# The Nordic bond market

The Nordic corporate bond market—spanning investment-grade, high-yield (HY), and unrated issuers—has developed into a structurally important component of the broader fixed-income landscape, characterized by rapid expansion (the Q2 of this year has been the only soft period mainly due to the prevailing uncertainty), increasing issuer diversification, and strong domestic and international investors demand. Average deal sizes have risen, reflecting greater market depth and growing appeal for larger and more sophisticated issuers. Structural shifts are equally notable: the share of non-Nordic issuers continues to increase (with several German SMEs in particular adopting the Nordic HY format), while non-Nordic investors now account for more than half of all capital allocated, up from roughly 40% in 2021.From a risk-return perspective, Nordic HY has delivered superior total returns over the last three years compared with both US and European HY markets, supported by higher coupons at issuance and a favorable technical backdrop.

A large share of recent issuance consists of floating-rate notes, reducing duration risk and dampening sensitivity to interest-rate volatility—a distinct advantage during periods of curve steepening and market uncertainty. Furthermore, the market's sectoral and geographic footprint has expanded well beyond traditional concentrations in oil & gas, shipping, and real estate, with increased participation from non-Nordic corporates, PE-backed companies that want to optimize the capital structures, and a wider global investor base enhancing depth, liquidity, and diversification while reducing overall concentration risk.

This growth has become increasingly visible across the fixed-income landscape and the Nordic bond market constitutes today a very important part of the capital markets for the Nordic region and for other issuers, representing a clear and real competitive advantage for a broad range of companies.

At first glance, conditions may appear great and benign; however, a material point warrants closer examination: there are signs that credit risk could be somewhat understated in current pricing.

Having followed private debt financings from the earliest transactions in 2015 onward- I am still involved in due diligence for LPs in private credit portfolios and I am aware of their investments in the north of Europe- and invested for CLO portfolios ten years ago in the first public bonds in the region, Denmark and Sweden(tech, energy, and services), I confirm that the structural backdrop remains largely unchanged: regulatory capital constraints and risk-weighted asset pressures on traditional banks have created persistent gaps that non-bank lenders and private credit investors have sought to fill with bespoke financing solutions. In 2025, those solutions, bonds included, in some circumstances are not priced correctly. The sharp increase in regional investor demand—coupled with the entrance of a broader set of international credit-focused funds—has amplified capital inflows and compressed spreads to levels well below what the issuer's business model and fundamentals would justify, with peer-relative valuation comparisons highlighting additional mispricing.

A comparative analysis of current credit spreads and transactions versus older vintage bonds and legacy private credit deals—still replicated in today's market in large scale (Adevinta, for instance)-highlights a clear compression for the Nordic bond market of risk compensation across capital structures and rating buckets-when they are there.

Some challenges and vulnerabilities became apparent in 2025.

Even without referencing individual credits, numerous transactions that screened as fairly valued or generously priced over the past two years have since exhibited weakening earnings trajectories and deteriorating free-cash-flow profiles. The debt of those weak credits has not performed and several bonds have also transitioned into limited liquidity, with heightened mark-to-market volatility—an attribute historically resisted by the Nordic investor base. Nordic funds do not consistently provide a bid for stressed or deteriorating credits, which in turn amplifies secondary-market volatility and exacerbates price dislocations. Some other bonds trade infrequently, calling the reliability of their price-discovery signals into question.

Additionally, the dominance of FRN formats contributes to persistent mispricing (this is also happening in the European Leverage Loan Market): spread dispersion across issuers is frequently confined to a narrow 50–65 bps band, insufficient to reflect underlying sector and credit differentiation, structural subordination, or idiosyncratic risk. The excess liquidity in the credit market has led to a homogenization of pricing across sectors, despite meaningful differences in operating leverage, multiples, cyclicality, tangible assets, and free cash-flow generations and profiles. Deal size no longer provides any substantive differentiation, as investors behavior has been recently largely insensitive to transaction scale and the demand for paper has exhibited lower selectivity. Pricing a fixed-rate bond would be inherently more complex and challenging as it requires forming a view on the appropriate option-adjusted spread for a certain tenor along the issuer credit curve; a difficult task for many credit names tapping the Nordic market.

I encourage investors to reassess the bonds they are currently financing for the first time and/or refinancing with such pronounced enthusiasm, and to benchmark prevailing pricings against the levels observed in earlier issuances (without looking very far, just take and analyze the period 2022-2023) executed under markedly different market conditions.

At present, in my view, the market, on some deals, is effectively offering only the remaining seats in a fully booked theatre—hardly the most desirable positions—and yet at ticket prices materially above historical averages. <u>This dynamic suggests that entry valuations have become increasingly elevated, while the corresponding risk-adjusted return profile has diminished.</u> This assessment extends beyond conventional metrics such as the average spread index or benchmark, the distinction between debut and seasoned issuers, borrowers' nationalities, or traditional indicators of bookbuilding efficiency and investors' sentiment.

<u>Nordic bonds remain a compelling and complementary funding solution, as demonstrated by their consistent performance and market success.</u> Nonetheless, successful investment in this segment necessitates discipline, knowledge of domestic industrial sectors, meticulous credit selection and a thorough evaluation of issuer-specific fundamentals, as not all opportunities offer optimal terms and commensurate risk-adjusted returns. <u>Issuance and credit assessment transcend diversification, covenants, and bookbuilding (I insist on this point); often, the optimal strategy is selective abstention in a market of abundant alternatives, where "buy-and-hold" is effectively obsolete and was better suited to the conditions of a decade ago. Smart investors will understand this concept.</u>