

Corporate Credit Monthly Update

September 2020

The increase in the number of COVID-19 cases across mainland Europe, as a result of the summer holiday period and following the easing of lockdown measures, threatened the European recovery, as can be seen from the economic data. The eurozone PMIs in August suggest a loss of momentum in the recovery, and production in the eurozone is still far below pre-crisis levels. The eurozone fell back into deflation, with consumer prices down by 0.2% in August from one year earlier. The average inflation figure for the 19 eurozone countries has fallen below zero (on an annual basis) for the first time in more than four years.

August is generally a quiet month for bond issues in Europe and this year was no exception. However, movements on the eurozone bond market became more volatile during the second half of August, when investors gradually realised that the coming weeks would see a large volume of bond issues. The 10-year German Bund yield, which was -0.52% at the end of July, rose sharply to -0.40% at the end of the month, close to its level at the beginning of July. The European corporate index yield ended the month at 3.54%.

In the United States, the electoral campaign is now heading into the home stretch ahead of the election on 3 November, against a backdrop of violent clashes, the pandemic and tension between China and the US. The Federal Reserve has updated its monetary policy framework in order, according to it, to better guide the US inflation rate, reach maximum employment, and guard against future economic downturns. The central bank will now target an “average” rate of inflation of 2%, which will enable prices to temporarily exceed this limit.

Companies have continued to take advantage of historically low interest rates to raise funds. Investor appetite for risky assets has moreover been underpinned by encouraging figures for activity in both the manufacturing and services sectors.

In August, US corporate bond issues reached a record level, taking the total of issues since the beginning of the year to USD 1919 trillion, beating the previous record of USD 1916 trillion for the whole of 2017. Credit markets enjoyed another strong month: high yield spreads narrowed again. Against this backdrop, the US corporate index yield stood at 4.50%. The 10-year Treasury yield moved in a range of 20 basis points, i.e. slightly wider than in previous months. Long-term yields have increased, accentuating the slope of the yield curve.

Overall, in August, risky assets performed well on emerging markets. They were supported by improved market sentiment, largely driven by optimism about a possible COVID-19 vaccine. Spreads continued to contract on credit markets (including in Asia). Moreover, emerging market bond issuers were very active. In the middle of what is already a record year, the volume of issues in August was the highest ever recorded for the month of August – a third coming from China.

However, infection rates remain high in the emerging world, which is delaying the recovery and exacerbating fiscal imbalances. In addition, the health crisis is putting pressure on institutions and policy frameworks. After India, Brazil unveiled a historically large fall in its GDP in the second quarter, as did most major global economies. Since March, central banks, including in South Africa, Indonesia and Brazil, have implemented emergency interest rate cuts in an effort to consolidate their economies. Only China has avoided recession. Argentina has reached an agreement with its main creditors on the conditions attached to the restructuring of USD 65 billion of foreign bonds. In this context, the EM corporate index yield stood at 6.97%.

Edited: 16/09/2020

Companies in the Spotlight

Profine

Profine, a German PVC window and door profile systems company, reported strong Q2 2020 results with sales declining by only 17.3% to EUR 144m, while EBITDA increased 2.8% yoy to EUR 22m despite the impact from COVID-19. Germany was not severely affected by COVID-19, with underlying demand remaining healthy. The management said that the strong performance far exceeded its own expectations in light of the pandemic. The positive trend continued in July and the first half of August. The company did not see any defaults by customers and did not experience changes in payment patterns.

Abercrombie & Fitch

Abercrombie & Fitch (A&F) released better-than-expected Q2 2020 results, despite the impact of COVID-19. Second quarter 2020 total sales were USD 698m (-17%), while gross margins expanded 140 bps to 60.7% thanks to good promotion management. Digital sales increased 56% and now account for 55% of sales. Supported by good inventory management and a stretch of payables, A&F generated USD 165m of positive free cash flow. The company is now expected to end 2020 with a negative net debt ratio.

Minerva

Minerva is a South American leader in the production of fresh beef and its by-products. It also has operations in the beef, pork and poultry processing segments. The company reported revenues of BRL 17.1bn (USD 4.2bn) in FY 2019. It is listed on the Brazil Stock Exchange, with a 49.97% free float. Minerva benefits from favourable fundamentals for the sector, given high demand from China (Asia accounts for 50% of Q2 2020 exports). Liquidity is strong, with cash to short-term debt at 3.2x, and cash and cash equivalents of BRL 6.8bn as of Q2 2020. Additionally, the company hedges 50% of its long-term FX exposure to protect its balance sheet.

Significative Primary Issues

EUR				
Issuer	Coupon	Maturity	Amount	Rating
Enel	2.25%	Perp.	€600M	Ba1
Vodafone	3.00%	2080	€1Bn	Ba1
US				
Issuer	Coupon	Maturity	Amount	Rating
Albertsons Cos Service Corp	3.25%	2026	\$750M	BB-
Service Corp	3.375%	2030	\$850M	BB
EM				
Issuer	Coupon	Maturity	Amount	Rating
Melco Resort	5.75%	2028	\$850M	BB
Telecom Argentina	8.50%	2025	\$389M	CCC+

Rating moves

Accor	S&P	▼	BB+
Carnival	Moody's	▼	B1
Casino	Moody's	▼	B3
eDreams Odiego	S&P	▼	B-
Europcar	Moody's	▼	Caa2
Obrascon	Moody's	▼	Caa2
Pearson	Moody's	▼	Baa3
Rolls-Royce	Fitch	▼	BB+
Samsonite	S&P	▼	B
UPC Holding	Moody's	↗	Ba3
Valeo	S&P	▼	BB+

Edited: 16/09/2020

Macro Economic Events

Eurozone: inflation turned negative in August, while unemployment rose in July, against the backdrop of a historic economic shock caused by the coronavirus pandemic. Inflation was -0.2% versus 0.4% in July. The eurozone manufacturing PMI index was stable in August at 51.7.

