

Corporate Credit Monthly Update

May 2023

Europe

In the eurozone, recent macroeconomic data shows that a recession has been avoided in the past few months. But the current momentum is still coming up against increasingly restrictive credit policies and conditions. The other major question is whether the challenges of the banking sector will now be contained. This remains uncertain and largely depends on the direction of policy responses and the effectiveness of the measures that the authorities have already implemented. Inflation has declined overall in recent months but remains at levels well above ECB targets. Much of the current debate is about how far the central bank should raise interest rates before the economy deteriorates significantly. The geopolitical situation remains tense, with military developments in the war in Ukraine leaving little hope for improvement.

In this context, European government bond yields remained virtually unchanged over the month. The 10-year German Bund yield stood at 2.31% at end-April. More stable credit spreads helped the primary market for corporate bonds, with an encouraging volume of new issues. At EUR 15 billion in April, the amount in question may be modest, but it reflects a recovery in activity at this level, despite the high coupons demanded by the market. Investors looking for sustainable sources of return continue to invest, considering the historically high levels of spreads as a good entry point. The European corporate index yield ended the month at 7.26%.

In the United States, the wave of tension surrounding the banking sector eased in April. However, the collapse of First Republic Bank at the end of the month left a bitter taste. The government takeover of the bank, followed by JP Morgan's purchase of most of the assets, should nevertheless bring this period of crisis to a close. It is important to note, however, that the collapse of three mid-sized US banks (Silicon Valley Bank, Signature Bank and First Republic) in recent weeks is the most significant financial event the US has experienced since the 2008 crisis. US economic growth remained positive in Q1 2023, but was slower than in the previous quarter, falling short of consensus expectations. Some macroeconomic indicators already reflect a deteriorating environment. Inflation, although slowing, remains high, in particular in connection with significant wage pressures. The Fed continues to rely on this macroeconomic data and is monitoring inflation and reacting accordingly, amid a gradual weakening of the economy. Once again, the US dollar depreciated against major foreign currencies during the month. Nevertheless, the Q1 earnings season showed that corporate profitability remains strong, especially for tech leaders.

The inversion of the yield curve became more pronounced during April in the United States. Volatility was significant, in particular due to financial sector concerns. The 10-year Treasury Bond yield fluctuated considerably from 3.26% to 3.63% before settling at 3.42% at the end of the month – virtually unchanged from the previous month. There was little change in high yield corporate bond spreads and yields over the month. Credit fundamentals remain strong. Reflecting this strength, credit rating upgrades outpaced downgrades by 3 to 1. The yield offered by the US corporate index stood at 7.63% at the end of the month.

United States

Emerging

As regards emerging markets, the reopening of China was a key performance driver. Its growth potential is rising compared with developed countries. Chinese macroeconomic data has become resolutely positive again, in particular with GDP growth of 4.5% YoY in Q1 2023. The only fly in the ointment is that the decline in global demand for goods is still a headwind for manufacturing industries and emerging economies with exposure to commodities. Inflation rates are falling, as evidenced by weak commodity prices, prompting some central banks to end their tightening policies. Market participants are increasingly convinced that we are approaching the peak of monetary policy rates.

The prospect of an end to cycles of interest rate hikes in emerging countries and the weakening of the US dollar were favourable factors for emerging market debt. Investment grade companies in this region in particular outperformed in April (+1.05%). High yield lagged further. Emerging markets saw capital inflows of USD 9.8 billion over the month, with bond inflows of USD 7.7 billion, versus USD 2.1 billion for equities. The yield on the emerging market corporate index closed the month at 11.37%.

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Lottomatica (EU)

Lottomatica, the Italian gaming company, announced its IPO with price range (€9-€11), representing a market cap of €2.3-2.7b. Net IPO proceeds from newly issued shares are used to repay €250m of PIK notes and €100mn of €25 secured notes, while up to €175mn proceeds from the sale of existing shares by Apollo is to be used to repay the remaining €150mn PIK notes. This is obviously very good news as the company is actively deleveraging its balance sheet.

