



Corporate Credit Monthly Update

June 2022

Europe

In the Eurozone, inflation and growth remain the focus. Inflation has reached a new historical high. Against the backdrop of the ongoing Russian-Ukrainian conflict, the energy crisis and the risk of a food crisis continue to loom large. Plans to reduce dependence on Russian oil and gas cloud growth prospects and make it more difficult for the ECB to tighten monetary policy, given the higher risk of a recession in Europe.

The primary bond market experienced a period of continued inactivity throughout May, with very little new issuance. The 10-year German Bund ended the month up 18 basis points at 1.12%. Credit spreads widened considerably, particularly on the riskiest bond assets, such as high yield. In this context, the yield on the European corporate index ended the month up 27 basis points at 5.45%.

In the US, economic data was mixed during May. However, they suggest that the expansion is continuing, although uncertainty is also increasing. Concerns about economic growth have taken precedence over inflation concerns, partly due to weak economic data from China and disappointing results from major US retailers. As interest rates rise, real estate is beginning to pull back. Gold is losing its appeal, despite fears of runaway inflation. It is down more than 3% for the month, as a result of rising yields and a strong dollar. The strong dollar could itself weigh on US exports in the months ahead.

Treasury yields rose significantly at the beginning of the month, reaching a three-year high. The 10-year rose above 3%, before falling back to 2.84% at the end of the month due to concerns about Fed tightening and an already visible drag on economic activity, particularly in the retail sector. The 10-year yield ended the month down 10 basis points, its first monthly decline in 2022. These yields now appear attractive in an environment of economic uncertainty. The dynamics of the US corporate bond market were mixed in May. Investment grade bonds were the best performers, while high yield spreads widened slightly. Investors thus favoured quality assets, after four months of decline in this segment. Depending on the evolution of the economic environment, the performance of the two asset classes could continue to diverge. The yield on the US corporate index ended the month stable at 6.45%.

United States

Emerging

In emerging markets, concerns about global inflation resurfaced after the release of data above 8% in the Eurozone, the US and the UK. Central banks are under strong pressure to tighten policy further and faster, regardless of the growth outlook. The crucial question for these markets is whether central banks will be able to keep inflation under control without causing a recession that would impact economies globally. The reopening of China following the decline in Covid-19 cases should ease supply chains. The easing of containment policies in Shanghai and Beijing have been accompanied by stimulus measures at the national level, including a plan to accelerate the recovery and revitalisation of the economy. Together, these measures are reducing fears of recession.

High-yield corporate bonds in emerging countries declined in May. Credit spreads remained under pressure and widened. Capital flows into emerging markets were negative for the month, at -\$4.9bn, of which -\$1.5bn was debt. The yield on the emerging market corporate index at the end of the month was 10.45%.

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Norican (EU)

Norican Group provides equipment, services and technology for the molding, casting and treatment of metallic parts. The company delivered improved Q1/22 results, with the order book at record levels. Revenue rose 13.9% YoY to EUR 101m, with FX having a c. 4% positive impact. Adjusted EBITDA increased 24.5% to EUR 11m, mostly thanks to the higher volumes and larger share of aftermarket revenue. Credit stats improved as well, with net leverage decreasing 0.2x sequentially to 3.6x, and the management is contemplating a refinancing of the bonds later this year. The company provided a cautiously optimistic outlook, with the management not seeing major signs of a more pronounced slowdown. Visibility is fairly high due to the record order backlog. In this context, a new equipment backlog typically materialises within six to nine months.

The Fresh Market (US)

The Fresh Market, a regional US supermarket chain, has been sold by its owners (funds managed by an affiliate of Apollo Global Management) to Chile's Cencosud. For USD 676m, 60% of which will be paid in cash, Cencosud will acquire 67% of The Fresh Market. The agreement offers Cencosud the possibility to reach 100% ownership after three years once the current transaction materialises. The Senior Unsecured Bond with a coupon of 9.75% and maturing in 2023 will be called upon closing of the transaction. Cencosud is rated Baa3 by Moody's and BBB- by Fitch on its senior unsecured notes.

