

# Corporate Credit Monthly Update

## October 2023

### Europe

Eurozone inflation fell to 4.3% compared to the previous month, after peaking at close to 7% in mid-2022. Despite relatively positive progress on this front, the ECB again raised its key interest rates by 25 basis points in September. Europe is on the brink of recession, faced with a rapidly tightening monetary policy and strong headwinds. The major economies are slowing, led by Germany, which is already in contraction. Growth is weighed down by stagnating or even falling real wages across the continent, compounded by fiscal austerity.

Oil prices have reached their highest levels in a year, which has added to the selling pressure on bond markets. There are growing fears among investors that persistent inflationary pressures will force the main central banks to keep interest rates higher and for longer than anticipated. This decline in bonds mainly affected the long end of the curve. The German 10-year Bund ended the month at 2.84%, up 38 basis points from the previous month. Credit spreads tightened slightly during the month across all rating segments. Notably, high yield bonds showed positive performance, significantly outperforming investment grade bonds, which ended the month in negative territory (-0.85%). The European corporate index yield ended the month at 7.39%.

In the United States, inflation indicators continue to move in the right direction, but are still well above the Fed's target. The US economy remains remarkably resilient, even if rate rises are starting to make themselves felt, and there are strong indications of a slowdown in the employment and housing markets. Despite the current strength of the labour market, the figures have begun to deteriorate: unemployment is rising and job vacancies are falling. The housing market is showing further signs of weakness, with both housing starts and new home sales down sharply. Oil prices rose again in September, reaching their highest level for almost ten months. This increase is chiefly attributed to production constraints imposed by the main producing countries, such as Saudi Arabia and Russia. Since these restrictions were announced in June, prices have soared by more than 30%. The US dollar remains strong against other currencies. Following the rejection of a stopgap funding bill by the Republican Speaker of the House of Representatives, September saw the US move closer to the fourth partial government shutdown in the last decade. This uncertainty also depressed sentiment.

Rising interest rates were the main cause of weakness in the US financial markets in September. Sovereign bonds suffered unusual price fluctuations, and the US 10-year yield increased 46 basis points during the month to close at 4.57%. The 2-year and 10-year yield curve remains inverted (-48 basis points), but the gap has tightened by 28 points versus August. Credit spreads widened. The investment grade segment suffered most because of its greater sensitivity to interest rates. The primary market was extremely buoyant throughout the month, with almost USD 24 billion of high yield bonds issued. The yield on the US corporate index stood at 8.30% at the end of the month.

### United States

### Emerging

The economies of emerging countries are generally holding up better than those of developed countries. At the start of the year, many emerging countries benefited from strong global demand together with the relatively high commodity prices that accompanied it. In addition, a handful of countries have benefited from the evolution of global supply chains, as many companies are considering moving part of their production out of China. This trend represents opportunities for countries such as Mexico, Vietnam, Taiwan and India, whose exports have benefited as a result. In China, concerns about economic growth continue to increase, due to weak exports and gloomy news about major property developers, which is destabilising activity in this sector. It is possible that further interest rate cuts and fiscal stimulus could be considered in order to boost growth.

Emerging market corporate bonds had a negative month, although they were less affected than their US peers. The decline has been more moderate, thanks in particular to a shorter duration and a slight tightening of spreads in the region. The yield on the emerging market corporate index closed the month at 10.68%.

*Edited: 10/10/2023*

### AMS Osram (EU)

AMS Osram, a global leader in optical solutions, has released a financing plan to raise a total of EUR 2.25 bn from a capital increase, new corporate bonds, and other financing instruments, in order to cover all projected financing needs until 2025/2026. The plan is designed to strengthen the company's balance sheet for structural growth, with AMS Osram targeting an investment grade profile. Proceeds from the new equity issue will be used to reduce gross and net debt, while proceeds from the new senior unsecured notes will go towards refinancing additional outstanding debt. This is obviously very good news from a bondholder perspective.