Aramark (US)

Aramark, the US company specialized in food and facilities management services, announced further asset sales and reiterated its focus on deleveraging the business going forward during 2Q23 earnings call. Aramark sold 50% of its interest in the basket ball franchise San Antonio Spurs for c. \$100m and will apply the proceeds towards debt reduction. This follows its \$530m sale of AIM Services JV announced in the previous quarter and which was used to reduce debt. Going forward, the company has a target of 4.0x net leverage by the end of FY23 (vs 4.9x as of 2Q23). The quarterly results were also on the positive side with organic growth of +19% and adjusted EBITDA up +20%. This led Aramark to tweak its previous guidance toward the higher end.

United Group (EM)

United Group, the CEE-focused telecom group, announced the sale of its telecom towers in Bulgaria, Slovenia and Croatia to Saudi Telecom Company's infrastructure subsidiary for €1.22bn. The proceeds will be applied to repay existing RCF and bonds due in 2024 and 2025 on a pro rata basis. Additionally, this should allow the company to deleverage by roughly 1x, taking net leverage through its SSNs to around the 4x level.

Rating moves

Accor	Fitch	➔	BBB-
Adevinta	Moody's	➔	Ba2
Deutsche Lufthansa	S&P	➔	BB+
Jaguar Land Rover	S&P	➔	BB-
Kion	S&P	➔	BBB-
PeopleCert	Moody's	➔	B1
Samsonite	S&P	➔	BB
Tata Motors	S&P	➔	BB
Tui	S&P	➔	B
WMG Acquisition	Moody's	➔	Ba2

Significant Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
Allwyn	6.375%	2029	\$700M	BB
Loxam	6.375%	2028	€300M	BB-

United States

Issuer	Coupon	Maturity	Amount	Rating
Ford Motors	6.80%	2028	\$1.05Bn	BB+
Lindblad Expeditions	9.00%	2028	\$275M	B

Emerging

Issuer	Coupon	Maturity	Amount	Rating
Renew Power	7.95%	2026	\$400M	Ba3

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Macro Economic Events

Europe

Eurozone: inflation rose slightly to 7% in April, having hit a 13-month low in March (6.9%). Core inflation fell to 5.6%, but remains close to the all-time high of 5.7% reached the previous month. The eurozone economy only grew by 0.1% in Q1, which was below market expectations. Germany, in particular, experienced contraction, as high inflation and rising borrowing costs hit demand and activity.

Germany: inflation declined to 7.2% year-on-year in April, down from 7.4% the previous month and slightly below market expectations of 7.3%. This is the lowest rate since August 2022, due to a smaller increase in the cost of food and services. The German economy contracted by 0.1% in Q1 2023. This was the first period of contraction since Q1 2021. The effects of the increase in the cost of living and the recent tightening of ECB policy continue to be felt.

United Kingdom: the house price index fell 2.7% in April from a year earlier. This followed a 3.1% drop in March – the largest since July 2009. The housing market remains fragile. Rising borrowing costs, tighter lending conditions and persistently high inflation weighed on demand.

US & EM

United States: the economy grew 1.1% YoY in Q1 2023, which is a slowdown from the 2.6% expansion recorded in the previous quarter. This figure is also below market expectations, which had predicted 2% growth. This is the slowest pace of growth since Q2 2022, although underlying momentum remains robust. Business investment growth slowed and interest rate hikes continued to negatively impact the housing market.

China: China's industrial capacity utilisation rate fell to 74.3% in Q1 2023 from 75.8% in the same period a year earlier. This is the lowest level since March 2020, reflecting the impact of the COVID-19 outbreak and prolonged tight restrictions. All sectors are affected by the decrease in this utilisation rate.

Costa Rica: at its April meeting, the central bank lowered its key rate by 100 basis points to 7.5%. This decline follows a 50 bp cut in March – the first in four years. The domestic disinflationary process is now expected to continue. The 12 and 24-month outlooks stand at 4.9% and 4% respectively.