Hikma Pharmaceuticals (EM)

Hikma Pharmaceuticals develops and markets pharmaceutical products. The company offers branded and non-branded generic and in-licensed pharmaceutical products worldwide. In FY 2021, the company reported total sales of USD 2.55bn and an adjusted EBITDA of USD 676m (26% margin). Although the company was founded in Jordan, it now generates more than half of its revenue in North America, with MENA representing slightly more than one-third. The company owns its own manufacturing plants, with about 30 sites in more than 10 countries.

Significant Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
Elis	4.125%	2027	EUR 300M	Ba2
Loarre	6.50%	2029	EUR 500M	Ba3

United States

Issuer	Coupon	Maturity	Amount	Rating
Carnival Corp.	10.50%	2030	\$1.00Bn	B
Frontier Comm.	8.75%	2030	\$1.20Bn	B

Emerging

Issuer	Coupon	Maturity	Amount	Rating
ENN Energy	4.625%	2027	\$550M	BBB

Rating moves

CMA CGM	Moody's	➔	Ba2
Coty	Moody's	➔	B1
Diebold	Moody's	➔	Caa2
Elior	S&P	➔	B+
Kapla Holding	S&P	➔	B+
Kraft Heinz	Fitch	➔	BBB-
Public Power Corp	S&P	➔	BB-
Standard Profil	S&P	➔	CCC+
Uniper	S&P	➔	BBB-
Volkswagen	Fitch	➔	A-

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Macro Economic Events

Europe

Eurozone: annual inflation reached a new high of 8.1% in May, up from 7.4% in April, exceeding the market forecast of 7.7%. Data for Germany, France, Italy and Spain rose more than anticipated, bolstering expectations of the ECB hastening its interest rate hikes. The economic sentiment indicator for the zone remained stable at 105 in May, compared with 104.9 in April.

Germany: the economic climate is improving. The IFO index reached its highest level in three months, at 93 points in May, up from 91.9 in April. No signs of recession are visible in Germany for the time being, however demand for industrial products has fallen significantly and supply problems persist both in industry and retail.

France: the economy contracted by -0.2% in the first quarter of 2022, whereas initial estimates had indicated stagnation. This was the first contraction since the fourth quarter of 2020. The 1.5% drop in household spending partly explains the figure.

US & EM

United States: the housing market index fell for the fifth consecutive month to 69 in May, down from 77 in April, below the market forecast of 75. This is the lowest level since June 2020. The market was hit by rising mortgage rates and building material costs. In fact, building material prices have increased 19% compared to 2021. In less than three months, mortgage rates have reached their highest level in 12 years.

China: the central bank maintained its key rates for loans to businesses and households in May, however cut the benchmark mortgage rate for the second time this year. It is seeking to revive the struggling housing sector, and more generally to support the Chinese economy. The second largest economy in the world is in slow motion, hit by the Covid-19 epidemic and the ensuing strict measures, particularly restrictions on mobility and disruptions to business.

Turkey: the manufacturing index in May remained unchanged from the previous month, at 49.2. This figure reflects a third consecutive month of contraction in Turkish manufacturing. Production and new orders decreased due to weak customer demand. Export orders also weakened despite the fall in the lira, against a background of economic slowdown in Europe.

South Africa: at its May meeting, the central bank raised its key rate by 50 basis points to 4.75%. This is the fourth consecutive increase and the largest in more than six years.

