

Corporate Credit Monthly Update

June 2023

Europe

The eurozone economy entered a small technical recession in May. GDP contracted by 0.1% in Q1 2023. In particular, Europe's largest economy, Germany, plunged into recession, dragged down by a slowdown in the industrial segment and a difficult real estate market. European economies have started to exhibit some signs of disinflation. However, recently published global figures came in ahead of expectations, reminding investors of the persistent nature of inflation and the potential requirement for central banks to hold interest rates at a higher level over a prolonged period. The ECB thus raised rates by 25 basis points to 3.25%. In addition, the ECB indicated that further rate rises are still on the cards. On the energy front, the critical phase of the crisis seems to have passed, with natural gas prices stabilising at 2021 levels.

The performance of European corporate bonds was positive over the month, in contrast to other regions and despite the mixed growth outlook at macroeconomic level. The inversion of the yield curve for sovereign bonds became more pronounced. 7-10-year yields in G7 countries rose slightly, except in Germany. The German 10-year Bund yield closed the month at 2.28%, relatively stable versus the previous month. The European corporate index yield ended the month at 7.37%.

In the US, strong macroeconomic data strengthened expectations of a further tightening of the Fed's policy. The central bank could hold interest rates at a higher level for longer than previously expected. The US economy is proving resilient, despite persistent inflation and successive interest rate hikes. The Fed announced a 25 bp increase in rates at its May meeting. At the same time, oil has corrected by over 11% during the month and the US dollar strengthened versus the currencies of other major economies. Corporate earnings exceeded forecasts, particularly at technology companies. At the end of the month, the government and Republican negotiators came to an agreement in principle on raising the debt ceiling for a period of two years, putting an end to prevailing concerns.

Against this backdrop, performance in US bond markets was negative in May. Yields on US 2- and 10-year Treasury bonds briefly flirted with their highest levels since March, with a slight steepening of the curve. 10-year yields closed the month up 22 basis points at 3.64%. Corporate bonds held up better, although high-yield spreads widened. May saw a sharp rebound in new issue volumes. There was frenetic new issue activity among major US corporations, with USD 155 billion of investment grade debt issued in May. This represents the biggest month since 2020, when the pandemic crisis resulted in record new issue volumes for debt. The yield offered by the US corporate index stood at 8.04% at the end of the month.

United States

Emerging

In emerging markets, inflation slowed more quickly than in developed countries. This is partly due to the fall in commodity prices. In addition, services prices are beginning to get back to levels that are more compatible with central bank targets. The cycle of monetary tightening thus seems to be drawing to a close in numerous parts of the world. The growth differential between emerging countries and developed countries continues to widen. However, prospects of a vigorous recovery of the Chinese economy did not materialise. The country's weak macroeconomic data disappointed markets, calling the eagerly expected post-Covid bounce into question. Recent data on the Chinese real estate market are testimony to an uncertain situation and a sector that is still struggling to settle after its recent setbacks.

Corporate debt performance in emerging countries was negative in May. Spreads remained unchanged overall but movements in US Treasury bonds depressed the segment. Investment grade corporates held up better than high-yield corporates but also closed in the red. One of the main obstacles for debt in emerging countries can be found in the current strength of the US dollar. Nonetheless, valuations remain attractive. Many emerging economies continue to be underpinned by sound fundamentals, and the most fragile have substantial support from the IMF and other multilateral organisations. The yield on the emerging market corporate index closed the month at 11.60%.

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Adler Pelzer (EU)

Adler Pelzer successfully repaid its 2024 maturity following reassuring Q1 results. The German auto parts manufacturer has priced EUR 400m of 5y NC1 secured notes at 92.5 with a 9.5% coupon to yield 12%. Along with a EUR 120m shareholder loan and cash on the balance sheet, the company also repaid its EUR 40m June 2023 super senior-term loan and repaid EUR 11m of other borrowings. We did not participate in the new issue as at this stage, as we noted the limited visibility on 2023 earnings and the significant deterioration in the company's interest coverage given the size of the new coupon.

