



# Corporate Credit Monthly Update

## February 2023

### Europe

In the Eurozone, the path of inflation is showing signs of improvement, but it still remains higher than in the United States. In this respect, the ECB is catching up with the Fed on rate hikes, with a further 50 basis points increase in early February, compared with 25 bp for the Fed. Positive PMI figures show that business activity in the Eurozone returned to growth in January for the first time in six months. This adds to hopes that the region will manage to avoid a recession, especially as the fear of an energy shortage recedes. The particularly mild winter and Europe's efforts to reduce energy consumption have led to a fall in gas prices, and reserves are still at sufficiently high levels to rule out the risk of a major crisis over the coming months. On the geopolitical front, Europe has authorised German tanks to be sent to Ukraine. For its part, Russia may be preparing to send hundreds of thousands of additional troops, raising concerns that the conflict will escalate further.

The German 10-year Bund yield fell by 29 basis points to close the month at 2.28%. The inversion of yield curves has continued. European corporate bonds recovered in January after one of the most difficult years in history in 2022. After last year's weakness, the primary market has also become active again: the number of new issues increased sharply during the month. A record volume has been achieved in Europe, with almost €8 billion in high yield bonds. The European corporate index yield ended the month at 6.82%.

In the United States, the macroeconomic data were generally better than expected, indicating a resilient economy. The latest GDP figures confirm that the US economy is continuing to grow, and the unemployment rate remains close to its lowest levels for 50 years. Inflation is also moving in the right direction, in an encouraging trend. Commodity prices in particular have continued to drop. However, financial conditions are still under pressure and, overall, Jay Powell's speech has changed very little; the Fed is sticking to its hawkish tone. In its view, the labour market remains historically tight and wage growth is well above average. The dollar weakened for the fourth consecutive month against the major foreign currencies, calling into question its strength in recent months. The return of risk appetite and the narrowing of spreads between the US and the rest of the world took their toll on the greenback. The Q4 2022 earnings season has begun in the US, with lacklustre earnings being announced. Several companies have reported figures below forecasts, and the consensus is now expecting the first earnings contraction since Q3 2020.

On the bond markets, yields fell in January across the US Treasury curve: this decline was more significant for medium and long-term maturities. Of particular note was the 36 bp decline in the 10-year yield, to 3.51%. The yield curve thus remains inverted. Corporate credit markets have made an excellent start, boosted by the tightening of spreads and reduced interest rate volatility. They have commenced 2023 in a favourable position, with attractive yields. The high yield segment rose by more than 3.5%, with spreads tightening by 50 basis points. The yield on the US corporate index stood at 7.46% at the end of the month.

### United States

### Emerging

The apprehensions that have kept investors away from emerging markets over the past eighteen months – inflation (particularly goods inflation), rate hikes and a strong US dollar – are beginning to ease, albeit slowly. Most of the global macroeconomic headwinds are expected to subside in the course of 2023. China, especially, has enjoyed renewed optimism in recent weeks, on the back of the rapid pace of reopening and the support provided to its property sector.

This earlier-than-expected unlocking of the Chinese economy has been the main contributor to the strong rebound in emerging bonds since October, in conjunction with the fall in government bond yields. The emerging high yield segment outperformed investment grade in January, as well as US high yield. The gradual easing of inflationary concerns and the increasing likelihood of a monetary policy pivot augurs well for the region's debt in 2023. This more favourable environment for emerging credit has attracted strong capital inflows, which were more than sufficient to absorb the increase in new issues observed in the primary market. The yield on the emerging corporate index closed the month at 10.15%.

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### Lima (EU)

Lima, an Italian orthopaedic implant manufacturer rated B-, successfully refinanced its 2023 bond with a new 5-year bond issued at 93 with a coupon of EURIBOR+575bps. Fund sources for the transaction also included an equity injection of €48m from shareholders. Bondholders were also able to push back on some aggressive covenants and incorporate new protections including a J. Crew Blocker, a clause preventing the group from transferring intellectual rights to unrestricted subsidiaries. This bond issue is a clear sign that credit conditions have improved in recent weeks.

