

Corporate Credit Monthly Update

April 2023

Europe

In Europe, investors were focused for much of the month on the turmoil in the banking sector, which rocked the global financial markets. After several days of uncertainty, the Swiss government forced through the takeover of Credit Suisse by its competitor UBS. The Swiss bank was weakened by numerous scandals and by its main shareholder refusing possible support in the event of further difficulties. Shortly after, it was Deutsche Bank's turn to experience a sharp drop in its stock price. In this tense context, the ECB nevertheless continued to follow its restrictive trend, hiking rates by 50 bps at the beginning of March. The Bank of England and the Swiss National Bank also raised their interest rates. However, inflation seems to be marking time, with a visible slowdown in the March data. The conflict in Ukraine came to a stalemate during the month, ahead of possible spring offensives.

European government bond yields fell over the month. Investors are trying to digest the latest monetary policy decisions and assess the impact of new rate hikes on economies and on the global financial system. At the end of March, the 10-year German Bund yield fell by 36 bps to close at 2.29%. The European high yield market held up relatively well in March despite high volatility. The European corporate index yield ended the month at 7.20%.

In the United States, the banking sector was also put under pressure, due to unrealised losses on banks' balance sheets on US sovereign bonds; the losses were caused by the aggressive cycle of rate hikes. This was particularly true of regional banks, such as Silicon Valley Bank (SVB), a bank specialising in American start-ups, which had to go into administration after undergoing a bank run. Following these challenges in the sector, the Fed's decision on whether it would continue to pursue its policy was much awaited. It finally maintained its guideline, raising its key rate by an additional 25 bps at the end of March, as in previous months. The central bank asserted that the fight against inflation was not yet over, and that the banking sector nevertheless remained resilient. This ninth rise over the last 12 months takes rates to their highest level since 2007. Investors are now anticipating the end of the tightening cycle, with rate hikes being halted, or rates even starting to be cut by the end of the year.

In this unfavourable environment for risky assets, the search for safe havens drove down the yields on Treasury bonds. The 10-year ended the month at 3.47%, down 45 basis points. The yield curve remains inverted, although the spread between 2-year and 10-year Treasuries narrowed slightly in March. US corporate bond spreads widened by 36 bps for high yield and 15 bps for investment grade. This expansion has been unevenly distributed across sectors. Naturally, the financial sector has undergone the most significant change. The yield offered by the US corporate index stood at 7.68% at the end of the month.

United States

Emerging

Regarding emerging markets, the long-awaited positive outlook for 2023 was undermined by a volatile first quarter. The Fed's less aggressive policy and China's recovery prospects were thwarted by the turbulence in the banking sector in March. Emerging countries must now show resilience, while yields in this segment remain attractive. It remains to be seen whether it will be the fundamentals of emerging companies – on the whole still solid – or the contagion from global macroeconomic events that will determine the trajectory in this zone for the coming months. Despite the risk of further crises due to the end of free money, data from emerging markets remains favourable, with growth expected to outpace that of developed countries, an expected decline in inflation and the continued recovery of China. Inflation in Turkey was notably lower than expected in March, with a slowdown in price increases in the energy and transport sectors. Overall, central banks in emerging countries maintained their rates during the month rather than raising them again.

In terms of investment, more than USD 40 billion was invested in emerging market equity funds in March. This figure is the highest in a year, with almost a quarter of this amount in Chinese funds. Bond funds experienced a net withdrawal of around USD 1.6 billion. High yield bonds from emerging countries suffered in particular from the return of risk aversion, with a higher additional yield demanded by investors. The yield on the emerging corporate index closed the month at 11.29%.

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Alain Afflelou (EU)

Alain Afflelou, the French optician, released solid Q2 22/23 results with revenues rising 10.1% to EUR 106m, while adjusted EBITDA was up 11% at EUR 30m. The results in France reflected market outperformance in the historical banner, offset by a planned reduction in discount segment activity, as well as negative development in the hearing aids business relative to the comparison quarter. AA appeared to be largely unaffected by the weak consumer sentiment at FYE 2022 due to the essential nature of its offering. Net leverage was 5x, a 0.3x improvement from the level at FYE 2021-22.

