

Corporate Credit Monthly Update

November 2022

Europe

In the Eurozone, inflation figures have proved disappointing and economic momentum has continued to deteriorate in recent weeks. Europe is confronting a serious challenge with the war in Ukraine, and must contend with an energy shortage as winter approaches. However, gas prices have dropped sharply from their summer peak, due to increased imports of liquefied natural gas, a slowdown in Chinese demand and an unusually mild autumn. The storage capacities of European countries were 93% full in October – a commendable performance given their low starting point in spring 2022. The political situation in the UK has stabilised after the announcement of Rishi Sunak’s appointment as prime minister. The government seems to have returned to budgetary prudence. The Bank of England has maintained the emergency measures it adopted last month to buy back Gilts and postponed its monetary tightening until November in order to calm the volatility on its sovereign debt. The ECB raised rates by 75 basis points in response to stubbornly high inflation.

Credit spreads tightened over the month, while yields rose across the curve. The 10-year Bund yield reached as high as 2.5% in October, although it ended the month at 2.14%. Corporate bonds recorded a positive performance to recoup some of their losses over the year. Markets remain hopeful that central banks will not need to push economies into recession to curb inflation. The primary market has become active again, in both Europe and the United States. The yield on the European corporate index closed the month at 7.76%.

In the United States, bringing inflation under control is proving to be a difficult task for the Fed, despite the aggressive course of rate hikes implemented since March. The economy remains resilient and job creation strong. The decision taken by the Fed to raise its key rate by 75 basis points at the beginning of November was widely anticipated by the markets. The US real estate market bore the full brunt of the ramifications of this policy and fell sharply. The situation was made worse in October by the uncertainty surrounding the mid-term elections on 8 November. Oil prices rose over the month, for the first time since early June, due to OPEC production cuts and the war in Ukraine. The dollar weakened slightly over the course of the month, but remains strong.

A moderate comeback for risk appetite on the markets, lower volatility and healthy third-quarter corporate results have reduced demand for safe havens. Higher interest rates have proved detrimental to sovereign bonds, while corporate credit posted solid performances, with a fine rebound. The 10-year Treasury Bond yield reached a new high of 4.25% before falling back at month end to 4.05%. The 3-month Treasury curve inverted against the 10-year curve, while the 2-year curve had already been inverted for several weeks. In the corporate markets, the substantial tightening of credit spreads offset the rise in rates. Investment grade bonds underperformed high yield bonds. They have a lower credit risk profile, but also a longer duration, which makes them vulnerable to the current environment of high interest rate risk. The yield on the US corporate index stood at 8.15% at the end of the month.

United States

Emerging

In emerging markets, rate hikes have become increasingly numerous, following the example set by developed countries. However, economic growth is still relatively resilient in the zone. The main events in emerging markets were of a political nature. In Brazil, a new president, Luiz Inácio Lula da Silva, was democratically elected by a narrow margin. In China, Xi Jinping managed to secure a historic third term, which exacerbated volatility and created short-term uncertainty. Any hopes of an about-turn in Chinese policies in the aftermath of its Congress were dashed by the reaffirmation of the zero-Covid policy and a domineering stance on Taiwan.

Emerging market debt remains dependent on global macroeconomic conditions. The Fed’s tightening of monetary policy has increased the yields offered in the US bond markets. Accordingly, investors are moving their capital into the United States, in order to take advantage of these higher yields, which is contributing to a strengthening of the US dollar. Some emerging central banks have been forced to intervene in the foreign exchange markets to prevent a depreciation of their currency. Such factors tend to have a negative impact on debt. Nevertheless, fundamentals remain solid and yields attractive. What is more, the zone is seeing capital inflows. The emerging market corporate index yield remained unchanged at 13.63% at the end of the month.

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Casino (EU)

Casino, the French retailer, released satisfying results with sales up 10.6% YOY at EUR 8.6 billion, driven entirely by Latin America, while France reported negative trends due to Cdiscount. Same-store sales rose by 5.4%, while group organic growth stood at 4.6%. The confirmation of the company's FY 2022 guidance, coupled with plans for a partial disposal of its Assai stake, provided some relief for the mounting covenant and debt concerns on the company's credits. The group also tendered EUR 154 million of their 2023 bonds and EUR 147 million of 2024 secured bonds, demonstrating its commitment to address short term debt in an opportunistic way.