### G-III Apparel (US)

G-III, a US apparel manufacturer which owns brands such as Tommy Hilfiger, Karl Lagerfeld, Donna Karan and Villebrequin, reported solid 2Q 2024 results. Net sales of \$659.8m were up +9% YOY and FCF generation improved significantly on the back of strong working capital release. For the first half of FY 2024, the company generated more than \$200m of FCF and its net leverage ratio declined to 2.4x. The company also announced a new licence agreement with HanesBrands to produce an outerwear collection for the Champions brand. G-III raised its guidance for FY 2024, with net sales of \$3.3bn and adjusted EBITDA between \$284m and 289m expected.

### Helios Towers (EM)

Helios Towers, a leading African tower telecom infrastructure player, announced new five-year Term Loan facilities of up to \$600m and a concurrent cash tender offer for up to \$450m of the Senior Notes due in 2025. This announcement supports proactively addressing the maturity of the 2025 Senior Notes and represents an expansion of Helios Towers' banking group. For Q2 2023, Helios Towers reported improved revenue growth of 30% YOY to \$179m and adjusted EBITDA of \$89m, an annualised increase of 28%, boosted by its Omani acquisition and organic growth. EBITDA margin was stable and reported net leverage reduced by 0.3x over the previous quarter to 4.8x.

### Rating moves

Accor	S&P	➔	BBB-
ams OSRAM	Moody's	➔	B2
But	Moody's	➔	B1
Catalent	S&P	➔	B+
Ford Motor	Fitch	➔	BBB-
General Motors	Fitch	➔	BBB
Paprec	S&P	➔	BB
Stena AB	Moody's	➔	Ba3

### Significant Primary Issues

#### Europe

Issuer	Yield	Maturity	Amount	Rating
Piaggio	6.50%	2030	€250M	Ba3
PureGym	10.00%	2028	€475M	B3

#### United States

Issuer	Yield	Maturity	Amount	Rating
Bausch & Lomb	8.375%	2028	\$1.40Bn	B1
NCR Atleos	9.62%	2029	\$1.35Bn	B2

#### Emerging

Issuer	Yield	Maturity	Amount	Rating
Aegea Finance	9.01%	2031	\$500M	BB
We Soda	9.50%	2028	\$800M	B+

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Macro Economic Events

Europe

**Eurozone:** the business climate indicator dipped a little to 93.3 in September. However, it exceeded the market's forecast of 92.5. It now stands at its lowest level since November 2020. This reflects the ongoing impact of inflationary pressures within the region and the ECB's policy tightening, which have continued to weigh on general sentiment.

**Germany:** inflation eased year on year to 4.5% in September, slightly below the market's forecast of 4.6% and well down on the previous month's figure of 6.1%. It now stands at its lowest level since the Ukraine war broke out in February 2022.

**France:** the number of people registered as unemployed climbed by 11,000 from the previous month to reach 2.8 million in August. This is the sharpest increase since unemployment spiked during the Covid-19 pandemic. It takes the jobless total to its highest level this year, suggesting that the labour market is starting to weaken under the impact of the ECB's higher interest rates.

**Portugal:** Fitch raised its credit rating a notch from BBB+ to A-, and kept a "stable" outlook. This change reflects the country's strong repayment ability. Fitch believes the debt-to-GDP ratio will continue to fall, going from 112.4% at the end of 2022 to 104.3% this year, then 96.5% by 2025.

US & EM

**United States:** sales of new single-family houses slumped by 8.7% in annualised terms compared to the previous month, the sharpest fall since September 2022. This is natural at a time when mortgage interest rates are soaring, with the Fed's aggressive policy of rate hikes increasingly affecting the real economy.

**China:** industrial firms' profits fell by -11.7% year-on-year compared to the end of 2022, amid weak demand at home and abroad and persisting margin pressures. This follows a 4% fall in 2022. However, the decrease was less than in July (-15.5%) as political support measures are starting to stabilise certain areas of the economy.

**Mexico:** the central bank decided to leave its benchmark interest rate at a record 11.25% at its September meeting, as was widely expected. This is the fourth month in which the bank has held tight, after raising the cost of borrowing 15 times since June 2021. Annual inflation slowed to 4.44% in mid-September, down from 4.64% in August but still high. The monetary policy objective remains to move inflation towards 3%.

