



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

THE EXPANSION OF THE SWEDISH HIGH YIELD CORPORATE BOND MARKET

- *An abductive research of the development and nature of the Swedish
high yield corporate bond market of the 2010s*

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Preface

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Abstract

The time period spanning from 2010-2020 was to the Swedish economy initially characterized as a phase of recovery from the financial crisis of 2007-2008, and furthermore a decade of rather stable economic growth without any major disrupting elements of crises or recessions. In this overall favourable economic environment, the corporate bond market, and more explicitly - the high yield corporate bond market, has stood out with an extraordinary growth of over 900% during the given time period. The dramatic growth trend of the high yield corporate bond market raises questions of what may have caused this development and the possibility of changed conditions regarding how Swedish companies chooses to finance themselves. The intent with this thesis was to analyze the Swedish high yield corporate bond market with respect to market characteristics such as prominent industries, composition and underlying cause(s) of the recent growth trend of the last decade. Only non-financial corporations and bonds issued on the Swedish market were taken into account. The thesis is based on broad quantitative data in combination with seven interviews. The empirical section aims to cover three different perspectives of the market in order to get an objective view of the market.

Keywords: High Yield, Swedish Corporate Bond Market, Capital markets

Glossary

Capital markets	A market where debt, equity and other financial securities can be traded between buyers and sellers.
Corporate bond	Debt security issued by a company to raise capital through debt funding.
Credit rating	Measurement of a company's ability to fulfil their debt obligations towards debtholders.
Default	Failure to repay debt according to agreement, regarding interest or principal, on a loan or security.
Financial company	A company that lends out money to other companies or people in exchange for interest during the amortization period.
High yield bond	Bonds rated below investment grade that offers a greater nominal return as compensation for the increased risk exposure.
Investment grade	A quality of credit rating that is rated "BBB" or higher by Standard and Poor's or Moody's.
Liquidity	Describes the ease of which an asset can be converted into cash.
Repo rate	The interest rate at which the central bank lends money to commercial banks.
Seniority	The prioritized order among debt holders of which remaining assets of a company is divided in case of bankruptcy or default.
Trustee function	A person or organization that holds the legal title of an asset on behalf of the investor to protect their interests towards the issuer.

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1 Introduction

1.1 Background

Corporations mainly use two ways of financing, either internally with retained earnings or externally through infusion of capital through equity- or debt financing. When it comes to debt financing, it can occur in two different forms, through bank loans or by issuing bonds. What tends to be the more popular way is rather depending on which country you are in and the structure of the capital market. According to Swedish Central Bank (2020), financing through the capital market constitutes a relatively large part of the US companies total corporate financing. In Sweden and Europe, financing has instead traditionally taken the form of bank loans. It is only in recent decades, and especially after the financial crisis, one can observe that financing through the capital market has increased in importance.

The credit rating institution Standard & Poor (2012) argues over the fact that the underlying cause to this is partly due to the Basel III-regulation that was implemented in the wake of the crisis. This was done in order to strengthen the supervision and risk management of banks by restricting the outstanding lending amount-ratio to the core capital of the bank and causing corporations to look for other financing solutions at the capital market. According to Corporate Finance Institute (2021a), these new requirements and regulations made a significant impact on the balance sheets of the banks since they now have to keep a greater amount of capital against total assets and therefore face a major loss in profitability. To compensate for this profitability loss, banks would then pass the cost on to the borrowers by increasing the loan spread through increased rates. Thus, this has given corporations incentives to search for alternative financing when bank loans have become more expensive and the banks are more risk averse in their credit financing.

As noted, companies can turn to the capital market and more specifically to the bond market, where long-term debt defined as one year and longer can be issued and traded between both institutions and individuals. A report from the Swedish Central Bank (2020) showed how the Swedish bond market has been going through a dramatic expansion and the market has reached a staggering 1250 billion SEK in outstanding volume by 2020. This is to be compared with the

500 billion SEK in outstanding volume as per the end of 2010, constituting an increase of 150%, represented in figure 1 and 2.

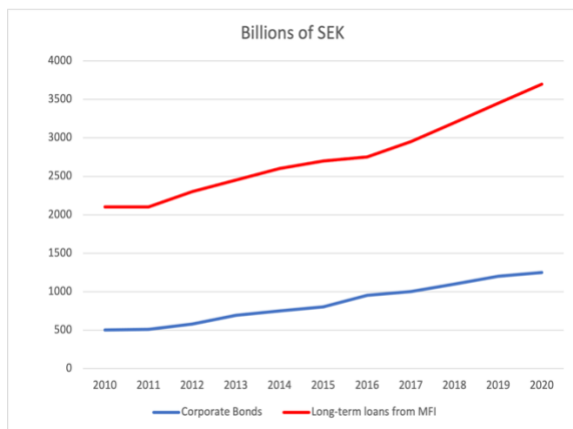


Figure 1: Issued volume of debt among Swedish non-financial companies (Sveriges Riksbank, 2020).

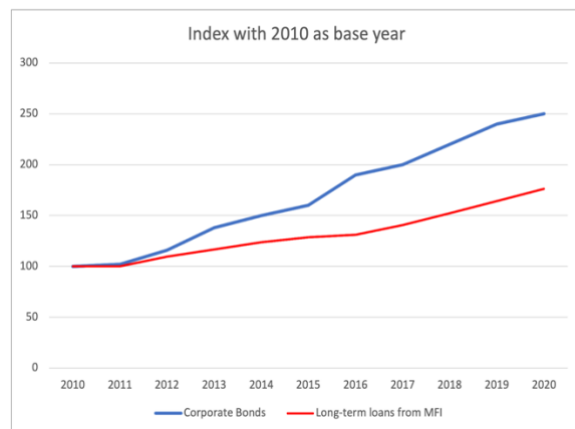


Figure 2: Accumulative growth index with 2010 as base year (Sveriges Riksbank, 2020).

The constitution of these bonds originates from a mix of both rated and unrated companies, and are labeled as such based on whether they have received an official credit rating from any of the three world dominating credited rating institutes (Sveriges Riksbank, 2020). The bonds issued by non-rated companies are thereby referred to as “high yield bonds” or “junk bonds” since they are assumed to be below investment grade because of their lack of rating (S&P, 2019b). Following the Basel-III implementation, Fitch (2010) states in a study about European corporate funding how companies without rating were also the ones that were most affected by the new restricted corporate lending-regulation from the banks. Furthermore Choudhry & Feasey (2011) suggests that empirical data is also constituting the most prominent emerging segment in the corporate bond market.

1.2 Problem discussion

The Swedish Central Bank (2020) states that non-financial corporations within the EU are in general heavily dependent on funding from banks and relatively less dependent on the capital markets, although there are large variations between companies of different sizes. For unrated- or corporations with a poor rating, one possible way of external funding is through the high

yield corporate bond market where debt capital can be raised through individuals and institutions without help from conventional banks.

However, the “high yield bond market” is by name strictly implying that investors are to be highly compensated for their investment. This excessive nominal return usually ranges from at least 150-300 basis points in additional yields compared to investment grade bonds, but is also directly associated with an increased risk exposure. Therefore, the issuing cost of these types of bonds is considered to be relatively high in comparison with investment-grade bonds or the rate of a commercial bank loan. It is also costly to obtain a high credit rating and can annually measure up to 2 million SEK. Regardless of the high issuing cost for these types of bonds, the Swedish Central bank (2020) shows how the market has still shown a strong growth year by year since the financial crisis 2008 which is indicating that there is still a significant and increasing demand for this type of financing.

Previous studies from the early 2010’s have suggested that the Swedish corporate bond market is underdeveloped. Gunnarsdottir & Lindh (2011) stated in their study about the market for loan based financing of non-financial Swedish companies that the Swedish bond market lacks transparency, liquidity, turnover and a sufficient trustee-function. On the other hand, the study strongly underlines the future believed importance- and increased interest of the corporate-bond market based on surveys and interviews.