Euronet (US)

Euronet is a leading US electronic payment processing provider that offers ATM services, payment and transaction processing and distribution solutions, as well as foreign exchange and international money transfer services. Its Electronic Funds Transfer offer suffered from the restrictions on travel during Covid but has recovered nicely since then, returning to pre-Covid profitability in Q3 2022. The two other segments, epay and Money Transfer, were more stable with revenues continuing to grow year after year and EBITDA margin remaining unchanged. The company has generated annual FCF margins ranging from roughly 5% to 14% of revenues over time. Since 2017, net leverage has held steady at between 0 and 1x EBITDA. Euronet Holdings is listed on the NYSE with a market capitalisation of close to USD 4 billion.

Sappi (EM)

Sappi, the South African paper producer, bought back EUR 209 million of its 2026 notes following a tender offer launched in early October. The company is using part of the EUR 272 million proceeds from the sale of three paper mills to investment firm Aurelius announced some weeks ago. The mills, located in Finland, Germany and the Netherlands, have a combined capacity of 1,230,000 tons per month. Sappi has also released a Q4 trading update to 30 September 2022, stating that during the quarter market conditions were stronger than expected while energy prices in Europe were lower than feared. As a result, EBITDA for Q4 is expected to be higher than Q3.

Rating moves

Aeroporti di Roma	Moody's	➔	Baa2
Elior	Moody's	➔	B2
IM Group	S&P	➔	B
InterContinental Hotels	S&P	➔	BBB
Playtech	S&P	➔	BB
Telecom Italia	S&P	➔	B+
Telenor	Moody's	➔	Baa1

Significant Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
Cirsa	10.375%	2027	€425M	B-
Fiber Bidco	11.00%	2027	€356M	B

United States

Issuer	Coupon	Maturity	Amount	Rating
Carnival Holdings	10.375%	2028	\$2.03Bn	B+
XPO Escrow	7.50%	2027	\$355M	BB+

Emerging

Issuer	Coupon	Maturity	Amount	Rating
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No new issues in October

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Eurozone: inflation continued its record-breaking run and reached double digits. October's figure of 10.7% compares with 9.9% in September and was above the market forecast of 10.2%. Energy prices continue to be the key driver, followed by food. The region's PMI fell to 47.1 in October from 48.1 in the previous month – the worst figure in nearly two years.

Germany: the number of unemployed persons rose by 8,000 from the previous month to reach 2,518,000, although this was below the expected increase of 15,000. Even though the pace has slowed, this is the fifth consecutive monthly increase in unemployment. It signals a setback in labour market conditions and shows that the German economy is being impacted by the ECB's monetary tightening.

United Kingdom: the appointment of Rishi Sunak as the new prime minister restored a degree of confidence to the markets, which had been rattled by the previous plans for tax reductions. The country continues to face significant challenges, and there are many economic issues to be resolved. Moody's downgraded its credit rating outlook from "stable" to "negative", citing weak growth and unpredictability in policymaking.

United States: the manufacturing PMI dropped to 50.4 in October from 52 in September. This is the weakest growth in industrial activity since the contraction in the second quarter of 2020. The figure is nevertheless slightly better than the market forecast of 50 points. New orders suffered their steepest decline in nearly two and a half years, due to greater customer hesitation in the face of steep inflation. The strong dollar and difficult economic conditions in key export markets dampened foreign demand, and new export sales fell sharply.

China: although the latest economic growth figures may seem high compared with most Western countries, they remain well below the rate of expansion that China has enjoyed for decades and are still far from the target of 5.5% set for 2022. Chinese consumers are expressing their desire to save more because they are concerned about the state of the economy, including inflation and the labour market.

Brazil: the Superior Electoral Court declared former leftist President Luiz Inácio Lula da Silva the winner over incumbent President Jair Bolsonaro. The presidential election was very close, with Lula winning 50.9% of the total vote. At just over two million votes, the difference between the two candidates shows a deeply divided Brazil.

Colombia: the central bank raised its key interest rate from 10% to 11% in October – the highest level for over 20 years. Annual inflation rose from 10.8% to 11.4% between August and September. The rise in inflation is due to upward pressure on the cost of food production as well as sharp increases in electricity tariffs.