Market Data Indices

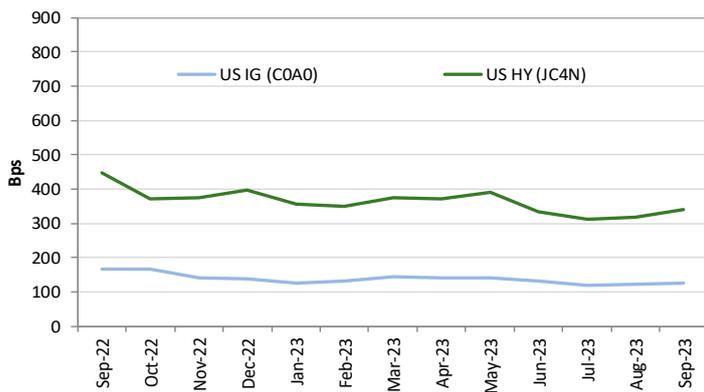
Indices (end of September)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	0.32%	6.11%	3.03	7.55%
JOA0	High Yield United States	-1.17%	5.90%	3.84	8.88%
H7PC	High Yield Europe BB/B Excluding Financials	0.25%	6.63%	2.92	7.39%
JC4N	High Yield United States BB/B Excluding Financials	-1.29%	5.00%	3.92	8.30%
HYEF	High Yield Emerging Countries Excluding Financials	-0.08%	2.65%	3.48	10.68%
Investment Grade					
ER00	Investment Grade Europe	-0.85%	2.34%	4.43	4.49%
COA0	Investment Grade United States	-2.45%	0.45%	6.54	6.08%
EMIC	Investment Grade Emerging Countries	-1.30%	1.27%	5.09	6.21%
Governments					
G4D0	10-Year German Bond	-2.51%	-0.32%		2.84%
G4O2	10-Year US Bond	-3.10%	-2.84%		4.57%

Inflation (end of September)		September	August	July	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	4.30%	5.20%	5.30%	6.90%	9.90%
US CPI	Realized inflation in the United States (rolling 12-month)		3.70%	3.20%	5.00%	8.20%

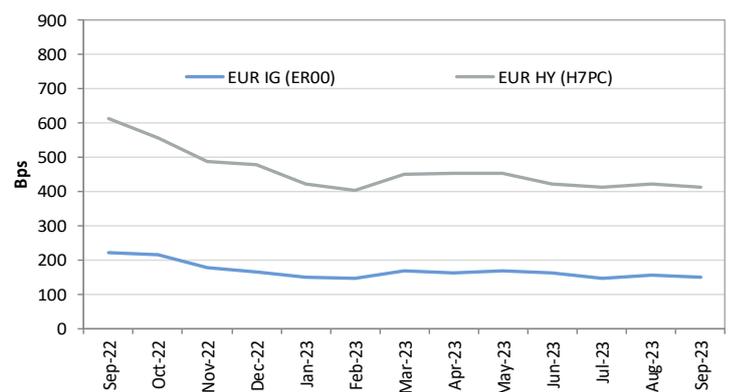
Month-to-date = MTD      Duration-to-worst = DTW  
Year-to-date = YTD      Yield-to-worst = YTW

Source: Merrill Lynch  
Edited: 10/10/2023

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

		September	August	July	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	154	158	150	218
HE00	High Yield Europe	453	462	451	632
H7PC	High Yield Europe BB/B Excluding Financials	421	431	426	611
ER30	Bonds rated A Europe	135	139	132	187
ER40	Bonds rated BBB Europe	179	185	176	258
HE10	Bonds rated BB Europe	353	357	346	512
HE20	Bonds rated B Europe	504	526	528	809
<b>United States</b>					
COA0	Investment Grade United States	127	124	121	168
JOA0	High Yield United States	411	398	395	528
JC4N	High Yield United States BB/B Excluding Financials	353	337	331	456
COA3	Bonds rated A United States	110	105	102	138
COA4	Bonds rated BBB United States	155	154	151	208
JUC1	Bonds rated BB United States	290	275	265	377
JUC2	Bonds rated B United States	434	418	419	578
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	149	156	145	181
HYEF	High Yield Emerging Countries	597	608	615	962
EMAQ	Bonds rated A Emerging Countries	108	113	109	118
EM2B	Bonds rated BBB Emerging Countries	214	225	204	262
EM3C	Bonds rated BB Emerging Countries	362	365	369	627
EM6B	Bonds rated B Emerging Countries	675	694	652	1043

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

