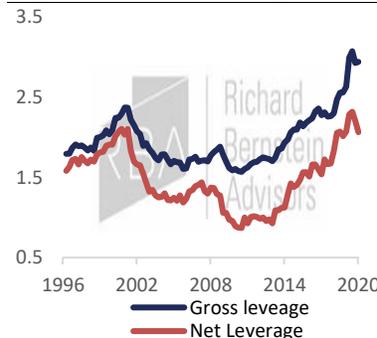
With these dynamics firmly in place, we believe the investment grade corporate bond market is on the path to one of the greatest de-leveraging stories in history, likely resulting in spread compression that exceeds most investor's expectations.

**Chart 1: Non-Financial US IG created a war-chest of new cash in '20**



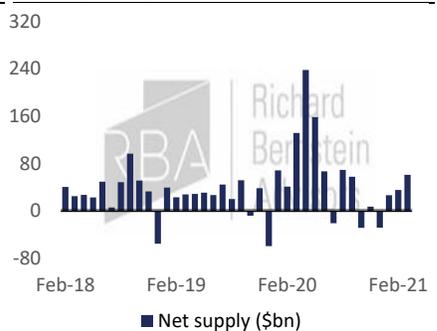
Source: BofA Global Research, Bloomberg

**Chart 2: Gross and Net leverage\* has begun to fall from all-time peaks**



Source: BofA Global Research, Bloomberg

**Chart 3: Net Issuance (corporate supply-redemptions) has been low since Oct '20**



Source: BofA Global Research

\*Gross leverage: (Debt / LTM GAAP EBITDA). Net leverage: (Debt - Cash / LTM GAAP EBITDA)

**Michael Contopoulos**  
Director of Fixed Income

**Please feel free to contact your regional portfolio specialist with any questions:**

Phone: 212 692 4088

Email: [sales@rbadvisors.com](mailto:sales@rbadvisors.com)

***For more information About Michael Contopoulos, please click [here](#).***

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