



Corporate Credit Monthly Update

July 2022

Europe

The eurozone is now in the grips of high inflation, a weakening economy and an extended conflict between Russia and Ukraine. Latest data shows that economic growth deteriorated significantly in June. Manufacturing PMI data showed the first contraction in industrial production and new orders in the eurozone since 2020, reflecting a sharp drop in demand. The economic situation in Europe appears more fragile than in the US, in particular, due to the growing risk of a complete cut in Russian gas flows to Germany, and increased tensions with Russia due to the accession of Sweden and Finland to NATO. The ECB is trying to deal with inflationary pressure, but must also ensure that sovereign credit spreads in peripheral countries do not rise to such an extent as to precipitate a renewed European sovereign debt crisis, which restricts its room for manoeuvre accordingly.

Recurring worries regarding the deterioration in the growth outlook, record inflation and the availability of natural gas in the future have depressed markets, with investors seeking refuge in the lowest risk assets. The German 10-year Bund yield fell from the peak of 1.926% reached in mid-June to close the month at 1.33%, up 21 basis points versus the previous month. Corporate credit spreads widened considerably, particularly in the riskiest bond assets such as high yield instruments. In this context, the European corporate index yield rose strongly, closing the month 189 basis points higher at 7.34%.

In the US, concerns surrounding economic slowdown – largely due to aggressive monetary tightening – continue to dominate market sentiment. The main preoccupation is imminent recession as a result of the Fed’s decision to prioritise the risk of inflation over economic growth. Price rises for foodstuffs and fuel have started to depress US consumer sentiment, which has hit its lowest level for decades. Both bond and equity markets had a difficult month. Interest rate volatility is a major theme in bond markets this year, and June saw the highest levels of volatility to date. The Fed raised rates by 75 basis points on 15 June. Nonetheless, the 10-year Treasury yield plunged around 40 basis points in the following two weeks on the back of rising fears of recession. It ended the month at 3.01%, up 17 basis points versus end-May.

Corporate bonds underperformed sovereign bonds, due to the deteriorating earnings outlook. High yield credit spreads rose 150 basis points and are now just some 50 basis points or so off European spreads. New issue volume in the primary market has fallen sharply versus 2021 and remains weak. Thankfully, companies are not in urgent need of market funding in the difficult environment prevailing currently – many companies took advantage of the window of opportunity offered in 2021 to pre-finance and/or re-finance requirements. Liquidity is generally good and interest coverage ratios (ICR) remain healthy for the time being. The yield on the US corporate index closed the month up, at 8.16%.

United States

Emerging

In emerging countries, fears of global recession continue to dominate markets. Combatting inflation also remains a global issue, with the likelihood of higher than expected rate hikes. However, in contrast to the US and Europe, manufacturing PMI data improved in China, Colombia, Mexico and Hungary, and remained at solid levels in most other emerging countries. Unlike other countries, particularly in the developed world, China intends to continue its monetary easing as the government seeks to offset economic slowdown and stabilise the real estate sector.

Credit spreads remained under pressure in June in emerging countries. Investors’ search for quality and increasing worries resulted in a disproportionate widening in high yield credit spreads. However, fundamentals remain sound, despite the potential impact of inflation on earnings. Emerging markets saw capital outflows of USD 4 billion over the month, with inflows of USD 6.6 billion for debt and outflows of USD 10.5 billion for equities. The emerging market corporate index yield was 12.34% at the end of the month.

Edited: 07/07/2022

Cheplapharm (EU)

Cheplapharm, a pharmaceutical company focused on the marketing of off-patent brand prescription or niche drugs, has released solid Q1 22 results. Reported revenues grew by 16.4% YoY to EUR 289m while EBITDA was up 7.4%, led by acquisitions. Cash-flow generation was robust with net leverage at 4.7x. The company had planned for an IPO in Q1 22, but had to delay the move because of stock market volatility stemming from the macroeconomic and political uncertainties. Cheplapharm had sought to raise gross proceeds of EUR 750m from the offering. The company will continue to consider an IPO on the Frankfurt Stock Exchange, as well as M&A opportunities for growth.