Another report from the Swedish Central bank (2011) also suggests an optimistic view on the future Swedish corporate-bond market, but states that the high yield segment only represents a small fraction of the total market. Instead, the Swedish market is dominated by a few large cap-corporations. Almost 10 years later, one can now observe that the corporate bond market has grown with approximately 150% among non-financial companies and the high yield segment has gone from representing just a small fraction of the market to solely 45% of the outstanding volume.

The articles and studies mentioned above describes both the outlook of the corporate bond market as well as what seems to be restricting it from expanding. As shown in the most recent report from the Swedish central bank (2020), it is clear that the market has in fact gone through a rigorous expansion, especially in the high yield segment. For a broader perspective, the thesis will treat the whole corporate bond market but the main focus will be on a narrow perspective

and further look into the high yield segment. The thesis will treat the underlying causes and this steep upgoing trend of issuance during the last decade.

1.3 Purpose

The intent with this thesis is to analyze what constitutes the current Swedish high yield corporate bond market with respect to market characteristics such as prominent industries, composition and underlying cause(s) of the recent growth trend of the last decade. With this being said, the purpose is not to provide a consummate model of the variables that affect, but to conduct an inductive analysis based on quantitative data with a supplement of qualitative delivered by market experts and actors.

1.4 Research Question

“What are the main underlying causes to the recent growth trend in the current Swedish high yield corporate bond market?”

1.5 Delimitations

To enable an in-depth understanding of this thesis, the study was delimited from two different aspects. With respect to problem discussion and purpose we have chosen the following delimitations:

- **Only corporate bonds issued by Swedish companies** will be taken into consideration when analyzing the data. This has primely to do with keeping the consistency and homogeneity of the data in order to give less room and risk for deviations in definitions and dependency of different types of international databases.

- **Only non-financial companies** will be regarded as issuers of the corporate bonds in this study, with exception for the background study where they are then successively narrowed out of the scope. This will, besides from the government and state issued bonds, also narrow out financial institutions such as banks and municipalities. The reason why this type of companies are non desirable is due to the lack of relevance and disrupting effect on data the nature of these companies brings.

2 Methodology

To be able to conduct the study and fulfill the thesis purpose, the authors will make a comprehensive literature review of existing studies and publishings to build a general understanding of the subject and the characteristics of the market and to build a theoretical framework. To be able to answer the research question, the study will then proceed with gathering elementary and crucial empirical data to grasp the magnitude and outlines of the market. The primary data gathering, will be made by qualitative interviews to be able to detect, identify perceptions, opinions and characteristics that are relevant for the research questions.

2.1 Type of Study

The study will be conducted mainly through the analysis of qualitative data collected through interviews, but to an extent also include quantitative data as a foundation of observation. By partly relying on the existing theory of the corporate bond market in combination with exogenous elements, an abductive approach is what characterizes this study. In this way, the authors will be able to use accessible and broad data to isolate the observation, and then use the qualitative data from the interviews in conjunction with existing theory about the corporate bond market. With these elements, the aim is to be able to conclude what the types of underlying components that are causing the nature of the observation.

The reason why this type of approach and way of study was chosen for this thesis is mainly to create a nuanced and rich understanding of the bond market with first-hand insights. What also became apparent through literature review is that quantitative data and statistics about the

Swedish bond market, and especially the high yield segment, is usually hard to access and often behind a paywall. These aspects gave the initiative and enlightened the possible need for an alternative type of data. The authors decided to use qualitative interviews with different types of actors on the market as their primary type of data collection.

By keeping qualitative interviews as the main source of data collection, the authors found that the risk of being dependent on the availability of data and lacking of sufficient information to be significantly smaller.

2.2 Abductive Approach

The reasoning behind an abductive approach is to start off with an initial observation that is not fully complete and deems to seek possible explanations supported by existing theory to explain the pattern in the observation. Along the process, a possible conclusion is taking shape that is by the conductors of the study regarded as most likely and yields for a plausible conclusion. To summarize, the abductive approach goes from an incomplete and puzzling observation to form a “best prediction” and then a general conclusion (Bryman A. & Bell, E. (2015).

2.3 Data Collection

The primary data collection has been based on interview sessions that were conducted with 7 conducted with 7 interview participants represented by different types of actors on the Swedish corporate bond market. The idea was to let the respondents in a rather open discussion type of format explain and interpret their own experiences, knowledge and opinions gathered through their work experience. This was performed with the intention of creating a semi-structured interview with the support of 6 sets of fixed pre-decided questions. As knowledge of the subject was built up this enabled applicable follow up questions and discussion regarding new insights. Due to this, the collected data from the interviews resulted in a broadened picture of what constitutes the Swedish high yield bond market with a wide array of impressions and experiences from the actors of the market over the given time period. The answers from the

respondents tended to vary depending on what type of actor the respondent represents on the market, but at the same time corresponded well on various aspects among their peers.

The interview subjects were chosen from three different types of market perspective represented by issuers of high yield bonds, intermediaries and investors:

Issuers of high yield bonds: As a representation of issuers, one interview was conducted in order to capture what the benefits and drawbacks of choosing to finance with this type of debt issuance might be as well as giving an issuer's perspective of the market development.

Intermediaries: four interviews were conducted originating from three different organizations. As intermediaries have a central role in the market where they connect issuers and investors, a broad sense of experiences and reflections were expected. These organizations were in this study represented by one smaller nordic investment bank and two of the leading bigger banks of Sweden that traditionally has had the role of lending to issuers regarded as below investment grade. The big banks have during the past decade taken a more central role as mediator and advising role in between lenders, and investors and the risk of getting data that could be regarded as biased against this type of financing was thereby considered to be smaller than initially expected.

Investors: An investor's perspective was considered as necessary as their opinions are important for the development of the market. Two different investors were interviewed, one Gothenburg-based investor with focus on the Nordic high yield market and one investor based in Stockholm with a selective focus on primary and secondary high yield bond market.

The data collection was also performed with an element of quantitative data included to strengthen and nuance the initial observation framework. The sources of this quantitative data is gathered from stamdata with given delimitations of the scoop taken into consideration.

2.3.1 Interview Process

Due to the circumstances with the spread of COVID-19 and the restrictions imposed regarding social distancing, relevant actions have been taken in order to conduct our study in a safe way.

The respondents were first contacted through email with information about the purpose of the study. All respondents who agreed to participate were later booked for a digital interview at Microsoft Teams, except Stefan Westfält at Vinga Corporate Fond, as we had the opportunity to conduct an interview in his office. According to Bryman & Bell (2015), digital interviews are appropriate when the respondents are geographically dispersed. Seeing that most of the respondents were located at different places in Sweden, this became an obvious choice. A further argument is the flexibility of digital interviews as it enables a larger selection of respondents which Bryman & Bell (2015) emphasizes.

Every interview took approximately 30 minutes where both authors participated. This in order to get a common overview of the respondents' answers.

2.3.2 Interview Technique

The thesis empirical section consists, to a larger extent, of qualitative interviews throughout a semi-structured interview technique. The qualitative interviews have been supplemented with quantitative data of the market's outstanding issuance in order to get a fair basis for the analysis. In the choice of interview technique, great focus was placed on opening up the respondent's reasoning and offering the respondent the freedom to design their own answers in a fairly open discussion. Patel & Davidson (2019) validates this as an important part of a qualitative interview as the interviewers should be listeners instead of leading the conversation in a certain direction. Therefore, in order to get the respondents perspective and enable an open discussion, a semi-structured interview technique was chosen. With a semi-structured interview form, the questions consist of a general nature, where there is room for supplementary questions with the intent of deepening the conversation. Flexibility and a lower grade of structure is something Patel & Davidson (2019) points out as key factors to a successful semi-structured interview.

2.3 Data Processing

In order to keep the thesis in line with our abductive approach, the authors have chosen to initially make an observation of the quantitative data to get a grasp of the corporate bond market

as whole and detect trends and patterns. The result of these observations and conclusions are viewed as the outer framework of the study and the source itself to the abductive approach.

