

Corporate Credit Monthly Update

July 2023

Europe

The European economy is starting to show real weaknesses and seems less robust than its US counterpart. A number of countries in the region have now entered into technical recession, foremost among them Germany. Inflation remains high, particularly core inflation. Remarkably, inflation in Spain (1.9% in June) was below the ECB's 2% target, reflecting the increasing disparities between countries in the region. The ECB has pledged to continue raising rates, despite this weakening. The central bank carried out its eighth consecutive rate hike in June, by 25 bps. The European labour market remains resilient, however, with a large number of job vacancies and the unemployment rate still at a record low. The UK is also facing difficulties, with one of the highest rates of inflation among developed markets. The Bank of England once again tightened rates aggressively, raising them by 50 bps. This led to a simultaneous rise in mortgage rates and fall in house prices.

European credit markets saw mixed performances in June. The yield on 10-year German Bunds ended the month at 2.39%, up 11 bps on the previous month. In corporate bonds, the high yield segment remained resilient, while investment grade suffered from the rise in interest rates. Credit spreads narrowed as investors' appetite for risk increased. The European corporate index yield ended the month at 7.43%.

In the US, the Fed paused its tightening cycle in June, following 10 consecutive rate hikes. However, it has indicated that two further 25 bp hikes may be necessary by the end of the year. US macroeconomic data continued to surprise, despite giving mixed signals. The economy is proving more resilient than expected, even though manufacturing continues to contract. Employment remains relatively robust and wages continue to rise in most sectors, even if the pace of increase is starting to slow. Inflation remains high, but has begun to move away from its peak. Oil rose by just over 3% over the month, and the dollar has corrected slightly against the other major currencies.

The Treasury bond yield curve remains sharply inverted, a signal always taken to indicate an imminent recession. The spread between 2- and 10-year yields ended the month at -106 bps, its widest since the early 1980s (except for a short period in early March during the banking crisis). 10-year Treasury yields ended the month up 20 bps at 3.84%. For their part, risky assets recovered significantly. Credit markets now anticipate an end to the rate hike cycles and seem to have embraced the idea of a soft landing. Lower-grade bonds continued to outperform higher-grade in the second quarter. The yield on the US corporate index stood at 7.86% at the end of the month.

United States

Emerging

In most emerging countries disinflation accelerated. A resumption of easing cycles may even be in sight, following the various pauses and monetary tightenings in recent months. This is particularly the case for Latin America. The prospect of the US tightening cycle coming to an end should also benefit emerging markets. In June, the focus returned to China, where macroeconomic data was disappointing. The lacklustre data prompted the Chinese authorities to announce measures to ease its monetary policy.

Corporate bond markets in emerging countries generally kept pace with those of developed markets in June, with positive performances. The high yield segment saw a particularly strong rebound over the month (+2.01%), with credit spreads narrowing significantly. This segment clearly outperformed investment grade bonds, reflecting a renewed appetite for risk in this region as well. The environment remains positive for emerging market debt, with favourable technical data, attractive valuations and stable fundamentals now combined with a less restrictive US Fed. Moreover, one of the main obstacles for emerging market debt, the strength of the US dollar, reversed its trend in June, providing further grounds for optimism. The yield on the emerging market corporate index closed the month at 11.05%.

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Telecom Italia (EU)

Telecom Italia (TI) announced that its Board has examined the Netco offers from KKR and CDP, and found the former's offer more compelling in terms of executability, with a higher price as well. TI has hence decided to grant KKR exclusivity, with the aim of reaching a binding and conclusive bid by September 30th. Meanwhile, FT reported that Vivendi is opposed to the network sale as it believes that KKR's offer of c. EUR 22.5 bn undervalues the network, which it thinks should be worth at least EUR 30 bn.

G-III Apparel Group (US)

G-III Apparel Group, a global fashion distributor of brands such as Tommy Hilfiger, Calvin Klein, Donna Karan and Karl Lagerfeld, released uninspiring Q1 (ending April 2023) results. Sales were down 12% compared to the same period last year and the EBITDA margin halved on lower absorption of fixed costs (SG&A, marketing). However, a large working capital inflow led G-III to generate close to \$200m of FCF in the period. Going forward, the company upgraded its guidance for full-year 2024 (ending January 2024) with sales of approximately \$3.29bn (vs \$3.23bn in FY 2023) and an adjusted EBITDA between \$267m and \$272m (vs \$268m in FY 2023). This slight increase in full-year figures should come from the integration of new brands (Nautica, DK, Halston) and much improved freight and logistics costs compared to last year.