Cimpres (US)

Cimpres, a US provider of customised marketing products and services worldwide, hosted its “Fiscal 2023 Mid-Year Investor Update” during which the company reassured investors about its short-term prospects. Indeed, the management guided for Q3 2023 (ending March 2023) revenue growth of 15% and an 83% increase in Adjusted EBITDA. Further, they expect net leverage to decrease to 3.5x by June 2024 (vs approx. 5.5x now). The company expects to benefit from its recent cost-cutting programme, as well as its refocus on its most profitable verticals. Following this release, Cimpres’ equity went up by 42% to reach a market capitalisation of USD 1.1bn, another potential support for bondholders.

Ulker (EM)

Ulker, the Turkish confectionary producer, reported strong Q4 22 results and the closing of the refinancing of its short-term debts due this year. Thanks to strong pricing power, the company saw its revenues increasing by 29.8% in 2022 while its EBITDA margin reached 19.4%, versus a target of 18.6% set by the management. While working capital remained a source of cash consumption throughout 2022, due to the high growth profile of the business, the cash conversion cycle dropped to 97 days according to the management (against 116 days in September 2022), hence benefiting free cash flow. Net leverage was reduced to 2.8x, compared with 3.9x last year on the back of strong results and good liquidity management.

Rating moves

Arcelik	S&P	↓	BB
Casino	Moody's	↓	Caa1
Dufry	S&P	↑	BB-
Electrolux	S&P	↓	BBB+
Grifols	Moody's	↓	B2
IAG	S&P	↑	BB+
Netflix	Moody's	↑	Baa3
NH Hotel	Moody's	↑	B2
Paprec	Moody's	↑	Ba3
Schaeffler	Moody's	↑	Baa3

Significant Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
IHO Verwaltungs	8.75%	2028	€800M	BB-

United States

Issuer	Coupon	Maturity	Amount	Rating
Teva Pharmaceuticals	7.875%	2029	\$600M	BB-
Triumph Group	9.00%	2028	\$1.20Bn	B2

Emerging

Issuer	Coupon	Maturity	Amount	Rating
No new issues in March				

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Macro Economic Events

Europe

Eurozone: the economic sentiment indicator fell 19.7 points in March to 10, below market expectations, after hitting a high of 29.7 the previous month. This is the first dip in sentiment after five consecutive months of gains, amid heightened uncertainty about the economic outlook caused by recent turmoil in the financial system.

Germany: the services PMI reached 53.9 in March, versus 50.9 in the previous month. It exceeded expectations and this marks the third consecutive month of growth, the fastest since May 2022. Job growth continued to gather pace in March in the services sector, with rising wage demands putting upward pressure on costs and keeping inflation high.

France: the number of people registered as unemployed fell again in February to 2.78 million, its lowest level since September 2011. The labour market remains tight, despite the ECB's aggressive rate hikes. At the same time, protests against the pension reform continued, with refinery, waste collection, rail and air transport, and school strikes.

Switzerland: the last-minute rescue of Credit Suisse helped stabilise the overall situation through a government-imposed takeover by UBS. Founded in 1856, Credit Suisse was one of the jewels of the Swiss financial sector. It was however weakened by governance issues, costly exposure to financial firm Greensill Capital which collapsed in 2021, a money laundering case and loss of client confidence in recent months, with several billion Swiss francs withdrawn. Significantly, the regulator asked the bank to reduce the USD 17 billion in AT1 bonds to zero, while shareholders will receive compensation.

US & EM

United States: the services PMI rose from 50.6 in January to 53.8 in March, well above market expectations (50.5). This is the fastest increase since April 2022. This recovery is linked to stronger demand both domestically and internationally, and to a more favourable climate for business activity. New orders increased for the first time since last September.

China: Chinese industrial companies' profits plummeted even further in the first months of 2023, weighed down by sluggish demand and high costs. The world's second largest economy is struggling to shake off the long-term effects of the pandemic. The sharp 22.9% contraction in year-on-year profits follows a 4% fall for the whole of 2022.

Brazil: the central bank kept its key rate unchanged at 13.75% for the fifth consecutive meeting in March, in line with market expectations. It plans to maintain its strategy over a longer period in order to ensure a return to normal inflation, and specifies that it will not hesitate to resume the tightening cycle if this process does not go as planned. However, the most recent indicators of the country's economic activity continue to confirm the deceleration scenario.