The data processing will then proceed with an analysis of the data from the qualitative data of the interviews. This will be executed through sorting the data out through transcription and detecting meaningful segments, but also to exclude parts that are not. Fejes & Thornberg (2015) consider this to be an effective method. Furthermore will answers that are similar or deviating from each other across the respondents be identified and acknowledged to draw conclusions for the study. The qualitative data will thereby in conjunction with the quantitative data gathering be expected to complete the picture of what the constitution of the Swedish corporate bond market looks like.

3 Theory

In the theory section we aim to describe and define corporate bonds and the corporate bonds market. Furthermore, cover certain characteristics in the high yield bond segment. Everything described in the theory section is intended to give the reader the main features in the area of corporate bonds to put the interviews and analysis in the right perspective.

3.1 Bond Terminology

A bond is a security sold by either corporations or governments, to fund investments today, in exchange for promised future payments to the holder of the bond. Investors typically make two payments to their holders, coupon payment and the face value of the bond at the maturity date. Coupons refers to the interest rate investor needs to pay to the holder until the final repayment day. The coupon of the bond is usually paid periodically until the maturity date and the interest rate is based on the face value of the bond, which is the notional amount of the bond (Berk, De Marzo, 2017).

Coupon payment is calculated as follow:

$$CPN = \frac{\text{Coupon Rate} * \text{Face Value}}{\text{Number of Coupons Payment per Year}}$$

“The yield to maturity (YTM) is the discount rate that sets the present value of the promised bond payments equal to the current market price of the bond” (Berk, De Marzo, 2017).

Corporate bonds are not only an important external funding for firms to fund their own investments, but also one factor determining a firm’s cost of capital. Valuation of bonds is determined through the Law of One Price which states that the competitive market sets the price of a bond as the present value of the receivables from the bond to the investor. In theory it seems easy to value a bond since it is a straightforward process. However, it differs from reality, as valuation is a complex process due to for example potential financial distress costs (Berk, De Marzo, 2017).

3.1.1 Factors Changing Bond Price

The change in a bond's price depends on two different reasons. First, the price rises as it gets closer to the bond maturity date. Second, changes in the market interest rate also change the yields investors demand on investing in bonds. A higher yield to maturity results in a higher discount rate for a bond’s remaining cash flows, which reduces the present value of the bond and hence the price. Thus, as the interest rate and yield to maturity rise, the price of the bond will fall (Berk, De Marzo, 2017).

Price of a Bond with annual coupon, par value F, maturity (n) and yield to maturity (y) it is calculated as follow:

$$P = \sum_{j=0}^n \frac{C}{(1+y)^j} + \frac{F}{(1+y)^n}$$

Corporate bonds are not considered as risk free and hence the credit risk may also change the price of the bond. As the yield to maturity for a corporate bond is calculated using the promised yield of bonds, the yields of bonds credit risk will be higher, than for identical no-default risk. Therefore, investors pay less for bonds with a higher credit risk. This is only applicable for corporate bonds since government bonds are risk free (Berk, De Marzo, 2017). Crumby & Pastime (2001) states that the probability for default risk is higher for overvalued bonds and lower for undervalued bonds. Further, Crumby & Pastime (2001) discuss a bond's sensitivity to changes in the macroeconomic environment, which is noticeable closer to the endtime. The credit period is thus not constant, but can change over time.

3.1.2 Sensitivity of Price

The bond price sensitivity to fluctuation in interest rates depends on the timing of the cash flows. Since the bond is discounted over a shorter period, the present value of the cash flows which the holder will receive in the near future is less affected by a fluctuation in interest rates than cash flows in the distant future. Bonds with higher coupon rates are less sensitive with changes in interest rates than identical bonds with lower coupon rates. Sensitivity of a bond's price can be determined by the duration of the bond. Bonds with high duration are more sensitive to fluctuations in interest rates (Berk, De Marzo, 2017).

3.1.2.1 Duration and Convexity

Duration and convexity are important assets when it comes to determining sensitivity of changes in the interest rate and therefore also affects the price of a certain bond. Duration measures the slope of the relationship between price and yield, and convexity measures the change in duration at yield to maturity. Brooks & Livingstones (1992) describes duration as a first approximation of the magnitude of the percent change of a bond's price, when interest rate changes. The greater duration, the greater price volatility when interest rate changes. Convexity works as a second approximation to determine the sensitivity of a bond's price. The percent change in a bond's price, with consideration of fluctuation in interest rate can be expressed via

Taylor series expansion which states a non-linear relationship between price and yield around the bonds actual price.

The change in price for a change in yield is described by Taylor series Expansion:

$$\Delta P = \sum_{n=1}^m \frac{P^{(n)}(y)}{n!} (\Delta y)^n + r_m(y)$$

where, $r_m(y)$ is the remainder using the first m terms of approximations. For decreases in interest rates, the approximation of the bond price results to be closer to the actual price. As terms are added, the approximation will increase and hence the approximation oscillates around the actual value of the bond (Brooks & Livingstones, 1992).

Brooks & Livingstones (1992) states how convexity sharpens the approximations as it is the second derivation of the function. The relative importance of convexity is proven to decrease as interest rate increases.

3.2 Factors Affecting Bond Yields

There are several factors affecting bond yields. Yield to maturity (YTM) is affected by the term of maturity, the structure of the bond and also the duration of the debt. Fluctuations in the interest rate also affect the YTM which can vary during the maturity. Last, the YTM depends on the type of issuer of the bond and also of the market overall.

Some factors which affect the bond yield are described in more detail in the next section and can be summarized in the following headings:

- Interest rates
- Type of issuer
- Bond option
- Bond- and credit rating

- Default- and credit risk
- Securities
- Liquidity

3.2.1 Interest Rates

The interest rate paid to the investors can be fixed or changed as it gets closer to the maturity date, also called Floating Rate Notes (FRN). As earlier mentioned, lower interest rates will result in higher bond prices and thus lower bond yields since the investor pays more for the bond. The minimum interest rate an investor wants is dependent on the repo rate that investor will demand for a non-treasury security since the repo rate stands for the risk-free rate of return. This rate is referred to the yield to maturity compared to a recently issued, comparable maturity Treasury security. FRNs are considered to have less risk than fixed rate bonds owing to the avoidance of a decline in price when the overall market rates rises. The yield spread is thus kept constant until the maturity date and FRNs do not carry any interest risk, only credit risk (Fabiozzo, 2010).

3.2.2 Type of Issuer

The market is divided by different segments, depending on the type of issuer of the bond. Each sector has different investment grades and hence different levels of risk and return. Some segments are further divided in different subsections for the intent of reflecting different common economic characteristics. Fabiozzo (2010) states how these market sectors have a wide range of issuers, where their abilities to satisfy the contractual obligation differ. Hence, the key feature of a debt obligation depends on the issuer.

3.2.3 Bond Option

It is common for bonds to include options for the issuer or the bondholder. A call option is described as the issuer's right to repay the bond to the bondholder before the maturity date,

which for instance is early redemption. It is better for the issuer of the bond to repay the bond as early as possible, as it gives the company an alternative to replace the bond with a more attractive financing when it is available. The result of a call option is an increase in the spread demanded by the investors since it benefits the issuer. Correspondingly, a put option gives the investor the right to sell their holdings back to the issuing company. This favors the bondholder and decreases the spread which in some cases can be negative (Elkamhi, Ericsson and Wang, 2011).

3.2.4 Bond- and Credit Rating

Companies that would like to receive an official credit rating proclaiming their creditworthiness towards investors and enable more options for their funding can turn to any of the three leading credit agencies. These agencies are represented as Moody's, Standard and Poor and Fitch. They all have a slightly different grading in determining the rating of a company (Corporate Finance Institute, 2021b).