Market Data Indices

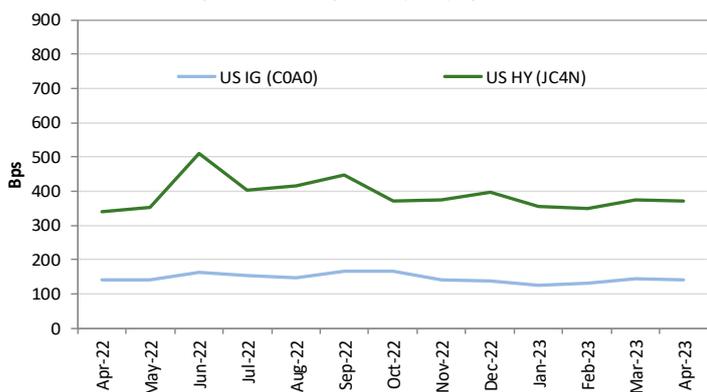
Indices (end of April)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	0.48%	3.14%	3.15	7.45%
JOA0	High Yield United States	0.96%	4.67%	4.07	8.37%
H7PC	High Yield Europe BB/B Excluding Financials	0.46%	3.68%	3.05	7.26%
JC4N	High Yield United States BB/B Excluding Financials	0.82%	4.44%	4.16	7.63%
HYEF	High Yield Emerging Countries Excluding Financials	-0.12%	1.34%	3.56	11.37%
Investment Grade					
ER00	Investment Grade Europe	0.70%	2.28%	4.56	4.10%
COA0	Investment Grade United States	0.85%	4.32%	6.99	5.17%
EMIC	Investment Grade Emerging Countries	1.05%	3.32%	5.34	5.41%
Governments					
G4D0	10-Year German Bond	0.18%	2.42%		2.31%
G402	10-Year US Bond	0.86%	4.43%		3.42%

Inflation (end of April)		April	March	February	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	7.00%	6.90%	8.50%	10.60%	7.50%
US CPI	Realized inflation in the United States (rolling 12-month)		5.00%	6.00%	7.70%	8.30%

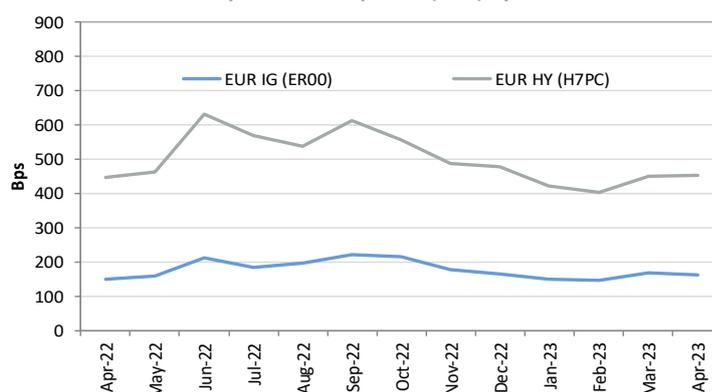
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

Source: Merrill Lynch
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US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		April	March	February	12 months
Europe					
ER00	Investment Grade Europe	163	170	148	146
HE00	High Yield Europe	492	489	436	458
H7PC	High Yield Europe BB/B Excluding Financials	462	458	412	444
ER30	Bonds rated A Europe	139	146	128	123
ER40	Bonds rated BBB Europe	195	201	175	173
HE10	Bonds rated BB Europe	378	375	331	364
HE20	Bonds rated B Europe	569	564	507	592
United States					
COA0	Investment Grade United States	144	148	132	139
JOA0	High Yield United States	468	468	430	410
JC4N	High Yield United States BB/B Excluding Financials	396	393	365	364
COA3	Bonds rated A United States	122	126	109	112
COA4	Bonds rated BBB United States	178	181	164	172
JUC1	Bonds rated BB United States	315	307	296	303
JUC2	Bonds rated B United States	500	506	451	453
Emerging Countries					
EMIC	Investment Grade Emerging Countries	171	179	151	166
HYEF	High Yield Emerging Countries	763	750	662	723
EMAQ	Bonds rated A Emerging Countries	123	128	111	120
EM2B	Bonds rated BBB Emerging Countries	241	252	211	228
EM3C	Bonds rated BB Emerging Countries	443	456	388	390
EM6B	Bonds rated B Emerging Countries	803	702	616	896

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.

Anaxis Asset Management
9 rue Scribe
75009 Paris

+33 (0)9 73 87 13 20
info@anaxis-am.com
www.anaxis-am.com