Endeavour Mining (EM)

Endeavour Mining, a Canadian gold mining company with assets in Africa, announced the divestment of two assets in Burkina Faso (Boungou and Wahgnion mines) with proceeds expected to reach USD 300m. The sale will reduce Endeavour's exposure to Burkina Faso from 55% to 44% according to the company and improve its average AISC (all-in sustaining costs). Following this disposal, the company expects to produce between 1,060 and 1,135koz of gold this year (vs 1,325-1,425 koz previously) and its AISC is poised to drop by \$45/oz to \$895-950/oz. At the end of Q1 2023, Endeavour Mining reported a net cash position.

Rating moves

Alcon	S&P	➔	BBB+
Altice	Moody's	➔	B3
Catalent	Moody's	➔	B1
Elior	S&P	➔	B
Eutelsat	Moody's	➔	Ba1
Maxeda	Moody's	➔	B3
Novomatic	S&P	➔	BB+
Playtech	Moody's	➔	Ba2
Siemens	Moody's	➔	Aa3
Takeda	Moody's	➔	Baa1

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Assemblin	8.987%	2029	\$480M	B
Polynt	9.50%	2028	€300M	BB-

United States

Issuer	Yield	Maturity	Amount	Rating
Ford Motor	6.95%	2026	\$900M	BB+
Viking Cruises	9.125%	2031	\$720M	B-

Emerging

Issuer	Yield	Maturity	Amount	Rating
Cosan Lux	7.50%	2030	\$550M	Ba2
Health & Happiness	14.50%	2026	\$200M	Ba3

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Macro Economic Events

Europe

Eurozone: headline inflation fell from 6.1% to 5.5% in June, while the base rate increased to 5.4%. Inflation is now following different paths in the various countries of the eurozone. In Germany, the consumer price index rose to 6.4%, after hitting its lowest level in 14 months in May. Inflation in Italy and France slowed, and the Spanish rate fell to 1.9%, making it the first eurozone country to achieve the ECB's 2% target.

Germany: the consumer confidence index fell to -25.4, down from the previous month, and below market expectations. This is the first dip in consumer sentiment for nine months, mainly due to the gloomier economic forecasts. The persistently high rates of inflation in particular are chipping away at household purchasing power.

United Kingdom: GDP grew by 0.2% in Q1 2023, its slowest pace of expansion for two years. Rising borrowing costs and continued high inflation are impacting activity and demand. The decline in external demand is also weighing on GDP, with a drop in exports of 6.9%.

US & EM

United States: the manufacturing PMI fell to 46 in June, from 46.9 in May, and came in below the forecast of 47. This marked the sharpest contraction in industrial activity for nearly three years. Production was down owing to persistent weaknesses and a bleaker outlook for the second half. Inflation came as a surprise at its lowest rate since April 2021, falling from 4.9% in April to 4% in May.

China: the manufacturing sector weakened further in June. Companies are increasingly worried about the sluggishness of the global market. Confidence was at an eight-month low, with weaker-than-expected demand and slow recruitment. However, industry remains supported by improving domestic sales.

Turkey: the trade deficit narrowed by 34.5% year-on-year to reach USD 5.4 billion in June, versus USD 8.2 billion the previous year. This improvement brings some relief in a context of high energy costs and local demand for foreign goods that has depleted the state's foreign exchange reserves, as the Turkish currency has depreciated.

Colombia: the central bank kept its key rate at 13.25% at its June meeting, as widely expected. This decision follows a 25 bp hike at the previous meeting and is the first decision to hold rates in almost two years. Annual inflation in May slowed to 12.36%, the lowest level since October 2022, but remains very high compared with the long-term target of 3%.

