

Corporate Credit Monthly Update

November 2023

Europe

In Europe, macroeconomic indicators continued to reflect the weakness of the eurozone, particularly in Germany and France. The economy slowed further at the start of the fourth quarter, with the PMI index at its lowest level for almost three years. This contrasts with the resilience of the United States. Despite this, the employment market is holding up well. Inflation slowed to 2.9%, reflecting easing pressure on energy and food prices, while economists had forecast a figure of 3.1%. This good news prompted the ECB to temporarily place its interest rate hike on hold. The euro fell against other currencies. October was also marked by a sharp increase in geopolitical risks due to the Israel-Hamas conflict in the Gaza Strip.

Against this backdrop of sluggish growth and falling inflation, European sovereign debt yields remained relatively stable over the month. The German 10-year Bund yield closed the month at 2.80%, down 4 basis points versus the previous month. On the corporate credit front, European markets posted mixed performances, with credit spreads widening across all rating segments. Only the investment grade segment closed in positive territory, up 0.41%. The European corporate index yield ended the month at 7.67%.

In the US, the PMIs exceeded expectations, signalling that the economy remained robust in October. Consumer spending in particular showed remarkable resilience in the face of the Fed's monetary tightening. The labour market is showing some signs of a gradual slackening, but remains solid. The housing market is still under pressure from the surge in interest rates in recent months. In this context, the Fed decided in early November to keep its key rates unchanged. Volatility on the oil markets rose sharply in October against the backdrop of the conflict in the Middle East. The price of Brent crude initially rose by 7.5% before correcting by almost -9%. Events in Gaza are having an impact on global economic sentiment due to the possibility of further escalation and the involvement of the United States or other oil-producing countries such as Iran. Thanks to the resilience of the US economy, the dollar gained against other world currencies. Demand for safe-haven assets also supported the greenback. On the corporate front, third-quarter earnings came in above expectations.

In October, the performance of the various asset classes was negative in the US for the third month running. In particular, the credit markets suffered losses, mainly due to the rise in rates for the longest maturities. The US 10-year yield rose by 36 basis points to end the month at 4.93%. It reached a cycle peak of 5.02% during the month, a level not seen since 2007. The 2- and 10-year yield curves remained inverted for the sixteenth consecutive month. However, the difference at the end of the month was only -16 basis points, its lowest level since September 2022. Spreads widened on the credit markets, with the investment grade segment suffering the most due to its greater sensitivity to interest rates (-1.82%). In addition, the primary market saw a significant reduction in activity. The yield on the US corporate index stood at 8.76% at the end of the month.

United States

Emerging

In emerging countries, inflation is moderating, particularly core inflation, and seems to have passed its peaks. This is partly due to the slowdown in the economies of developed markets. However, there is a significant risk that commodity prices will rise again, a risk of particular note for those countries most vulnerable to fluctuations in food and energy prices. The Chinese economy continues to give cause for concern, with a fall in the PMI index and housing sales, despite the government's stimulus measures.

Faced with all the headwinds, from geopolitical uncertainty to the global economic slowdown, emerging financial markets started the fourth quarter on a sour note. Weaker market sentiment led to a widening of credit spreads, particularly in the high yield segment, and corporate bonds saw a month in the red. The yield on the emerging market corporate index closed the month at 11.27%.

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Tendam (EU)

Spanish fashion retailer Tendam has reported strong Q2 23-24 results, with the positive momentum continuing. Sales rose 5.9% YoY to EUR 363m thanks to the company's successful omni-channel strategy. Adjusted EBITDA was up 13% YoY at EUR 69m, led by sales growth, gross margin improvement and cost savings. The gross margin improved by 20 bps to 60%, led by easing inflation that had affected costs in the prior year, as well as a better stock mix. The adjusted EBITDA margin also strengthened 110 bps to 19.1%. After EUR 10m of capex, free cash flow was a EUR 66m surplus. Reported net debt at end-August 2023 was EUR 359m, down QoQ, but up from EUR 340m at FYE 2022-23. Reported net leverage was 2.1x, down 0.2x from FYE 2022-23. The company signed a new Green Syndicated Loan of EUR 187.5m in July 2023, at +2.5%. Together with cash from the business, this was used to redeem EUR 190m of the existing EUR 300m notes. This will result in EUR 9.6m in interest savings per year. Meanwhile, Tendam confirmed that its shareholders have been contemplating strategic options, including an IPO.