Prime Healthcare (US)

Prime Healthcare, a leading US acute care hospital operator, reported higher earnings for Q1 2023. While revenue remained flat YoY (at USD 957m), adjusted EBITDA rose to USD 108m versus USD 74m last year, benefiting from a significant drop in temporary contract labour. Based on management's guidance of an EBITDA of USD 420m to USD 430m for the full year, the company expects net leverage to drop to a range of 4 to 5 times by year end. Over the longer term, the company's goal is to get to about 3 to 3.5 times leverage.

Axtel (EM)

Axtel, the Mexican telecommunications infrastructure provider, announced that it has secured a USD 264m syndicate credit facility in order to refinance the 2024 senior notes. Its management indicated that it would repay the bond by November this year, at least one year before its maturity. From 29 May 2023, Axtel began to trade separately on the Mexican stock exchange, following its spin-off from the Alfa conglomerate.

Rating moves

Amadeus	S&P	➔	BBB
Cirsa	S&P	➔	B
IQVIA	Moody's	➔	Ba1
Kane Bidco	S&P	➔	B+
Lottomatica	S&P	➔	BB-
Lufthansa	Moody's	➔	Ba1
Oriflame	Fitch	➔	B-
Progroup	S&P	➔	BB
TUI	Moody's	➔	B2
Verisure	Moody's	➔	B1

Significant Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
Lottomatica	7.125%	2028	€565M	BB-
Motion Finco	7.375%	2030	€700M	B+

United States

Issuer	Coupon	Maturity	Amount	Rating
Tenet Healthcare	6.75%	2031	\$1.35Bn	BB-
XPO	6.25%	2028	\$830M	BBB-

Emerging

Issuer	Coupon	Maturity	Amount	Rating
No new issues in May				

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Macro Economic Events

Europe

Eurozone: the European consumer confidence indicator rose slightly to -17.4. Confidence has been gradually recovering since the low of September 2022 (-28.7). However, inflation, and particularly the core inflation rate, remain close to record levels, prompting the ECB to remain focused on its fight against rising prices. The markets are now anticipating at least two further rate hikes.

Germany: despite the weakness of the economy, the labour market overall has remained steady, with an unemployment rate of 5.6% in May. The number of unemployed rose by 9,000 over the month to a total of 2.573 million, whereas the market was expecting an increase of 15,000.

France: consumer price inflation fell to 5.1% year-on-year in May, compared with 5.9% for the previous month – lower than the market expectations of 5.5%. This rate has reached its lowest level since April 2022, indicating that inflationary pressures may be slowing down. Nevertheless, this level of inflation remains well ahead of the ECB’s target of 2%.

US & EM

United States: US employers announced more job redundancies in May. Companies are holding back on recruitment in anticipation of a possible economic slowdown. The technology sector announced the largest number of job cuts during the month, followed by retailers and the automotive sector.

China: the manufacturing PMI unexpectedly fell to 48.8 in May, its lowest level for five months, from 49.2 in April, failing to reach market estimates of 49.4. The latest figures also point to a contraction in industrial activity for the second month in a row, against a backdrop of weak demand, both domestic and global.

Turkey: Recep Tayyip Erdogan won the presidential election, retaining his position as head of the country for a third decade. Investors are now awaiting his economic and foreign policy plans, including a possible reversal of some of the unconventional economic policies that have led to high inflation, low interest rates, a fall in the lira and negative net foreign exchange reserves.

South Africa: the central bank raised its key interest rate by a further 50 basis points in May, to 8.25%, taking it to the highest level in 14 years. It also warned that the economic situation was worsening, and hinted that its cycle of tightening would only be reversed when inflation began to approach 4.5%.