Market Data Indices

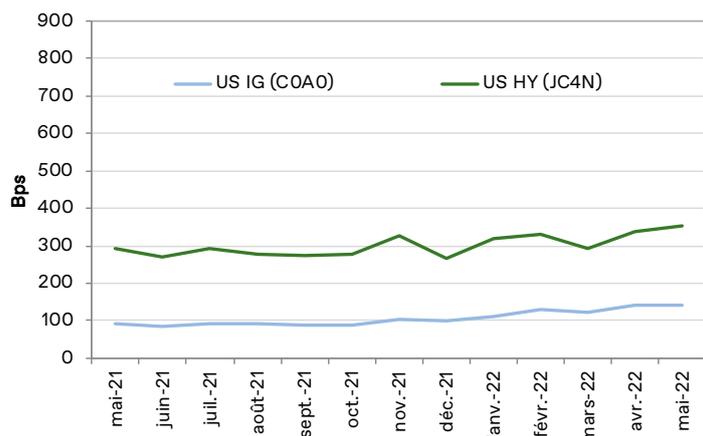
Indices (end of May)		Performance		Duration	Yield
		MTD	YTD	DTW	YTW
High Yield					
HE00	High Yield Europe	-1.25%	-8.72%	3.61	5.55%
JOA0	High Yield United States	0.30%	-7.73%	4.56	6.99%
H7PC	High Yield Europe BB/B Excluding Financials	-1.33%	-8.28%	3.51	5.45%
JC4N	High Yield United States BB/B Excluding Financials	0.66%	-7.29%	4.66	6.45%
HYEF	High Yield Emerging Countries Excluding Financials	-1.91%	-15.63%	3.93	10.45%
Investment Grade					
ER00	Investment Grade Europe	-1.29%	-9.07%	4.93	2.36%
COA0	Investment Grade United States	0.54%	-11.86%	7.42	4.26%
EMIC	Investment Grade Emerging Countries	-0.13%	-11.71%	5.64	4.41%
Governments					
G4D0	10-Year German Bond	-1.40%	-9.88%		1.12%
G4O2	10-Year US Bond	0.67%	-9.66%		2.84%

Inflation (end of May)		May	April	March	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	8.10%	7.50%	7.40%	4.90%	2.00%
US CPI	Realized inflation in the United States (rolling 12-month)		8.30%	8.50%	6.80%	5.00%

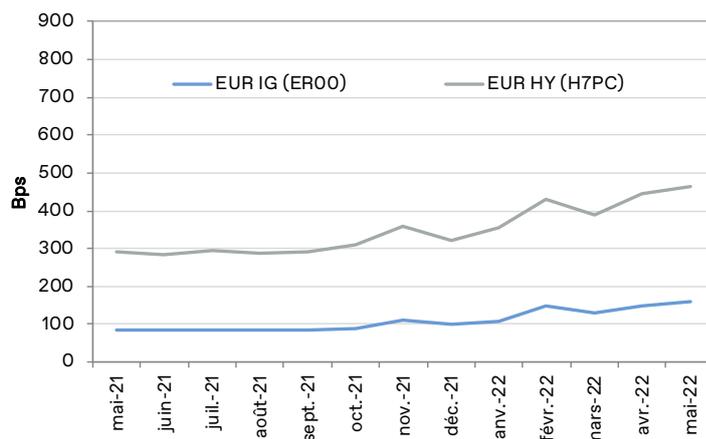
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

Source: Merrill Lynch
Edited: 10/06/2022

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		May	April	March	12 months
Europe					
ER00	Investment Grade Europe	156	146	127	86
HE00	High Yield Europe	474	458	410	312
H7PC	High Yield Europe BB/B Excluding Financials	454	444	395	297
ER30	Bonds rated A Europe	131	123	107	72
ER40	Bonds rated BBB Europe	185	173	151	100
HE10	Bonds rated BB Europe	372	364	323	245
HE20	Bonds rated B Europe	606	592	525	405
United States					
COA0	Investment Grade United States	138	139	121	86
JOA0	High Yield United States	422	410	361	343
JC4N	High Yield United States BB/B Excluding Financials	368	364	323	310
COA3	Bonds rated A United States	109	112	96	64
COA4	Bonds rated BBB United States	173	172	151	109
JUC1	Bonds rated BB United States	292	303	267	255
JUC2	Bonds rated B United States	479	453	404	396
Emerging Countries					
EMIC	Investment Grade Emerging Countries	177	166	163	149
HYEF	High Yield Emerging Countries	769	723	760	538
EMAQ	Bonds rated A Emerging Countries	124	120	120	107
EM2B	Bonds rated BBB Emerging Countries	247	228	221	198
EM3C	Bonds rated BB Emerging Countries	424	390	383	346
EM6B	Bonds rated B Emerging Countries	987	896	921	720

Source: Merrill Lynch

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Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.

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