

Fitch: U.S. High Yield Default Rate 1.5% - 2.0% in 2014

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings projects that the U.S. high yield default rate will remain in a range of 1.5%-2.0% in 2014. The key pillars of a low default rate environment -- credit availability and good corporate fundamentals --remain steady.

Building on the momentum of recent quarters, Fitch expects improved U.S. GDP growth of 2.6% in 2014, up from 1.7% this year.

Many of the recognized default candidates of the past several years have already restructured, and a stronger economy combined with favorable funding conditions is sure to give some strapped companies a new lifeline.

In this the fifth year of an uneven and often unpredictable recovery from the financial crisis of 2008-2009, the more important metric will be new issuance credit quality and the extent to which a soaring stock market and low borrowing costs will fuel more aggressive, debt-accretive transactions.

The funding environment remains highly accommodative. Issuance has been exceptional and now includes a fully revived loan market. Scheduled bond and loan maturities are quite low over the near term. There is \$117.6 billion maturing in 2014 and 2015, representing 5.4% of market volume and a just fraction of bonds and loans sold in 2013.

Importantly, top-line and EBITDA growth showed renewed vigor in the most recent two quarters, reversing lackluster results recorded over the prior year.

In 2013, defaults closely followed our expectations. We projected a repeat of 2012 activity. Through late December, there have been 35 issuer defaults on \$18.5 billion in bonds versus 32 issuers and \$20.5 billion in 2012. The market grew 10% in size over the course of the year, which put some modest downward pressure on the default rate, but the issuer count and par value of defaults was nearly identical year over year.

As with 2012, we continue to follow developments related to Energy Future Holdings, Corp. (EFH), which, due to its large size and precarious state, remains the well-recognized variable that could propel the default rate to a multi-year high. Our base forecast excludes an EFH bankruptcy. Such an event would add 1.5% to the default rate.

For a full details please see "Fitch U.S. High Yield Default Insight, 2014 Default Outlook" available at <http://www.fitchratings.com/>.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Applicable Criteria and Related Research: Fitch U.S. High Yield Default Insight -- 2014 Default Outlook

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=726738

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