Credit rating			
S&P	Fitch	Moody's	
AAA	AAA	Aaa	Prime
AA+	AA+	Aa1	
AA	AA	Aa2	
AA-	AA-	Aa3	High grade
A+	A+	A1	
A	A	A2	
A-	A-	A3	Upper medium grade
BBB+	BBB+	Baa1	
BBB	BBB	Baa2	
BBB-	BBB-	Baa3	Lower medium grade
BB+	g	Ba1	
BB	BB	Ba2	
BB-	BB-	Ba3	Non-investment grade
B+	B+	B1	
B	B	B2	
B-	B-	B3	Highly speculative
CCC+	CCC+	Caa1	
CCC	CCC	Caa2	
CCC-	CCC-	Caa3	Substantial risk
CC	CC	Ca	
C	C	Ca	
D	D	C	Extremely speculative
D	D	/	
D	D	/	
			In default wit prospect of recovery
			Default

Figure 3. Credit ratings (European Supervisory Authorities, 2015)

3.2.5 Default Risk

The default risk is the probability that the issuer of the bond fails to make full and timely payments to the bondholder and is directly correlated to the credit risk . A higher default risk is thereby corresponding with a higher yield, and issuers of bonds with a high default risk also find it hard to access through the capital market. As earlier noted, the yield to maturity of a corporate bond is calculated using the promised yield of bonds if held until expiration. Therefore, the yields of bonds default risk will be higher, than for identical no-default risk and thus determining the yield is demanded on the market (Berk & De Marzo, 2017).

3.2.6 Securities and Seniority

The cost of issuing a debt is directly related to what type of guarantees the issuer can attach to the security. For instance, if the issuer can offer any type of collateral to a bond, the investor will be able to claim this asset as a repayment of the debt in case of a default. Corporate bonds with this type of arrangement are called secured bonds as opposed to unsecured bonds, where in case of a default, the debt owner often will have to go through a lawsuit in order to collect what is owed. Thus, this will put pressure on an increase in compensation of the nominal yield to maturity of the unsecured bond since the investor is now exposed to an increased counterparty risk relative to the secured bond (Fabiozzo et. al, 2006).

Given this, the unsecured bond is thereby subordinated to secured debt in the debt structure of an issuer. An example of this would be if a company chooses to finance with a bank loan as well as unsecured bonds, where the bank will almost always demand a collateral in which the debt is identified as senior to the unsecured bond. In case of default, the senior debt of the bank will then always be prioritized over the bond when the remaining assets are divided among the debt holders. An issuer can also choose to issue bonds with different seniority within the same structure where they are referred to as tranches. This means that they are defined as different segments of the debt structure derived from the same pool of securities but can carry different yield, time to maturity as well as credit risk. Investors of the junior unsecured tranches without any collateral will therefore demand a higher yield to maturity due to the increase in credit risk

(S&P, 2019). The correlation between priority of repayment and credit risk between the tranches is demonstrated in the figure below (Corporate Finance Institute, 2021c).

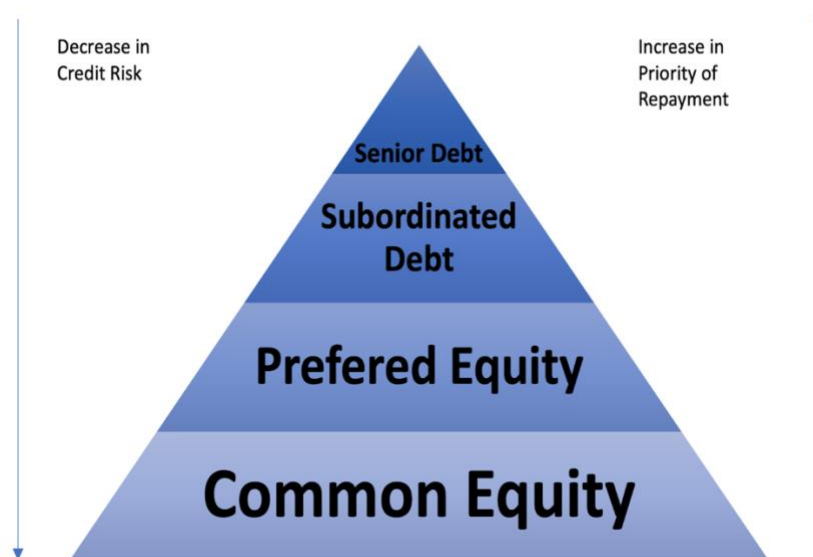


Figure 4: Different tranches and Seniority(Corporate Finance Institute, 2021c)

3.2.7 Liquidity

Bonds are traded with different grades of liquidity, especially during periods of instability in economic conditions . Different types of corporate bonds respond differently to illiquidity which mostly depends on their credit rating. While high rated corporate bonds tend to respond positively, lower rated corporate bonds with higher yielding does not perform as well as the former (Fabbiozzo, 2010). Longstaff, Mithal & Neis (2004) states in a study how investors require lower yield with greater expected liquidity. The results of the study also indicated that the majority of corporate spreads accounts from default components, but another factor that affects the risk premium is corporate bond illiquidity.

3.3 High Yield Bond Market

The definition of a high yield bond, also referred to as junk bond, is a debt security issued by a corporation with a below investment grade rating. A non-investment grade rating refers to grades below BBB-, while investment grading rating refers to BBB- or above. Consequently, issuers of a non-investment grade rating must pay a higher interest rate. In some cases, the issuer of this kind of bond also needs to make investor-friendly structural features to the bond agreement and thus compensate for bondholder risk, and to attract institutional investors (S&P, 2021). For high yield bonds, the likelihood of default is relatively high. The rating of corporate bonds depends on both the risk of default and the bondholder's ability to claim the firm's assets if such an event would occur. Therefore, issued debt with a low priority claim in a default will have a low rating (Berk, De Marzo, 2017).

Gunnarsdottir & Lindh (2011) describes the high yield corporate bond market as an opportunity for corporations to raise capital in another way than through bank loan, retained earnings or issuance of equity. A stronger bond market expects to lower the overall cost of capital for corporations and as earlier noted, increase the diversity of funding. From the issuer's perspective, high yield bonds do not only enable a higher leverage multiple, but also longer time horizons.

The issuing company will not have to repay or refinance its debt as frequently as it has to with traditional bank loans. Typically, high yield bonds are more flexible and do not require as many covenants that restrict the company's future activities. This opens up for an ability to use generated cash flow for new investments or corporate activities instead of paying amortization the bank requires. While bond financing can occur as a competitor to other alternatives of financing, especially traditionally bank loans, financing through bonds will at the same time decrease the credit risk and reduce credit losses for banks (S&P, 2021).

3.3.1 High Yield Bond Market History

High yield bond market is today a relatively young market, where it is said to have originated in the United States during the latter part of the 1970s. In that time, the market was

characterized by poor performance with long term fixed rate mortgages, insufficient stock market and a weak government- and corporate bond performance. Thus, companies started to search for new investment opportunities and the high yield bond market started to pick up speed. The market later developed during the 1980s and fell due to a market crash in the 1990s. Today, the market is considered to be a relatively stable market seeing that it is a very important source of funding investment for corporations which are limited to raising other funding due to regulation or credit risk. The high yield market in Europe developed during the latter part of the 1990s. During this time the inflation in Europe was low and the introduction of the euro currency affected the bond yield to all time low levels. This led to an increased demand for high yield bonds, both as an investment strategy but also as a new way of financing (Choundhry & Feasey, 2011).

3.3.2 High Yield Bonds

The structure of the issued bond at the high yield market differs from bond to bond and the characteristics of the bond can vary due to what time and price the bond is callable by the issuer or whether the bondholder has different conditions on a put. There are also covenants related to financial performance and disclosure and equity warrants affecting the structure of the bond (S&P, 2021).

Despite the variety of bond structure there are always two characteristics held constant - maturity and coupons. High yield bonds are usually arranged with a maturity date within seven to 10 years. The full principal amount of the bond is paid to the bondholder at the maturity date. Similar to the overall bond market, the traditional bond has a coupon interest rate which is paid with equal intervals. The interest rate is typically fixed and paid two times a year but can also be issued with a floating-rate coupon. Certain deals can be more attractive with floating-rate coupon interest rates which most often paid quarterly (S&P, 2019).