Market Data Indices

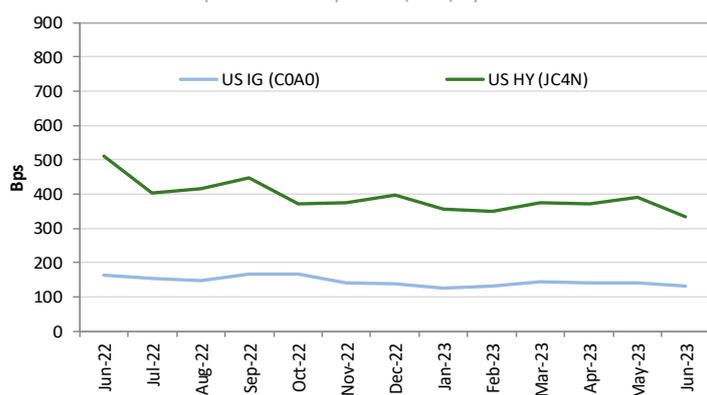
Indices (end of June)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	0.53%	4.36%	3.14	7.48%
JOA0	High Yield United States	1.62%	5.34%	3.95	8.52%
H7PC	High Yield Europe BB/B Excluding Financials	0.58%	4.84%	3.02	7.43%
JC4N	High Yield United States BB/B Excluding Financials	1.35%	4.87%	4.02	7.86%
HYEF	High Yield Emerging Countries Excluding Financials	2.01%	2.19%	3.56	11.05%
Investment Grade					
ER00	Investment Grade Europe	-0.42%	2.03%	4.56	4.39%
COA0	Investment Grade United States	0.28%	3.23%	6.93	5.57%
EMIC	Investment Grade Emerging Countries	0.07%	2.88%	5.34	5.78%
Governments					
G4D0	10-Year German Bond	-1.08%	1.90%		2.39%
G4O2	10-Year US Bond	-1.27%	1.61%		3.84%

Inflation (end of June)		June	May	April	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	5.50%	6.10%	7.00%	9.20%	8.60%
US CPI	Realized inflation in the United States (rolling 12-month)		4.00%	4.90%	6.50%	9.10%

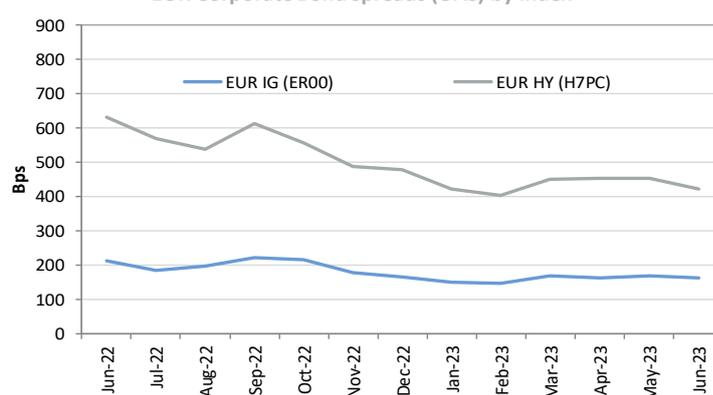
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

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



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		June	May	April	12 months
Europe					
ER00	Investment Grade Europe	164	172	163	205
HE00	High Yield Europe	464	498	492	636
H7PC	High Yield Europe BB/B Excluding Financials	440	469	462	617
ER30	Bonds rated A Europe	145	150	139	174
ER40	Bonds rated BBB Europe	193	202	195	244
HE10	Bonds rated BB Europe	365	389	378	511
HE20	Bonds rated B Europe	539	574	569	815
United States					
COA0	Investment Grade United States	134	145	144	163
JOA0	High Yield United States	422	483	468	575
JC4N	High Yield United States BB/B Excluding Financials	356	409	396	515
COA3	Bonds rated A United States	113	122	122	130
COA4	Bonds rated BBB United States	165	180	178	205
JUC1	Bonds rated BB United States	285	330	315	426
JUC2	Bonds rated B United States	448	513	500	654
Emerging Countries					
EMIC	Investment Grade Emerging Countries	154	166	171	196
HYEF	High Yield Emerging Countries	672	761	763	928
EMAQ	Bonds rated A Emerging Countries	114	118	123	130
EM2B	Bonds rated BBB Emerging Countries	215	235	241	281
EM3C	Bonds rated BB Emerging Countries	392	448	443	565
EM6B	Bonds rated B Emerging Countries	694	836	803	1075

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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