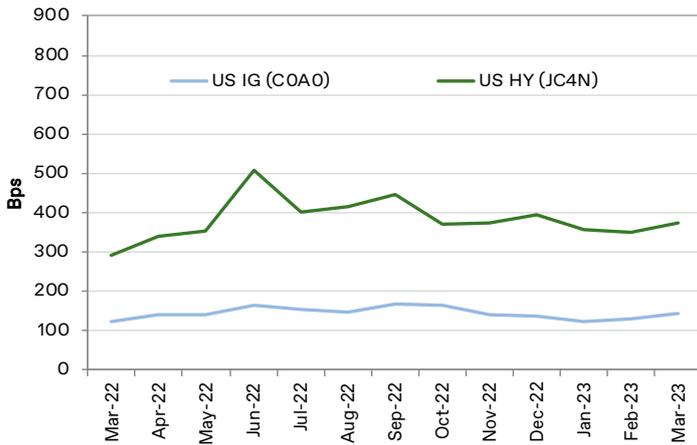
Market Data Indices

Indices (end of March)		Performance		Duration	Yield	
High Yield		MTD	YTD	DTW	YTW	
HE00	High Yield Europe	-0.36%	2.65%	3.17	7.42%	
JOA0	High Yield United States	1.13%	3.68%	4.08	8.44%	
H7PC	High Yield Europe BB/B Excluding Financials	0.14%	3.21%	3.06	7.20%	
JC4N	High Yield United States BB/B Excluding Financials	1.55%	3.60%	4.17	7.68%	
HYEF	High Yield Emerging Countries Excluding Financials	-0.20%	1.46%	3.56	11.29%	
Investment Grade						
ER00	Investment Grade Europe	1.02%	1.57%	4.57	4.17%	
COA0	Investment Grade United States	2.56%	3.45%	7.00	5.25%	
EMIC	Investment Grade Emerging Countries	1.40%	2.24%	5.27	5.53%	
Governments						
G4D0	10-Year German Bond	2.88%	2.23%		2.29%	
G402	10-Year US Bond	3.67%	3.54%		3.47%	
Inflation (end of March)						
Realized inflation		March	February	January	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	6.90%	8.50%	8.60%	9.90%	7.40%
US CPI	Realized inflation in the United States (rolling 12-month)		6.00%	6.40%	8.20%	8.50%

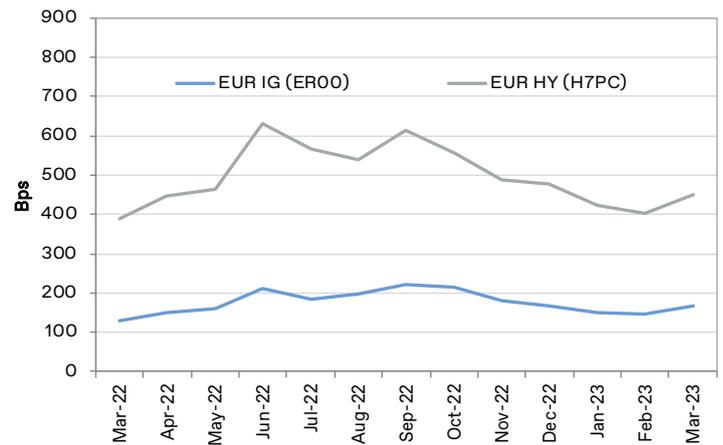
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

Source: Merrill Lynch
Edited: 11/04/2023

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		March	February	January	12 months
Europe					
ER00	Investment Grade Europe	170	148	153	127
HE00	High Yield Europe	489	436	455	410
H7PC	High Yield Europe BB/B Excluding Financials	458	412	431	395
ER30	Bonds rated A Europe	146	128	129	107
ER40	Bonds rated BBB Europe	201	175	182	151
HE10	Bonds rated BB Europe	375	331	340	323
HE20	Bonds rated B Europe	564	507	537	525
United States					
COA0	Investment Grade United States	148	132	127	121
JOA0	High Yield United States	468	430	436	361
JC4N	High Yield United States BB/B Excluding Financials	393	365	371	323
COA3	Bonds rated A United States	126	109	104	96
COA4	Bonds rated BBB United States	181	164	158	151
JUC1	Bonds rated BB United States	307	296	295	267
JUC2	Bonds rated B United States	506	451	468	404
Emerging Countries					
EMIC	Investment Grade Emerging Countries	179	151	161	163
HYEF	High Yield Emerging Countries	750	662	636	760
EMAQ	Bonds rated A Emerging Countries	128	111	119	120
EM2B	Bonds rated BBB Emerging Countries	252	211	219	221
EM3C	Bonds rated BB Emerging Countries	456	388	373	383
EM6B	Bonds rated B Emerging Countries	702	616	645	921

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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