Market Data Indices

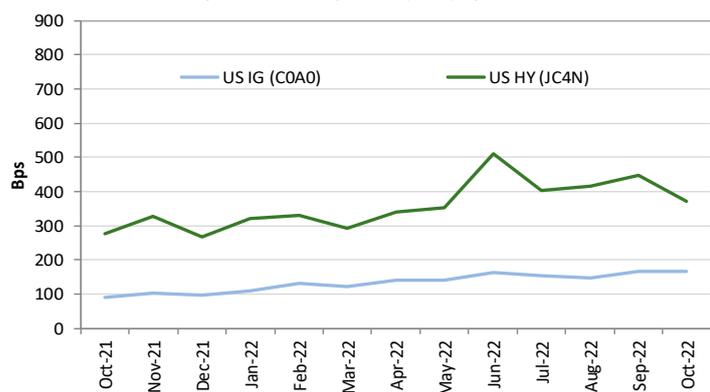
Indices (end of October)		Performance		Duration	Yield	
		MTD	YTD	DTW	YTW	
High Yield						
HE00	High Yield Europe	1.67%	-14.02%	3.27	7.97%	
JOA0	High Yield United States	2.88%	-12.12%	4.36	8.88%	
H7PC	High Yield Europe BB/B Excluding Financials	2.08%	-13.45%	3.18	7.76%	
JC4N	High Yield United States BB/B Excluding Financials	3.02%	-11.55%	4.46	8.15%	
HYEF	High Yield Emerging Countries Excluding Financials	-2.69%	-25.84%	3.65	13.63%	
Investment Grade						
ER00	Investment Grade Europe	0.19%	-14.90%	4.62	4.22%	
COA0	Investment Grade United States	-1.11%	-19.24%	6.72	6.00%	
EMIC	Investment Grade Emerging Countries	-2.29%	-18.42%	5.09	6.35%	
Governments						
G4D0	10-Year German Bond	-0.16%	-16.44%		2.14%	
G4O2	10-Year US Bond	-1.42%	-16.76%		4.05%	
Inflation (end of October)						
Realized inflation		October	September	August	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	10.70%	9.90%	9.10%	7.50%	4.10%
US CPI	Realized inflation in the United States (rolling 12-month)		8.20%	8.30%	8.30%	6.20%

Month-to-date = MTD
Year-to-date = YTD

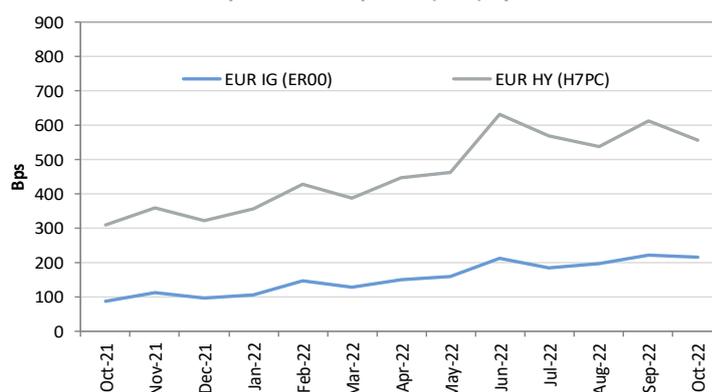
Duration-to-worst = DTW
Yield-to-worst = YTW

Source: Merrill Lynch
Edited: 10/11/2022

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		October	September	August	12 months
Europe					
ER00	Investment Grade Europe	215	218	195	87
HE00	High Yield Europe	587	632	556	334
H7PC	High Yield Europe BB/B Excluding Financials	554	611	533	322
ER30	Bonds rated A Europe	181	187	167	74
ER40	Bonds rated BBB Europe	257	258	230	102
HE10	Bonds rated BB Europe	457	512	447	253
HE20	Bonds rated B Europe	732	809	707	451
United States					
COA0	Investment Grade United States	167	168	149	86
JOA0	High Yield United States	458	528	492	328
JC4N	High Yield United States BB/B Excluding Financials	386	456	427	297
COA3	Bonds rated A United States	140	138	119	67
COA4	Bonds rated BBB United States	205	208	187	108
JUC1	Bonds rated BB United States	308	377	359	238
JUC2	Bonds rated B United States	500	578	535	388
Emerging Countries					
EMIC	Investment Grade Emerging Countries	213	181	170	139
HYEF	High Yield Emerging Countries	939	962	885	751
EMAQ	Bonds rated A Emerging Countries	147	118	120	102
EM2B	Bonds rated BBB Emerging Countries	306	262	239	183
EM3C	Bonds rated BB Emerging Countries	620	627	561	411
EM6B	Bonds rated B Emerging Countries	1037	1043	953	1047

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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