Market Data Indices

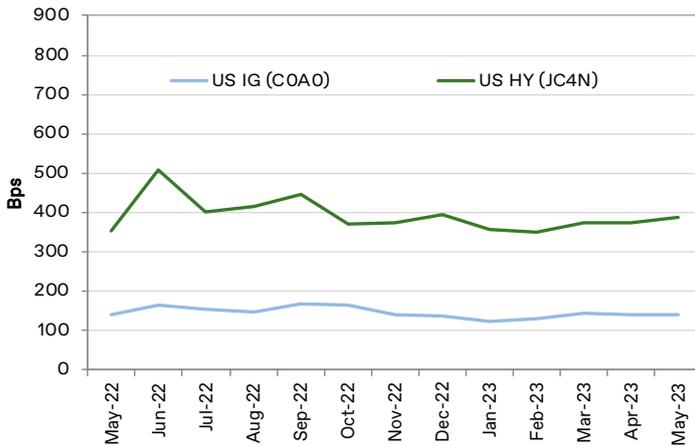
Indices (end of May)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	0.65%	3.81%	3.14	7.49%
JOA0	High Yield United States	-0.96%	3.66%	4.01	8.79%
H7PC	High Yield Europe BB/B Excluding Financials	0.53%	4.24%	3.03	7.37%
JC4N	High Yield United States BB/B Excluding Financials	-0.93%	3.48%	4.10	8.04%
HYEF	High Yield Emerging Countries Excluding Financials	-1.16%	0.17%	3.55	11.60%
Investment Grade					
ER00	Investment Grade Europe	0.18%	2.46%	4.56	4.16%
COA0	Investment Grade United States	-1.33%	2.94%	6.91	5.44%
EMIC	Investment Grade Emerging Countries	-0.49%	2.81%	5.30	5.61%
Governments					
G4D0	10-Year German Bond	0.58%	3.01%		2.28%
G4O2	10-Year US Bond	-1.44%	2.92%		3.64%

Inflation (end of May)		May	April	March	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	6.10%	7.00%	6.90%	10.10%	8.10%
US CPI	Realized inflation in the United States (rolling 12-month)		4.90%	5.00%	7.10%	8.60%

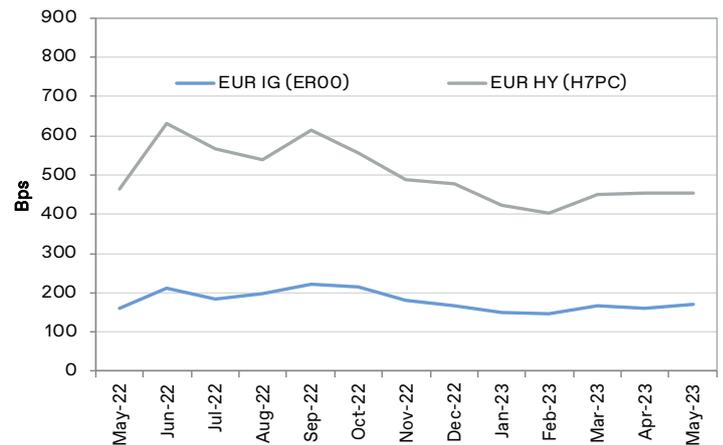
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

Source: Merrill Lynch
Edited: 09/06/2023

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		May	April	March	12 months
Europe					
ER00	Investment Grade Europe	172	163	170	156
HE00	High Yield Europe	498	492	489	474
H7PC	High Yield Europe BB/B Excluding Financials	469	462	458	454
ER30	Bonds rated A Europe	150	139	146	131
ER40	Bonds rated BBB Europe	202	195	201	185
HE10	Bonds rated BB Europe	389	378	375	372
HE20	Bonds rated B Europe	574	569	564	606
United States					
COA0	Investment Grade United States	145	144	148	138
JOA0	High Yield United States	483	468	468	422
JC4N	High Yield United States BB/B Excluding Financials	409	396	393	368
COA3	Bonds rated A United States	122	122	126	109
COA4	Bonds rated BBB United States	180	178	181	173
JUC1	Bonds rated BB United States	330	315	307	292
JUC2	Bonds rated B United States	513	500	506	479
Emerging Countries					
EMIC	Investment Grade Emerging Countries	166	171	179	177
HYEF	High Yield Emerging Countries	761	763	750	769
EMAQ	Bonds rated A Emerging Countries	118	123	128	124
EM2B	Bonds rated BBB Emerging Countries	235	241	252	247
EM3C	Bonds rated BB Emerging Countries	448	443	456	424
EM6B	Bonds rated B Emerging Countries	836	803	702	987

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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