Belden (US)

Belden, the US manufacturer of signal cables and connectivity products held its investor day presentation in June. For the coming years (2022-2025), Belden's management reiterated its focus on improving EBITDA margins by 30% and maintaining a low net leverage ratio (max 1.5x). In terms of revenues, Belden expects to deliver GDP-plus organic growth over the period, driven by trends such as digitalisation, automation and sustainability. The company also reiterated its guidance for FY 2022 results. Finally, the company published its first set of ESG data, and detailed its goals, such as to reduce GHG (scope 1 & 2) by 25% by 2025, from a 2019 baseline, as well as to achieve 90% of waste by weight diverted from landfill for manufacturing and distribution locations.

Energo-Pro (EM)

Energo-Pro, a leading generator and distributor of Hydropower in Bulgaria, Georgia and Turkey, reported record results in Q1 22. For the first three months of the year, the company reported revenues of EUR 400m (up 83% YoY) and an EBITDA of +55%. Both metrics benefited from rising energy prices and a volume effect. Total net debt/EBITDA reached 3.1x at the end of March. Following the refinancing of its Senior Unsecured Notes 4% 2022 in January this year, Energo-Pro has no debt due left in 2022 and 2023.

Significant Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
Preem Holding	12.00%	2029	EUR 340M	B3

United States

Issuer	Coupon	Maturity	Amount	Rating
Darling Ingredients	6.00%	2030	\$750M	BB+
Tenet Healthcare	6.125%	2030	\$2.00Bn	BB-

Emerging

Issuer	Coupon	Maturity	Amount	Rating
No new issue this month				

Rating moves

Ardagh Group	Fitch	↓	B
Becton Dickinson	Fitch	↑	BBB
Cemex	Fitch	↑	BB+
Coty	S&P	↑	B+
Golden Goose	S&P	↑	B
Holcim	Moody's	↑	Baa1
Infopro Digital	Moody's	↑	B2
LKQ	Moody's	↑	Baa3
Mobilux France	Fitch	↑	B+
Oracle	S&P	↓	BBB

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Macro Economic Events

Europe

Eurozone: inflation reached a record level of 8.6% in June (vs 8.1% in May). Higher than expected figures in France, Italy and Spain offset the slowdown in German price growth. The zone's economic sentiment indicator fell to 104 in June from 105 in May, and the consumer confidence index plummeted to -23.6, its lowest level in two years.

ECB: the central bank confirmed that it would end net asset purchases under the APP as of 1 July, and that in addition interest rates would be raised by 25 basis points in July (the first hike in 11 years). The ECB is also expected to introduce a new tool intended to narrow the bond yield spreads that have been widening between eurozone countries: in Italy and Spain, for instance, they have soared.

Germany: the Ifo index declined to 92.3 points in June from a peak of 93 in May, a sign that the economic climate has deteriorated. The threat of a gas shortage is particularly worrying for the economy. Manufacturing companies are even more pessimistic for the second half, as are the chemical industry, wholesalers and retailers. It is only the construction and service sectors that continue to grow.

US & EM

United States: the economy contracted more than expected, at an annual rate of 1.6% in Q1 2022. This fall represents a clear reversal of the trend seen in the 6.9% increase recorded in the Q4 2021. This is the first contraction since the pandemic in 2020, in a climate of supply constraints, labour shortages and high inflation.

China: the PMI index reached its highest level in 13 months, at 54.1 points in June, up from 48.4 the month before. Manufacturing activity and the service sector grew for the first time in four months, following an easing of COVID-19 restrictions in major cities, including Shanghai and Beijing.

Colombia: at its meeting on 30 June, the central bank raised its key rate by 150 basis points to 7.50%. This is the seventh rate hike since monetary tightening began in September 2021, taking borrowing costs to their highest level since December 2016. However, the central bank remains determined to contain inflation.

South Africa: the consumer confidence index dropped to -25 in the Q2, from -13 in the previous period, and well below the long-term average of +2. This is the lowest reading since Q1 1986, underscoring a strong likelihood of a consumer spending slowdown in the months ahead due to deteriorating economic conditions.