### Abercrombie & Fitch (US)

Abercrombie & Fitch, the US apparel retailer upwardly revised its outlook for FY 2022 after better-than-expected holiday sales. Net sales for the whole year are now expected to be down around 1% (vs previous forecasts of a 2 to 3% decline) and operating margin was revised to a range of 2.5%-3% against a previous range of 2%-3%. The market consensus now expects the company to end FY 2022 with a net leverage slightly above 3x, while interest coverage should be around 9x. Next year, free cash flow should turn largely positive as inventories normalise and capex remain under control.

### Kio Networks (EM)

Kio Networks, a leading Mexican provider of data centre services, reported stable 3Q22 earnings. Revenue increased by 8% QoQ and 3Q22 EBITDA was 1% higher, with margin contracting to 28%. During the conference call, the management reiterated its guidance for a 21% growth in EBITDA in full year 2022 and a net leverage target of 3.75x (vs 4.8x as at September 2022). The company did indeed receive a further capital contribution in 4Q22 from its new shareholder, in order to fund three data centres. In 2023, the guidance is for EBITDA to increase by 15-20%, largely driven by the private sector.

## Significant Primary Issues

### Europe

Issuer	Coupon	Maturity	Amount	Rating
Italmatch	10.00%	2028	€300M	B3
ZF Finance	5.75%	2026	€650M	BB+

### United States

Issuer	Coupon	Maturity	Amount	Rating
Ford Motor	6.95%	2026	\$1.30Bn	BB+
Mauser Packaging	7.875%	2026	\$2.75Bn	B

### Emerging

Issuer	Coupon	Maturity	Amount	Rating
Transnet	8.25%	2028	\$1.00Bn	Ba3
Wanda Properties	11.00%	2025	\$400M	Ba3

## Rating moves

Allwyn OPAP	S&P	➔	BB
Leasys S.p.A	Fitch	➔	A-
Sappi	S&P	➔	BB
SPIE	S&P	➔	BB+
Stena AB	S&P	➔	BB-

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Macro Economic Events

Europe

**Eurozone:** moderate growth in economic activity took the markets by surprise in January. The slowdown in the zone seems not to be as severe as expected, which could allow it to escape recession. The PMI, considered a sound indicator of overall economic health, rose from 49.3 in December to 50.2 in January. This is the first time since June that the index has been above the 50 mark that separates growth from contraction. The annual inflation rate fell to 8.5% in January, which was its lowest level in eight months (compared with 9.2% in December).

**ECB:** ECB President Lagarde warned that the central bank would continue to raise interest rates and keep them high for as long as necessary to bring inflation back to its 2% target. Higher-than-expected inflation rates in several Eurozone countries in January increased the likelihood that the ECB would maintain its restrictive stance in the short term. In addition, the 50 bp increase in early February was confirmed.

**Germany:** the unemployment rate stayed at 5.5% in January for the fifth consecutive month, in line with the market consensus. The labour market remains stable despite weak demand due to record inflation and rising borrowing costs.

**France:** annual inflation accelerated slightly to 6% in January from 5.9% in December, whereas the market forecast had been 6.1%. This increase is due to further rises in the cost of food and energy.

US & EM

**United States:** GDP grew at an annualised quarterly rate of 2.9% in Q4 2022, confirming the resilience of the economy, following a 3.2% jump in Q3. The increase for 2022 as a whole was 2.1%, although there remains some uncertainty as to whether it will fall into negative territory in 2023. Moreover, the core price inflation rate fell to its lowest level in 14 months on an annual basis.

**China:** the manufacturing index for January surged to 52.9 from 42.6 the previous month; this was its highest level since last June. Activity was boosted by Beijing's decision in December to lift all restrictions related to Covid-19. Both industry and services gained ground. Growth for the whole of 2022 was 3% – well below the official target of around 5.5%. Economists expect China's economy to recover in 2023, after bottoming out in December.

**Peru:** the central bank raised its benchmark rate by 25 basis points to 7.75% in January, in line with forecasts. This is the 18th consecutive month of rate increases to combat persistent inflation. The country's annual inflation rate rose to 8.46% in December, which was well above the upper limit of the target range.