3.3.3 High Yield Issuers

The issuers of high yield bonds cover a spectrum of industry sectors where real estate, technology, energy explorers are a few examples. Issuers seek money for growth or for the purpose to refine existing debt in the form of loans or bonds. Thus, the issuers are often characterised with a high debt load compared to earnings and cash flows (Chen, 2020). In order to describe the issuers of high yield corporate bonds, they are usually divided into two subcategories - “Rising stars” and “Fallen Angels”, which are described below:

Rising stars

Companies that fall into this category are described as companies that are on their way and in the process of acquiring a better credit rating but are still considered to be below investment grade. Start-up companies are often found in this segment and are usually in an expansive- and capital intensive state where they need external funding. As start-ups do not have a balance sheet strong enough to attain a higher investment grade, they are frequently high yield issuers. For investors it is important to weigh heavily on the business plan and their future financial prospects before deciding to invest (S&P, 2021).

Fallen Angels

Fallen angels are described as companies that have historically been of investment grade but lost their rating and which bonds are now labeled as high yield due to deterioration in the financial condition of the issuer. These companies may find liquidity from the high yield bond market which in turn can improve their future financial situation and thus upgrade their grade. A few issuers in this category often hover around the border of high grade and high yield and are therefore rated as investment grade by one agency and non-investment grade by another. Other issuers might head further down the scale and never improve (S&P, 2021).

3.4 Theory summary

The theoretical elements treated in this section sets the framework of the study and will support the understanding of the empirical data and hence, the formation of conclusions. Described in

this section are factors that affect the nature of the corporate- and high yield bonds, the market, pricing, yields and historical events that assists the understanding of development over the years.

4 Empirical data and key findings

By collecting and analyzing quantitative data provided by Stamdata, we were able to establish the general historical growth trend of the Swedish corporate bond market for non-financial companies. To form a broader background for the analysis, the performed interviews will be categorized into three different perspectives and summarized with the key findings in each category.

4.1 Quantitative Data

4.1.1 Outstanding Volume of Corporate Bonds

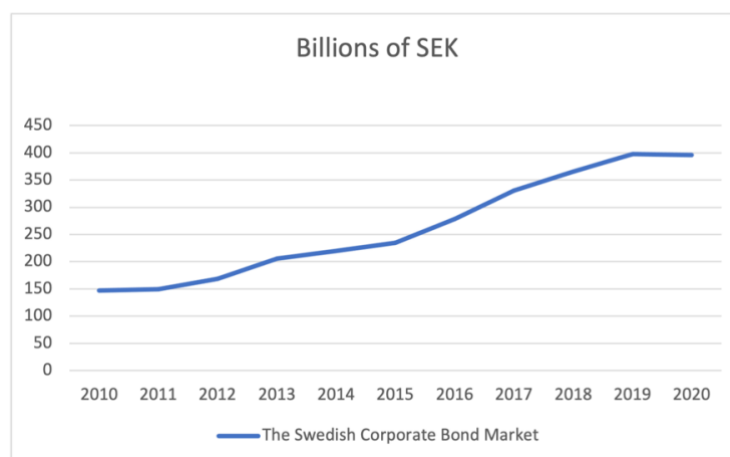


Figure 5: Outstanding volume of corporate bonds among Swedish-non financial companies, (Stamdata 2021)

The data collected from Stamdata shows an increase in growth of 169% within the corporate bond market as a whole - going from an outstanding amount of 147 billion SEK by the end of 2010 to 396 billions SEK by the end of 2020.

4.2.2 Outstanding Volume of Corporate High Yield Bonds

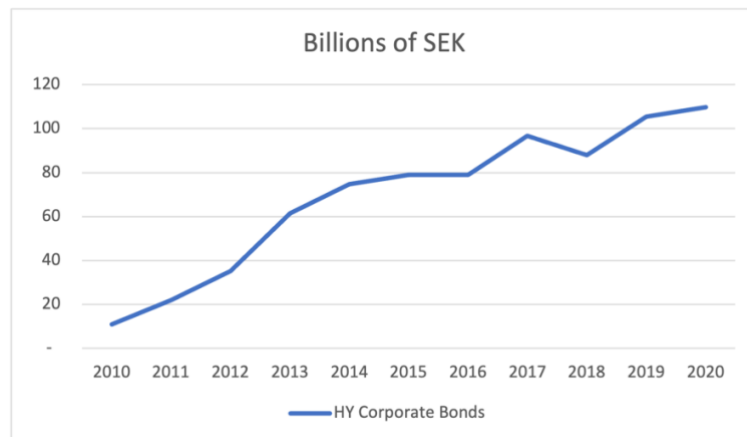


Figure 6: Outstanding volume of high yield corporate bonds among Swedish-non financial companies, (Stamdata 2021). The data collected from Stamdata shows an increase in growth of 900% within the high yield segment of the corporate bond market - going from an outstanding amount of 11 billion SEK by the end of 2010 to 110 billions SEK by the end of 2020.

4.2.3 Dominating Industries

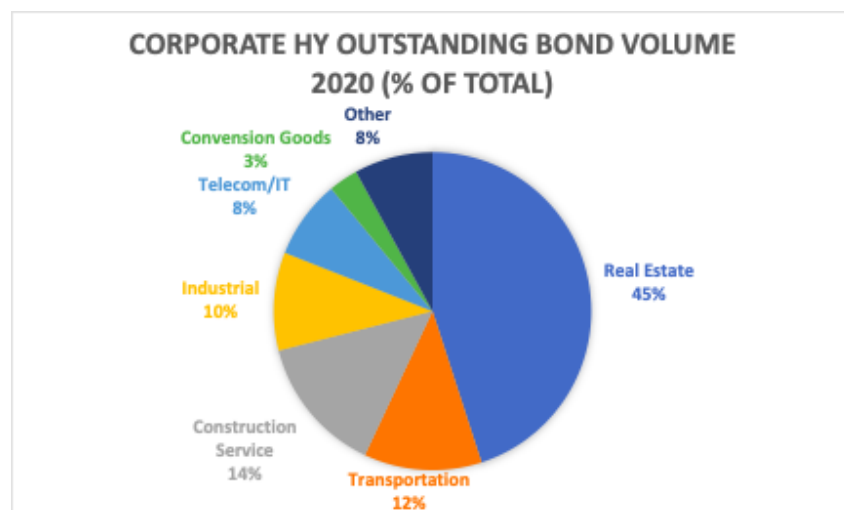


Figure 7. Corporate high yield outstanding bond volume 2020, % of total (stamdata, 2021).

The collected data from stamdata (2021) of corporate high yield outstanding bond volume shows a particular dominance in the real estate sector. Thence, construction service and transportation are the next largest sectors.

4.2 Qualitative data

4.2.1 Issuers perspective

An issuer is a legal entity that creates and sells a bond in order to finance its own operations. Issuers are legally responsible for the obligations of the issue as required by the regulation of their jurisdictions. What differs issuers at the high yield market compared to the corporate bond market is their credit quality rating, which is referred to as poor or non-investment grade.

4.2.1.1 Company ABC

The interviewed issuer in this study decided to remain anonymous, where one only gets to know the industry in which the actor operates. In this case it is a smaller real estate company and is referred to as Company ABC.

Before the company entered the high yield bond market, it financed their operations with bank loans. As the real estate industry is capital-intensive, and Company ABC has experienced an expansion phase, the issuance of a high yield bond became relevant. One of the main reasons for the issuance of a high yield bond was the flexibility it created. With the bond, Company ABC now pays a quarterly coupon of the bond with amortization at the maturity date. The respondent expresses the advantage of the flexibility of the bond issuance and emphasizes how a amortization free loan would never be feasible from the bank perspective. Furthermore, the company stated that issuance of equity was not a good option as it would not benefit their funding. According to the respondent another advantage of bond issuance compared to a bank loan were fewer covenants which in term improved the operating flexibility and their cash flow.

