

# Corporate Credit Monthly Update

## September 2023

### Europe

Europe continues to be faced with an unfavourable mix of weak growth and persistent inflationary pressures. Yet a two-speed situation is starting to emerge. Countries like France and Spain are seeing a recovery, whilst the region's largest economy – Germany – is in recession. Various sentiment and economic climate indicators have continued to fall, raising fears of a deeper overall slowdown. The services sector in Germany has contracted for the first time this year. In France, it has declined more than expected. At the same time, inflation data has disappointed, weakening more slowly than markets had anticipated. Although there were no major central bank meetings in August, it was a busy month on the monetary policy front. Both the ECB and the Fed intimated that their priority is continued interest rate hikes rather than economic growth.

After a positive month in July, August was more of a mixed bag for European financial markets, reflecting ongoing uncertainty at the macroeconomic level. In debt, successive interest rate hikes, weak spread volatility and the summer lull in activity have depressed performance somewhat. In addition, there was limited primary market activity. Despite this environment, corporate bonds remained in positive territory in August. Spreads widened slightly during the month across all rating segments, whilst government bond yields remained relatively stable. The German 10-year Bund yield closed the month at 2.46%, down 3 basis points versus the previous month. High corporate bond yields continue to offer good protection against interest rate volatility. The European corporate index yield ended the month at 7.24%.

In the United States, inflation continues to play a dominant role. The slight rise recorded last month – with a moderate rise in core inflation in particular – took markets by surprise. In response to such persistent inflation, the Fed could decide to hold its interest rates at higher levels than expected. However, the US economy remains sound. The labour market is showing some signs of easing, but with no indication of a collapse. The housing market is seeing a very marked slowdown. Mortgage requests have fallen to their lowest level since December 1996. The oil price rose by more than 2% in August, whilst the US dollar strengthened versus other major currencies. The corporate results season for the second quarter highlighted the resilience of companies, with profitability levels maintained. Earnings came in ahead of forecasts in many cases.

US markets retreated in August, whilst the Fed's stance remains restrictive. Investors are still trying to work out what the next moves will be on monetary policy. On the bond front, the month was characterised by a rise in Treasury yields. During the course of the month, US 10-year Treasury yields reached their highest level in 15 years at 4.34%, and closed up 15 basis points at 4.11%. The 2- and 10-year yield curve remains inverted (-76 basis points), but the gap has tightened by 20 points versus July. Notably, high yield bonds showed positive performance, significantly outperforming investment grade bonds which generated negative performance of 0.68%. The yield on the US corporate index stood at 7.80% at the end of the month.

### United States

### Emerging

In emerging markets, central banks are now one step ahead of their counterparts in developed countries. China, Brazil, Vietnam and Chile have already begun easing monetary policy. Inflation continued to trend downwards in many emerging countries, although the speed of the decline varied. The growth and recovery of the Chinese economy remain hot topics, and we are still waiting on a bounce. The Chinese government doubled down on efforts to stimulate the real estate sector and support the economy, which is losing momentum. China also halved the stamp duty on stock market transactions in an effort to stimulate trading. Six new countries are preparing to join the BRICS alliance from January 2024, which will enable this wider group of countries to expand their influence globally.

After a strong performance last month, emerging markets gave up most of their gains in August. Corporate bonds also had a negative month. Credit spreads tightened in the high yield segment but widened in investment grade bonds. The yield on the emerging market corporate index closed the month at 10.49%.

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### Standard Profil (EU)

Standard Profil, the second largest automotive sealing systems manufacturer in Europe, posted another good set of results with both revenues and EBITDA growing significantly year-on-year, thanks to price compensation and better volumes. Higher EBITDA, positive free cash flow generation and shareholder contribution led to a decrease in reported net leverage of 1x over the previous quarter, to 4x. Supported by this good momentum, the company has slightly upgraded its FY23 guidance, while liquidity remains adequate.

### Fage International (US)

Fage International, a US-based producer of Greek yoghourts, reported strong second-quarter and first-half 2023 results. While sales rose by 10.6% compared to last year, mostly driven by pricing, operating profits more than doubled to 21.9% for H1 2023 as the price of milk decreased by 21% over that period. Net leverage reached 1.5x at the end of June and Moody's expects such a low leverage to be maintained in the coming 2 to 3 years. This positive set of results prompted Moody's to upgrade Fage 2026 senior unsecured bonds to Ba3, from B1. In late August, Fage tendered part of its senior unsecured notes at a price slightly below par, reducing the amount outstanding to USD 180m pro forma.