Market Data Indices

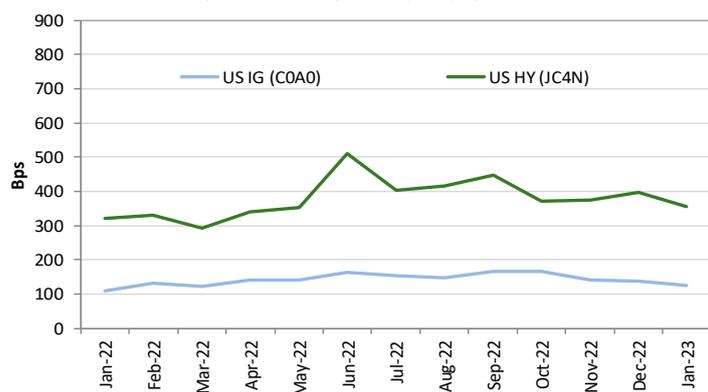
Indices (end of January)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	3.21%	3.21%	3.19	6.99%
JOA0	High Yield United States	3.88%	3.88%	4.22	8.12%
H7PC	High Yield Europe BB/B Excluding Financials	3.13%	3.13%	3.11	6.82%
JC4N	High Yield United States BB/B Excluding Financials	3.55%	3.55%	4.31	7.46%
HYEF	High Yield Emerging Countries Excluding Financials	4.11%	4.11%	3.65	10.15%
Investment Grade					
ER00	Investment Grade Europe	2.01%	2.01%	4.62	3.92%
COA0	Investment Grade United States	3.89%	3.89%	7.05	5.05%
EMIC	Investment Grade Emerging Countries	2.44%	2.44%	5.32	5.36%
Governments					
G4D0	10-Year German Bond	2.15%	2.15%		2.28%
G4O2	10-Year US Bond	3.17%	3.17%		3.51%

Inflation (end of January)		January	December	November	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	8.50%	9.20%	10.10%	8.90%	5.10%
US CPI	Realized inflation in the United States (rolling 12-month)		6.50%	7.10%	8.50%	7.50%

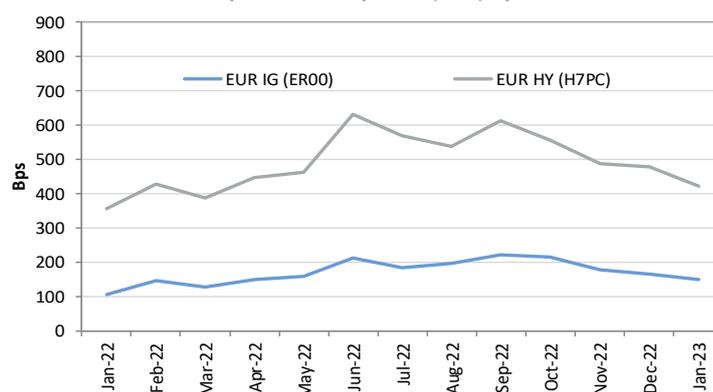
Month-to-date = MTD      Duration-to-worst = DTW  
Year-to-date = YTD      Yield-to-worst = YTW

Source: Merrill Lynch  
Edited: 10/02/2023

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

		January	December	November	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	153	167	180	106
HE00	High Yield Europe	455	512	519	374
H7PC	High Yield Europe BB/B Excluding Financials	431	484	495	363
ER30	Bonds rated A Europe	129	137	152	91
ER40	Bonds rated BBB Europe	182	205	216	123
HE10	Bonds rated BB Europe	340	389	400	293
HE20	Bonds rated B Europe	537	609	628	506
<b>United States</b>					
COA0	Investment Grade United States	127	141	146	107
JOA0	High Yield United States	436	485	461	373
JC4N	High Yield United States BB/B Excluding Financials	371	408	390	340
COA3	Bonds rated A United States	104	117	121	84
COA4	Bonds rated BBB United States	158	174	181	133
JUC1	Bonds rated BB United States	295	322	315	286
JUC2	Bonds rated B United States	468	523	492	418
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	161	168	192	148
HYEF	High Yield Emerging Countries	636	708	760	740
EMAQ	Bonds rated A Emerging Countries	119	121	138	105
EM2B	Bonds rated BBB Emerging Countries	219	236	267	200
EM3C	Bonds rated BB Emerging Countries	373	414	479	402
EM6B	Bonds rated B Emerging Countries	645	755	828	1017

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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