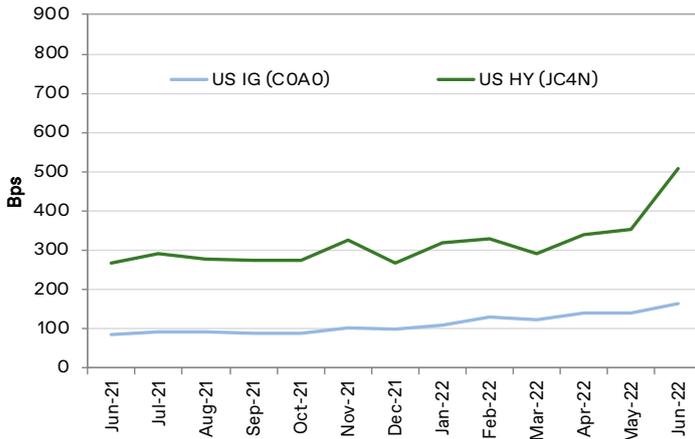
Market Data Indices

Indices (end of June)		Performance		Duration	Yield	
		MTD	YTD	DTW	YTW	
High Yield						
HE00	High Yield Europe	-7.01%	-15.11%	3.49	7.46%	
JOA0	High Yield United States	-6.79%	-13.99%	4.57	8.77%	
H7PC	High Yield Europe BB/B Excluding Financials	-7.06%	-14.76%	3.38	7.34%	
JC4N	High Yield United States BB/B Excluding Financials	-6.72%	-13.52%	4.69	8.16%	
HYEF	High Yield Emerging Countries Excluding Financials	-6.39%	-21.02%	3.80	12.34%	
Investment Grade						
ER00	Investment Grade Europe	-3.43%	-12.19%	4.81	3.10%	
COA0	Investment Grade United States	-2.35%	-13.93%	7.29	4.71%	
EMIC	Investment Grade Emerging Countries	-2.01%	-13.49%	5.48	4.85%	
Governments						
G4D0	10-Year German Bond	-1.67%	-11.39%		1.33%	
G4O2	10-Year US Bond	-0.83%	-10.41%		3.01%	
Inflation (end of June)						
Realized inflation		June	May	April	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	8.60%	8.10%	7.50%	5.00%	1.90%
US CPI	Realized inflation in the United States (rolling 12-month)		8.60%	8.30%	7.00%	5.40%

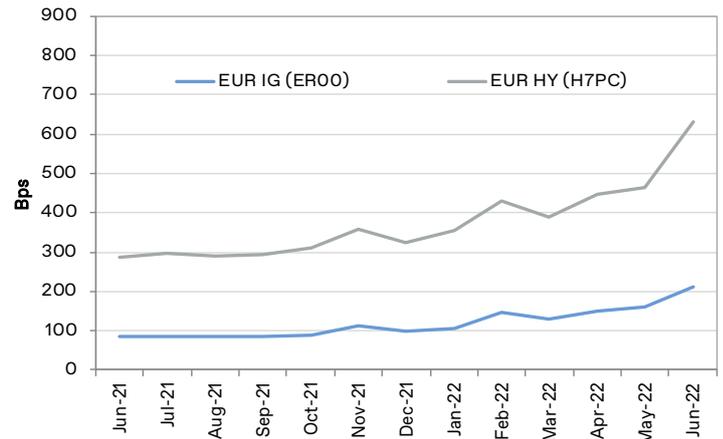
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

Source: Merrill Lynch
Edited: 07/07/2022

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		June	May	April	12 months
Europe					
ER00	Investment Grade Europe	205	156	146	83
HE00	High Yield Europe	636	474	458	306
H7PC	High Yield Europe BB/B Excluding Financials	617	454	444	294
ER30	Bonds rated A Europe	174	131	123	71
ER40	Bonds rated BBB Europe	244	185	173	97
HE10	Bonds rated BB Europe	511	372	364	240
HE20	Bonds rated B Europe	815	606	592	411
United States					
COAO	Investment Grade United States	163	138	139	82
JOAO	High Yield United States	575	422	410	312
JC4N	High Yield United States BB/B Excluding Financials	515	368	364	284
COA3	Bonds rated A United States	130	109	112	62
COA4	Bonds rated BBB United States	205	173	172	104
JUC1	Bonds rated BB United States	426	292	303	233
JUC2	Bonds rated B United States	654	479	453	368
Emerging Countries					
EMIC	Investment Grade Emerging Countries	196	177	166	141
HYEF	High Yield Emerging Countries	928	769	723	561
EMAQ	Bonds rated A Emerging Countries	130	124	120	102
EM2B	Bonds rated BBB Emerging Countries	281	247	228	185
EM3C	Bonds rated BB Emerging Countries	565	424	390	346
EM6B	Bonds rated B Emerging Countries	1075	987	896	787

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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