The respondents general knowledge of the capital market was broad, as several persons in the board of the company had previous experience of issuance at the bond market. Company ABC states how the market has become more mature as a larger understanding and more information of the bond financing alternative has reached the issuers.

4.2.1.2 Key Findings

- A more restrictive approach from the banks makes it more attractive to fund investment through the capital market.
- Issuance on the bond market is flexible compared to a traditional bank loan, where fewer covenants and amortization at the maturity date is considered as highly beneficial.
- The market has become more mature as larger understanding and more information has reached more companies, and thus potential issuers.

4.2.2 Investor Perspective

The investors in this study represent the buy side of the issued debt and can be described as the demand of the high yield-corporate bond market. In this category, two directors from different fund companies are interviewed and asked to describe their view of the recent growth trend and underlying factors to the increase in outstanding volume as well as the future outlook of the market.

The interviewed subjects are representatives of “Vinga Corporate Bond” and “P Capital Partners” are two fund companies in the smaller segment with 1-10 billions SEK in total assets under management.

4.2.2.1 Vinga Corporate Bond

Vinga Corporate Bond is an actively managed investment fund with focus on investments in the nordic high yield corporate bond market and was founded in the beginning of 2020. The fund is managed by Gustav Andåker and our interview subject - Stefan Westfeldt, which are the ones holding the investment mandates. According to Stefan, the fund aims for an annual return of 5-7% and describes the fund as an asset class of fixed-income that generates a higher

return than the general low-rates that characterizes the market today, but also delivers a more stable return than the stock market in general.

The investment process at the fund is described as case driven with high concentration on the individual issuer and a higher diversification through the different industries rather than the opposite. According to Stefan, the portfolio is diversified with a maximum of 10% allocation in a single sector with a mean value of about 6-7%. Thus, the concept is to aim for relatively few positions in a wider array of sectors and markets, where they are represented by the best performers for an optimized portfolio. Furthermore, Stefan says that they also decided to dissolve the fund when it hits a market cap of 1,5 billion SEK.

In line with the quantitative observations of this study, Stefan claims that the corporate bond market has been undergoing a great expansion throughout the last decade, and when asked what might be the underlying causes to this trend, he starts off by mentioning the global financial crisis of 2007-2008 and the implementation of the Basel-III regulations. Thus this, putting pressure on the banks lending capacity and requirement of keeping a certain amount of core capital in relation to total assets. In addition to this, Stefan states that the low interest rate is most likely one of the the most prominent factors that has driven the market. This is due to the fact that debt financing has become considerably cheaper when the government interest rate is and has been below or around 0 percent.

As a third major factor that can explain the historical pattern of the trend, we have the successive growth in knowledge and awareness of the corporate bond market among investors. For the vast majority, corporate bonds have not been seen as an apparent option of investing and that market has not really been fully matured here. This is to be compared to the American market where corporate financing is made up by about 80% of corporate bonds. For instance, Stefan tells the interviewers that he upon this day faces big investors with little to no knowledge of corporate bonds as a high yielding asset.

When asked about what Stefan thinks sets the high yield market apart from investment grade bonds since this segment in particular has shown such an extraordinary hike over the given period, he says that it is mostly likely due to the high nominal return that appeals to the investors. This phenomenon, often referred to as “the hunt for yield” is due to the low general rate pushing

the investor that wants to invest in fixed rate towards higher yields, hence issuers with lower credit rating.

Regarding dominating industries in this segment, the respondent states that it's still the real estate industry that represents the major part and has been for quite some time; however, the gaming- and green energy industry have made a significant increase in its presence during the last few years. The respondent also mentions that different countries and cities attract different industries. For instance, Stockholm has witnessed a rapid growth within the gaming industry and has become sort of a cluster of game development. Because of this, the respondent points out that foreign gaming companies chooses to list high yield bonds on the Swedish market. Another proof of this phenomenon is how Norway and its big oil industry has a corporate bond market dominated by oil service companies.

The respondent believes in continuous growth of the high yield segment at the same pace as recent years, and that it is possible to see a doubling in market size within 5 years. The reason for this is according to the respondent the remaining lack of knowledge about the market among investors, and states that growth will just like during the 2010s occur along the increase in knowledge and recognition of the bond market. Furthermore, the respondent also predicts that the transparency of the market that today is relatively low, will increase with its growth.

4.2.2.2 P Capital Partners

P Capital Partners (PCP) is a fund company owned by Proventus AB and describes themselves as a “strategic financial partner to companies who need additional funds and we are acting as a problem solver in complex funding situations”. In practice this means that they are investing in direct debt loans and bonds towards mid-sized companies in northern europe through funds managed by the company. As a respondent and managing director of PCP, Anders Thelin has been interviewed.

As a reflection of the historical trend over the last decade regarding the growth of the corporate bond market, the respondent foremost mentioned the low risk free rate as a large aspect of importance. He states that this is triggering investors to search for assets that can provide a

higher yield of return, which has brought corporate bonds to be an interesting alternative. The respondent is also bringing up the fact that from an issuer's perspective, bonds are sometimes favourable to bank loans due to an increased level of liquidity since there is no continuous amortization during the period to maturity of the bond other than the coupon rate. The respondent is also underlining the fact that using debt financing over equity financing is a great way of maximizing the return on shareholders return, especially in the low rate environment of recent years where debt financing has become considerably cheaper.

When the respondent is asked about what he thinks has triggered the huge increase in issued volume of the high yield market in particular, he states that the historical definition of "high yield" has somewhat been altered in the sense of what a "high yield" really is defined as. Because of the generally low levels of rate, companies with low credit rating are now often able to issue bonds of around 4-5% in coupon rate. For investors facing required rates of return in their portfolio, they have now been pushed to seek investments in companies rated "below investment grade". On top of this, the respondent is stating that there has been a significant low rate of defaults among companies in the high yield segment over the last decade. Thus, the investors have in many cases adopted a false sense of security towards this type of companies.

According to the respondent, the real estate industry is without doubt the largest actor due its capital intensive nature. Another big actor on the market is according to Anders the oil and gas industry - which can be explained by the increased difficulty in getting financing from conventional banks due to environmental concerns and restrictions. This phenomenon is also somewhat applicable to another industry that has increased its presence on the market and is now considered to be a big actor - the gambling industry. The gambling industry is what is often referred to as a "controversial industry" and is thereby also facing increased difficulties in getting conventional financing from banks and therefore more frequently chooses to turn to the capital market.

The outlook of the high yield corporate bond market is according to PCP looking bright with further growth. The respondent does mention that the government rate is probably going to increase in the near future, but firmly believes that the high yield market will not be that affected by this.

4.2.2.3 Key Findings

- The historically low repo rate is mentioned in both interviews as one of the key factors to the strong growth trend of the Swedish corporate bond market. According to both respondents, this is also a factor that in particular affects the high yield segment since investors are more willing to accept bonds with a lower credit rating- or none at all, in exchange for a higher return. This is especially applicable to investors and institutions faced with a required rate of return in their portfolio and investments.
- The implementation of the Basel-III regulations that was implemented in the wake of the financial crisis 2007-2008 is mentioned as one of the most crucial and disrupting factors that triggered the issuance of corporate bonds as an alternative method of financing.
- The respondent representing PCP believes that it is arguable that definition of a “high yield” is somewhat altered due to the relatively low repo rate, and states that a 4-5% in coupon rate could today be defined as high yield.
- Both of the respondents claim that the real estate industry is the most dominant within the high yield corporate bond market, followed by oil and gas-energy companies. The respondents are also unambiguous in their recognition of new developing sectors such as gaming-, gambling-, and green energy companies increasing their share of the market in recent years.
- Regarding the outlook of the high yield corporate bond market, both of the respondents are convinced that it will continue to grow at a stable pace. Investors will probably also witness an increase in both transparency and knowledge of the market, which is likely to promote the growth of the market. According to respondents of PCP, we are also likely to see an increase in the government borrowing rate, but that the high yield market will not be as affected by this .