Ford Motor (US)

Ford Motor was upgraded to investment grade by S&P, and its bonds returned to IG indices on 31 October. S&P's upgrade (to BBB- for unsecured bonds) follows Fitch, which made a similar move in early September. The US car manufacturer joins the list of rising stars thanks to a recovery in vehicle production on the back of improving production chain, as well as still-solid demand. Ford was downgraded into the high yield category back in 2019. The upgrade will move a gigantic amount of USD 41bn across Ford Motor and Ford Motor Credit, out of the HY indices.

Nagacorp (EM)

Nagacorp, a leading Cambodia-based casino operator, was granted a loan of USD 80m by its controlling shareholder. Together with cash on hands of USD 324m as of 17 October 2023, the company should be able to repay the USD 404m outstanding of the unsecured notes due in July 2024. In the first nine months of 2023, Nagacorp's gross gaming revenue rose by 12% YoY to USD 379m, reaching only a modest 29% of the pre-pandemic level. This doesn't prevent the company from generating ample cash flow, with net debt improving to USD 175m at end-September (from USD 291m in December 2022).

Rating moves

Almirall SA	S&P	➔	BB
Amgen	Fitch	➔	BBB
Burger King	Moody's	➔	B2
Coty	S&P	➔	BB
Ford Motor	S&P	➔	BBB-
IAG	S&P	➔	BBB-
Parts Holding	S&P	➔	BB-
Rolls-Royce PLC	Fitch	➔	BB
Tui Cruises	Moody's	➔	B2
Victoria PLC	Moody's	➔	B2

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
PHM	11.378%	2026	€265M	B
Valeo	5.881%	2029	€600M	BB+

United States

Issuer	Yield	Maturity	Amount	Rating
NCL Corporation	8.125%	2029	\$790M	BB-
Newfold Digital	11.75%	2028	\$515M	B

Emerging

Issuer	Yield	Maturity	Amount	Rating
Energopro AS	11.00%	2028	\$300M	B+

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Macro-Economic Events

Europe

Eurozone: in October, inflation fell to 2.9% year-on-year. It has achieved its lowest level since July 2021, slightly below the market consensus of 3.1%. The economy shrank by 0.1% over the previous quarter in Q3, coming in below market expectations of stagnation. This was the first contraction since 2020, the year of the Covid-19 pandemic.

ECB: at its October meeting, the European Central Bank kept its interest rates unchanged, rather than opting for a further increase. This decision marks a significant change and reflects a more cautious stance by policymakers, influenced by the gradual easing of pressure on prices and concerns about recession. This pause follows a series of ten consecutive hikes since July 2022, which has taken the interest rate for the main refinancing operations to 4.5%, its highest level for 22 years.

Germany: the consumer confidence index fell for the third month running to -28.1, the lowest figure in seven months. Declining consumer sentiment is mainly due to the rise in food and energy prices, which is weakening household purchasing power. This concern is reflected in a higher propensity to save, which has reached its highest level in over ten years.

United Kingdom: the house price index fell 3.3% in October from a year earlier, whereas the market had been expecting a decline of 4.8%, following a drop in September of 5.3%. Access to affordable housing remains difficult, with interest rates well above the lows seen in 2021.

US & EM

United States: the unemployment rate remained unchanged at 3.8% in September, slightly higher than market expectations of 3.7%. This figure indicates that the labour market remains historically tight, which increases the Fed's leeway to leave borrowing costs at restrictive levels for an extended period.

China: the manufacturing PMI fell to 49.5 in October, compared with 50.6 in September, and falling short of market forecasts of 50.8. This was the first contraction in industrial activity since July and comes in conjunction with a further fall in output that reflects the fragility of the economic recovery. Foreign sales fell for the fourth consecutive month.

Mexico: the second largest economy in Latin America after Brazil recorded annualised growth of 3.3% in the third quarter. GDP increased by 0.9% compared with the previous quarter. Mexico, with its close economic ties with the United States, is hoping to benefit from the trend towards nearshoring, which entails American companies bringing their offshore production closer to home.