### Georgia Capital (EM)

Georgia Capital, the Georgian conglomerate with activities in finance, healthcare, hotels and utilities, announced the early refinancing of its USD bond maturing next year. The company used a mix of bank loans and domestic bond issuance to refinance its USD 365m Senior Unsecured Notes due in 2024. During H1 2023, the company reported improved results which benefited from the continuous inflow of migrants into the country (especially Russians) and from improved profitability in the healthcare segment with the normalisation of activity post-Covid. The issuer maintains its presence in the USD international bond market with securities issued by its subsidiaries, Georgian Renewable Power and Georgia Real Estate.

### Rating moves

Abbvie	Moody's	➔	A3
AstraZeneca	Moody's	➔	A2
Netflix	S&P	➔	BBB+
Nexi	Moody's	➔	Ba1
Relx	Moody's	➔	A3
Renault	Moody's	➔	Ba1
Rolls-Royce	Moody's	➔	Ba2
STMicroelectronics	Fitch	➔	BBB+

### Significant Primary Issues

#### Europe

Issuer	Yield	Maturity	Amount	Rating
Engie	3.77%	2027	€500M	BBB+
Eurofins	4.76%	2030	€600M	Baa3

#### United States

Issuer	Yield	Maturity	Amount	Rating
Channel Outdoor	9.00%	2028	\$750M	B
Tenneco Inc	9.41%	2028	\$1.9Bn	B

#### Emerging

Issuer	Yield	Maturity	Amount	Rating
Continuum Energy	9.50%	2027	\$435M	B+

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Macro Economic Events

Europe

**Eurozone:** services activity contracted for the first time since the end of 2022 amid worsening demand conditions. The Services PMI dropped to 48.3 in August, from 50.9 the previous month, with the sharpest downturn in Germany. Meanwhile, hiring nearly stalled, with employment growth being the lowest in the sector since February 2021.

**Germany:** the consumer climate indicator dropped to -25.5 heading into September from a revised August figure of -24.6. It marked the lowest reading since May, as persistently high inflation continued to weigh on sentiment. However, annual wage growth was 6.6% in Q2, boosting purchasing power but adding to fears that higher labour costs might keep inflation high.

**Austria:** Fitch affirmed its rating at AA+, and revised its outlook from “negative” to “stable”. The agency cited diminishing energy supply risks and said that Austria remains one of a few EU countries that is still receiving a major share of Russian pipeline gas. This averaged close to 60% of monthly imports in H1 2023.

US & EM

**United States:** the economy grew at an annualised rate of 2.1% in the second quarter of 2023, compared to the preliminary figure of 2.4% and relatively stable over the 2.0% expansion of the first quarter. This growth came on the back of a strong labour market, which encouraged consumer spending.

**China:** manufacturing activity contracted for a fifth straight month. Reflecting these difficulties, the official purchasing managers index remains below the 50 point mark that separates contraction from expansion. Despite various stimulus measures, Chinese authorities are still under pressure to shore up economic growth.

**Brazil:** lower inflation should allow the central bank to maintain a dovish tone. Figures for July on the price of staple goods and services indicate a steady disinflation trend. The central bank lowered its key interest rate by 50 basis points to 13.25% in August, and announced more cuts before the end of the year.

**India:** inflation reached 7.4% in July, up from 4.9% in June. It now stands at its highest rate since April 2022. However, core inflation eased further, down 30 basis points on the previous month.