4.2.3 Intermediaries Perspective

Intermediaries function as a middleman between the issuer and the investor in order to facilitate the financial transaction. They are responsible for originating the bond in order for the issuer and then creating an acceptable offering from the investors. The intermediary actors in Sweden are usually the largest banks and smaller independent investment banks. Therefore, intended focus on the interviews has been a mix of both larger banks and smaller investment banks.

Following interviews have been made:

- SEB
- Swedbank
- ABG Sundal Collier

4.2.3.1 SEB

SEB is one of the largest banks in Sweden and also leading in the investment grade segment where they advise both inaugural and established issuers. The bank has a developed debt financing department whereas the Debt Capital Market (DCM) enjoys a leading market position in the Nordic region. DCM are responsible for the origination, structuring, execution and syndication for different debt-related products including both rated and unrated bonds. SEB also enjoys a strong position within the Nordic high yield bond focusing on both listed and Private Equity companies.

SEB has observed a prominent growth in the corporate bond market but also in the high yield segment. The respondent states how the growth of the overall corporate bond market is driven by the disintermediation. The capital which is financed by loans from the largest banks has decreased, and at the same time one can observe an increase of corporations using the capital market for financing. One of the main explanations for this shift is an increased regulation for banks and their ability to lend. Furthermore, the respondent pointed out how the largest banks still have a central position as they developed a new function of the banks, where they operate as an advisor to both issuers and investors. This enables the banks to take an emolument for

the advisory instead of tying up their own capital. This has earlier been demonstrated to be successful in the US and is now taking speed in Europe and the Nordic region as well. Given all the information above, SEB states how corporate financing through the capital market is expected to be a long-term growth area.

Referring to the overall corporate bond market, the respondent explains how monetary stimulus with both the interest situation and asset purchase program from ECB are the main causes of the outstanding growth. This has led to an increasing interest from investors to hunt for yield and has forced these out on the yield and risk curve against high risk bonds. In the beginning of 2000' one could receive a decent return on risk-free bonds which is not possible today.

Talking about dominated industries in the high yield segment, SEB mentions real estate as one of the largest. A decade ago, the oil industry was a leading industry, but as we observe a shift to renewable energy this industry has decreased in proportion. The respondent believes green high yield bonds are upcoming in this segment and expect new players as the development of electrification takes place.

SEB believes the high yield segment is expected to increase together with the general trend which has a strong connection with the development in disintermediation. Financial incentives are expected to attract more companies to the bond market and provide a continued strong growth trend. One possible reason for the bond market not to increase are both increasing interest rates and risk premium. An example is how the corona pandemic at the beginning of the year caused the high yield issue to completely stop and thus shows evidence of how sensitive the market is to volatility and risk-averse behavior.

4.2.3.2 Swedbank

Swedbank is one of the largest banks in Sweden and a top-ranked advisor, arranger and issuing agent of public and private debt-related products such as bonds. Swedbank Large corporation & Institutions offers corporate and investment banking service to companies as well as to investors. Swedbank has experience of working in Nordic high yield market where they function as an intermediary to help investors and issuers in the transaction.

According to the respondent at Swedbank the upward trend in the corporate bond market originated from the US where corporations in a greater proportion chose financing through the capital market instead of traditionally bank loans. As banks have high requirements for their return on investment, a financing through bank loans is not as attractive as the opportunities at the capital market. Swedbank also states how lower interest rates make it more profitable for the issuers to use the capital market for financing instead of raising equity from the shareholders. The low interest rate comes from monetary stimulans where the European Central Bank buys bonds to push down the interest rate. Last, Swedbank also states how the market is more mature compared to a decade ago, whereas maturity in the market benefits the documentation as it is easier for both issuers and investors to complete a transaction at the capital market.

When it comes to the high yield segment, the respondent points out the overall economic growth as a factor to the high yield segment growth. The respondent talks about the “ripple effect” of economic growth, where companies are able to lend more money as they grow bigger. This effect will continue as long as we manage to avoid an economic crisis. The high yield market is still a more attractive way of financing than raising capital from the shareholders and hence the market has grown.

Talking about the dominated industries in the high yield segment, the respondent points out the real estate industry as the most prominent, seeing that it is a capital intensive industry. Furthermore, it is also an industry where it is easy to understand the future profit from the investors perspective as their future cash flows can be more predictable than in other industries. The respondent believes that the upcoming industries are gaming and medicine. The respondent also mentioned the industrial segment as one of the largest, where Volvo AB and SSAB are two big issuers.

Swedbank believes the Swedish high yield bond market will follow the US market and grow even larger. Increased awareness of the capital market will lead to a bigger understanding of the market and thus grow in proportion.

4.2.3.3 ABG Sundal Collier

ABG Sundal Collier (ABGSC) is an Nordic independent investment bank focusing on delivering global capital to companies with a Nordic link. ABGSC originates, structuring, risk managing and executing different debt products. Furthermore, ABGSC also offers fixed income sales and trading in the Nordic high yield market, where they manage new bond offerings for companies in a wide range of industries.

One of the respondents at ABGSC mentioned the financial crisis as one of the main reasons for the upward trend in the overall corporate bond market. Before 2008, companies had low interest and knowledge about corporate bonds, but as banks got higher restrictions of their lending, the corporate bond market exploited as companies looked for funding elsewhere. Regulations regarding the banks' lending drive what interest the banks must charge in lending and when the interest rate is raised, other debt instruments become more attractive. Companies discovered how other actors on the market started to finance themselves with bonds, which led to a tendency to explore this type of financing and thus the market increased. Therefore, the market's growth has been driven by the transition from a new market to a more established one, whereas better structures and boilerplates have developed on the market and thus made it easier for companies to raise funding through the capital market.

According to the respondent at ABGSC, the bond market is a flexible way to raise financing as it has less conditions and does not require any amortization. Furthermore, the respondent also mentioned how the low bench rate places lower requirements of the bonds, which then becomes an attractive financing. One of the respondents also talks about reverse inquiry where the request is made by investors who come up with proposals for terms and framework for a certain issue. The demand for returns is driving issuers, which is based on the low interest rate situation. In this way, investors chase higher yields.

The respondent at ABGSC sees the progress in the main corporate bond market as one of the reasons for the growth in the high yield market. The investors have rewritten their mandates in the funds which in turn makes it easier to invest in high yield. At the same time, from the issuer's perspective, it is flexible to finance through the high yield market as there is no amortization for Swedish bonds and thus the issuers can use the cash flow for something else instead of amortizing the debt. Further advantages with bond financing are fewer covenants

compared to traditional bank loans which makes it more flexible for the issuer to finance their operations. When it comes to the Swedish high yield market the respondent discusses how a big part of the corporate bond market is unrated. Compared to European investors, a greater extent must have a rating on their investments and this will be a major threshold as it is costly to obtain a rating. Furthermore, ABGSC states how the process of establishing a bond takes less time in the nordic market and thus making the Nordic market attractive to companies outside Sweden.

Both respondents at ABGSC state how the real estate industry is the most prominent in the high yield market. For future insight, ABGSC discussed how the Technology, media and telecom (TMT) sector will grow and take and constitute a greater representation of the market in the future.

ABGSC believes the Swedish High Yield Bond market will continue to grow. The big threat to the market growth will be if interest rates rise, and thus could affect the high yield market, as issuers can no longer afford to finance them at the capital market. One of the respondents also states how the probability of new regulations to the market is considered as low, since it is only professional investors with high volumes at the market.

4.2.3.4 Key Findings

- All respondents have observed a prominent growth in the high yield bond market in the last decade. The market has become more mature as increased awareness of the capital market has led to a bigger understanding of the market and thus grown in proportion.
- The regulation and increased difficulties of getting bank loans with fair conditions are believed to have a great impact on the growth of the corporate bond market as corporations need to fund their investment with other financial alternatives.
- The low repo rate is a major factor in making it profitable for the issuers to use the capital market for financing instead of raising equity from the shareholders.