Market Data Indices

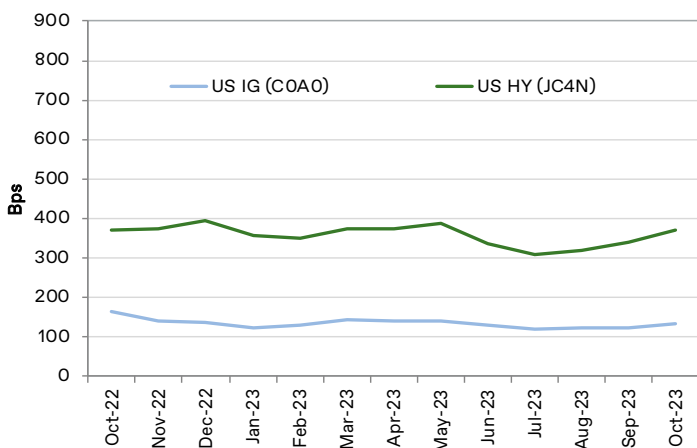
Indices (end of October)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	-0.27%	5.82%	3.02	7.79%
JOA0	High Yield United States	-1.24%	4.59%	3.83	9.42%
H7PC	High Yield Europe BB/B Excluding Financials	-0.18%	6.45%	2.91	7.67%
JC4N	High Yield United States BB/B Excluding Financials	-0.95%	4.00%	3.91	8.76%
HYEF	High Yield Emerging Countries Excluding Financials	-1.38%	1.23%	3.43	11.27%
Investment Grade					
ER00	Investment Grade Europe	0.41%	2.76%	4.39	4.46%
COA0	Investment Grade United States	-1.82%	-1.38%	6.35	6.39%
EMIC	Investment Grade Emerging Countries	-1.16%	0.10%	4.96	6.42%
Governments					
G4D0	10-Year German Bond	0.60%	0.27%		2.80%
G4O2	10-Year US Bond	-1.92%	-4.71%		4.93%

Inflation (end of October)		October	September	August	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.90%	4.30%	5.20%	7.00%	10.60%
US CPI	Realized inflation in the United States (rolling 12-month)		3.70%	3.70%	4.90%	7.70%

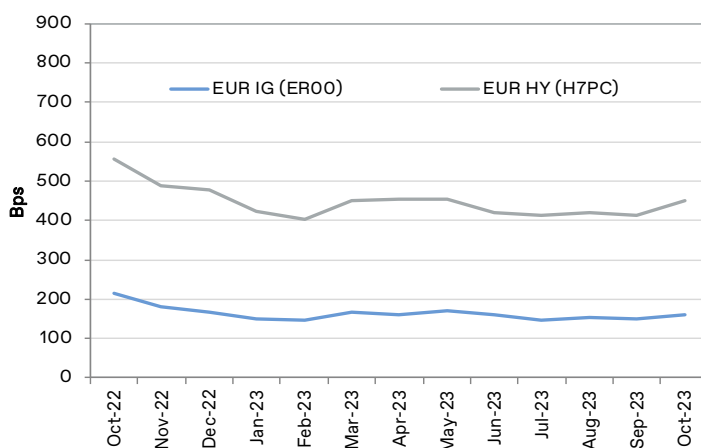
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

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



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		October	September	August	12 months
Europe					
ER00	Investment Grade Europe	161	154	158	215
HE00	High Yield Europe	488	453	462	587
H7PC	High Yield Europe BB/B Excluding Financials	459	421	431	554
ER30	Bonds rated A Europe	142	135	139	181
ER40	Bonds rated BBB Europe	188	179	185	257
HE10	Bonds rated BB Europe	378	353	357	457
HE20	Bonds rated B Europe	556	504	526	732
United States					
COA0	Investment Grade United States	134	127	124	167
JOA0	High Yield United States	446	411	398	458
JC4N	High Yield United States BB/B Excluding Financials	381	353	337	386
COA3	Bonds rated A United States	117	110	105	140
COA4	Bonds rated BBB United States	164	155	154	205
JUC1	Bonds rated BB United States	305	290	275	308
JUC2	Bonds rated B United States	480	434	418	500
Emerging Countries					
EMIC	Investment Grade Emerging Countries	153	149	156	213
HYEF	High Yield Emerging Countries	642	597	608	939
EMAQ	Bonds rated A Emerging Countries	110	108	113	147
EM2B	Bonds rated BBB Emerging Countries	220	214	225	306
EM3C	Bonds rated BB Emerging Countries	410	362	365	620
EM6B	Bonds rated B Emerging Countries	694	675	694	1037

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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