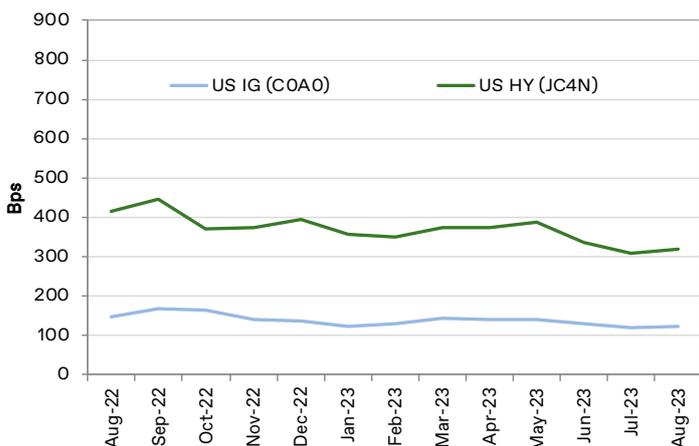
Market Data Indices

Indices (end of August)		Performance		Duration	Yield	
High Yield		MTD	YTD	DTW	YTW	
HE00	High Yield Europe	0.25%	5.77%	3.05	7.37%	
JOA0	High Yield United States	0.29%	7.16%	3.87	8.42%	
H7PC	High Yield Europe BB/B Excluding Financials	0.19%	6.37%	2.95	7.24%	
JC4N	High Yield United States BB/B Excluding Financials	0.19%	6.37%	3.95	7.80%	
HYEF	High Yield Emerging Countries Excluding Financials	-0.69%	2.73%	3.53	10.49%	
Investment Grade						
ER00	Investment Grade Europe	0.16%	3.23%	4.46	4.24%	
COA0	Investment Grade United States	-0.68%	2.97%	6.75	5.67%	
EMIC	Investment Grade Emerging Countries	-0.78%	2.60%	5.20	5.94%	
Governments						
G4D0	10-Year German Bond	0.47%	2.24%		2.46%	
G4O2	10-Year US Bond	-0.74%	0.27%		4.11%	
Inflation (end of August)						
Realized inflation		August	July	June	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	5.30%	5.30%	5.50%	8.50%	9.10%
US CPI	Realized inflation in the United States (rolling 12-month)		3.20%	3.00%	6.00%	8.30%

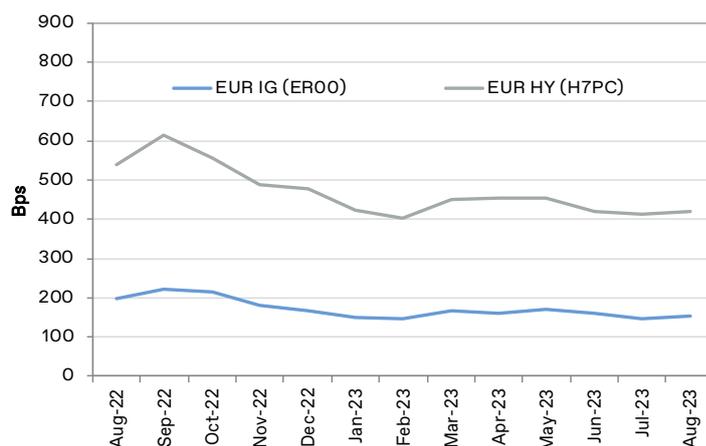
Month-to-date = MTD      Duration-to-worst = DTW  
Year-to-date = YTD      Yield-to-worst = YTW

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



EUR Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

		August	July	June	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	158	150	164	195
HE00	High Yield Europe	462	451	464	556
H7PC	High Yield Europe BB/B Excluding Financials	431	426	440	533
ER30	Bonds rated A Europe	139	132	145	167
ER40	Bonds rated BBB Europe	185	176	193	230
HE10	Bonds rated BB Europe	357	346	365	447
HE20	Bonds rated B Europe	526	528	539	707
<b>United States</b>					
COA0	Investment Grade United States	124	121	134	149
JOA0	High Yield United States	398	395	422	492
JC4N	High Yield United States BB/B Excluding Financials	337	331	356	427
COA3	Bonds rated A United States	105	102	113	119
COA4	Bonds rated BBB United States	154	151	165	187
JUC1	Bonds rated BB United States	275	265	285	359
JUC2	Bonds rated B United States	418	419	448	535
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	156	145	154	170
HYEF	High Yield Emerging Countries	608	615	672	885
EMAQ	Bonds rated A Emerging Countries	113	109	114	120
EM2B	Bonds rated BBB Emerging Countries	225	204	215	239
EM3C	Bonds rated BB Emerging Countries	365	369	392	561
EM6B	Bonds rated B Emerging Countries	694	652	694	953

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