- All respondents point out the real estate industry as the most dominated industry in the high yield bond market, seeing that it is capital intensive. For upcoming industries, the respondents answer differently, where TMT, medicine, gaming and renewable energy could be dominated industries in the future.
- Financial incentives are expected to attract more companies to the bond market and provide a continued strong growth trend. One possible reason for the bond market not to increase are increasing interest rates.

6. Analysis of empirical data

Based on the key findings from each perspective, this section aims to cover the market as a whole and get a comprehensive view. Collected data from previous sections will be aggregated in order to discuss and form the framework of the conclusions.

The quantitative data collected from Stamdata represents that derived from the outstanding volume in SEK, it is possible to observe a distinct growth trend in the corporate bond market and in particular the high yield segment with an expansion of 900% over the decade. However, the data derived from the Swedish Central bank presented in the background section suggests a far bigger number in terms of outstanding volume. This can be explained with the fact that the data from the Swedish Central Bank is also including bond issues in other currencies than SEK.

All of the respondents in the interviews were presented with the notion of a prominent growth trend of the Swedish corporate bond market over the last decade, to which all of the respondents agreed. These findings comply with the findings in the paper issued by the Swedish Central bank presented in the literature review and empirical data from the quantitative data collection (Stamdata, 2021).

The observations and reflections over possible underlying factors to this trend, was overall unambiguous toward the high importance of the low repo rate and its role in creating a prosperous environment for the corporate bond market. The logical reasoning behind this,

according to the respondents, is partly due to the investors' search for higher yields when struggling to acquire desired return through bonds and debt instruments with less risk. From an issuer's perspective, the low rate has at the same time meant a decreased cost of issuing debt due to the low levels of the risk-free rate.

Based on the interviews, regardless of the perspective, it states a change in how companies choose to finance their investments, where financing through the capital market has increased in importance. This shift has arisen due to regulation and structural changes at the market, which is largely derived from the financial crisis in 2008. Further, this finding also confirms Gunnarsdottir and Lindh (2011) findings in their earlier research. The financial crisis changed attitudes towards banks, which led companies to instead seek diversification in their sources of funding. This is consistent with the previous research in the literature review, as it states that banks are more risk averse in their credit financing. Another aspect linked to the shift was the implementation of Basel III, which tightened the requirement of keeping a certain core capital to total assets ratio of European banks. Thus, making it harder and less profitable for banks to lend out capital to ventures considered to carry too much risk.

The successively maturing of the corporate bond market and increasing in its recognition, is also repeatedly mentioned throughout the interviews as a factor of importance. This applies to both investors and issuers, and is according to multiple respondents arguably what makes the growth trend so consistent throughout the years. According to the respondent of Vinga Corporate Bond, the use of corporate bonds as an investment of high yield is upon till this day something that a significant portion of the aggregated investing capacity is unaware of.

When it comes to the particular and extraordinary hike in issued volume and expansion of the high yield corporate bond market overall, the respondents are overall a bit more diversified in their reflections and observations. Most common among the answers is the reasoning behind the importance of what is often referred to as “the hunt for yield”. This phenomenon has had a significant impact on the corporate bond market due to the offering of a higher nominal return than state- or municipal issued bonds. However, it is a shared conclusion among several of the respondents that this is especially true regarding the high yield-bond market due to the extended willingness of the investors to reach for bonds rated below investment grade.

What the vast majority of the respondents also implies and agrees upon, is that the growth and the prosperity of the corporate bond market as whole has brought the high yield segment into the spotlight and legitimized it as a more rational way of financing and investing in. According to one of the respondents from ABGSC, funds have in the wake of this development had their mandates rewritten, which in turn makes it easier to invest in high yield. According to the respondent from Swedbank, it is also true that companies without rating or rated below investment grade are part of the most emerging segment in the economy which has created a ripple effect in growth and issuance of debt. As these companies who represent the majority of Swedish companies are growing they are thereby able to issue even more debt and grow even bigger. Given that the conditions in the economy are generally stable and favourable without any major economic crisis, which has been the case over the given period, growth companies that fall into this category have been able to thrive and issue relatively cheap debt funding.

Every respondent clearly agreed that the most dominated sector in the high yield market is real estate which validates the quantitative data in the previous section (Stamdata, 2021). One of the reasons for the dominance is explained by the credit restrictions from the banks as it is a capital intensive industry and thus banks have difficulty meeting the requirements for lending. Furthermore, the same argument can be applied to the industrial and technology sector. Future insights of dominated industries differ among the respondents, but the respondents from the investors perspective and SEB agree how green bonds are emerging in the high yield segment and are likely to become even more dominated in the near future. Further future dominated industries will come from the TMT, as it is an emerging sector.

7. Conclusion

This section answers the study's research question and makes conclusions about the interpretation given based on the previous analyzing section. Given the conclusions and study limitations, suggestions for possible future studies will be presented at the end of this section. The research question this study aims to answer is *“What are the main underlying causes to the recent growth trend in the current Swedish high yield corporate bond market?”*. With respect to market characteristics such as prominent industries and compositions of the market discussed in the analyzing section, conclusions will be drawn.

The Swedish corporate bond market has during the past decade been characterized as a strong emerging segment within financing of Swedish non-financial companies. Compared to its counterpart of loan financing through main financial institutions, it has proportionally increased its issued volume by 169%, compared to the 76,2% increase of loans through banks and other main financial institutions. The high yield segment has during this period by far been the most prominent, and it is possible to witness a growth of 900% with an issued volume of 10 times the initial value at the beginning of the decade.

From the analysis of the quantitative and qualitative data, conclusions can be drawn of how the high yield market has rapidly been growing as a result of an increasing recognition and rationalization of the high yield corporate bond market as a source of financing and form of investing. A combination of factors are seemingly behind this trend, where a low repo rate together with harder requirements of core capital of conventional banks are represented as catalysing components of the expansion. Given this, together with an initially low awareness among investors and issuers, the Swedish high yield corporate bond market has been able to mature, and in a steady pace been increasingly recognized among investors and issuers. A fundamental condition has been a stable macroeconomic environment with absence of economic crises, which can be partly explained with the risk averse behaviour of investors when taking the already relatively poor credit rating of the bond issuers into consideration.

According to the study, the high yield market's main growth the last decade is dominated by real estate issuance. Due to their extensive capital requirement, the high yield market has become a way to diversify its financing when banks are unable to meet the requirements. Further sectors determined to be gambling and oil, which are designated to be more controversial and thus make it difficult to obtain a traditional bank loan. Other sectors that dominated the high yield market over the last decade are the industrial and technology sector, due to the same reasons as real estate.

6.1 Suggested Further Studies

With the result of this study in mind, following topics would be interesting for further studies:

- A comparative study between the Swedish and American high yield market with a more in-depth analysis of how American corporations to a greater extent choose the capital market as a source of funding.
- A more detailed study of why foreign investors choose to issue high yield debt listed on the Swedish corporate bond market.
- A quantitative faced study targeting correlation between certain internal financial conditions and frequency of issuing high yield debt among Swedish non-financial companies.
- A study focused on behavioral finance targeting the possibility of an increase in risk seeking among investors at the high yield corporate bond market.

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Appendix

Interview Questions

Would you like to tell us a little bit about your company/organisation and what you do?

Would you like to briefly explain what characterizes your division and position at the firm?

According to our pre-study of the corporate bond market, it is possible to observe an increase in the market size of nearly 400% over the last decade. What do you think are the underlying aspects of this growth trend?

In our thesis, we have chosen to focus on corporate bonds in the high yield segment as this has been particularly prominent. Is it possible to distinguish any certain factors compared to the market in general?

Referring to high yield, which would you say are the dominant industries / industries in Sweden?

Has there been any major change in this distribution in the last 10 years?

Based on previous factors you highlight. What do you think the future in the high yield segment looks like? Any regulations, interest rates, dominant industries, continued growth, etc.?