Germany: the recovery in manufacturing activity continued in August, with production posting its highest growth rate for two and a half years. The sector's PMI index rose to 52.2, after 51 in July, reflecting a growth in activity for the second month in a row.

France: activity in the manufacturing sector in France fell again in August. The PMI index fell to 49.8 from 52.4 in July.

United States: US manufacturing activity continued to pick up in August after the pandemic-related troughs. The manufacturing index rose for the third consecutive month to 56, its highest level since January 2019. The index stood at 54.2 in July.

China: August's activity index showed that production in China increased at its fastest rate for almost 10 years. This index rose from 52.8 in July to 53.1 in August, its highest level since January 2011.

Japan: Shinzo Abe, the Japanese Prime Minister, suddenly resigned for health reasons, a year ahead of the planned date.

Argentina: the country finally reached an agreement, after nine months of negotiations, on the restructuring of its USD 65 billion debt. 93.55% of the main bondholders have accepted the government's offer. The agreement is based on debt relief of 37.7% and a cut in the interest rate from 7% to 3.07%.

Colombia: the central bank cut its key rate by 25 basis points to a new record low of 2%. Following a series of rate cuts over the last six months, this rate has fallen by around 225 basis points since the start of the COVID-19 crisis in March.

Market Data Indices (end of August)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	1.43%	-1.96%	3.75	3.93%
JOA0	High Yield United States	0.99%	0.81%	3.56	5.34%
H7PC	High Yield Europe BB/B Excluding Financials	1.32%	-2.46%	3.64	3.54%
JC4N	High Yield United States BB/B Excluding Financials	0.73%	1.74%	3.61	4.50%
HYEF	High Yield Emerging Countries Excluding Financials	1.93%	1.86%	3.33	6.97%
Investment Grade					
ER00	Investment Grade Europe	0.13%	0.33%	5.23	0.57%
COA0	Investment Grade United States	-1.15%	6.90%	8.16	1.99%
EMIC	Investment Grade Emerging Countries	0.22%	4.42%	5.73	2.27%
Governments					
G4D0	10-Year German Bond	-1.00%	1.61%		-0.40%
G402	10-Year US Bond	-0.83%	11.11%		0.70%

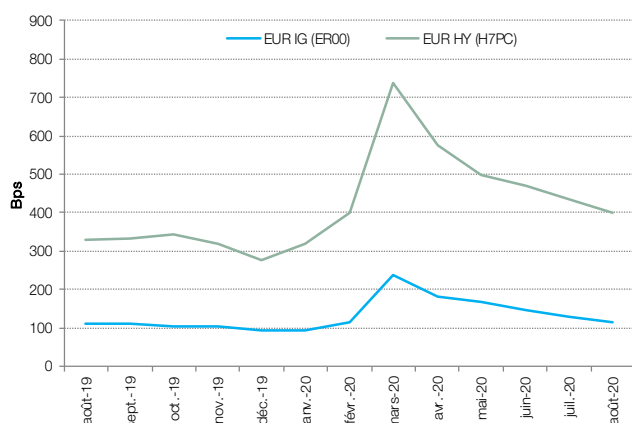
Inflation (end of August)		August	July	June	6M	12M
Expected inflation						
EURO INF	Expected inflation for 2020 in Europe	0.40%	0.40%	0.40%	1.20%	1.30%
US INF	Expected inflation for 2020 in the United States	1.00%	0.90%	0.80%	2.00%	1.80%
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	-0.20%	0.40%	0.30%	1.20%	1.00%
US CPI	Realized inflation in the United States (rolling 12-month)		1.00%	0.60%	2.30%	1.70%

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

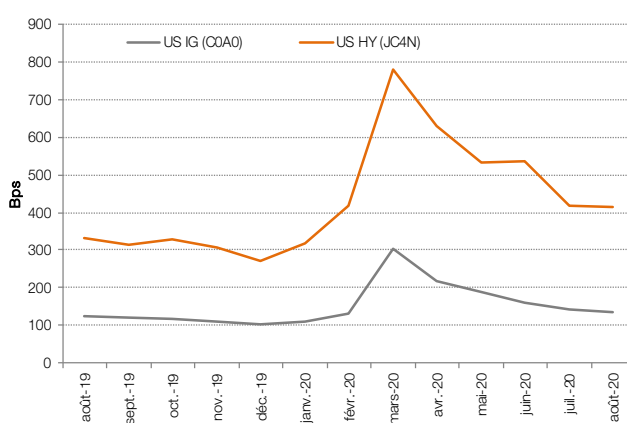
Source : Merrill Lynch

Edited: 16/09/2020

EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		August	July	June	12 months
Europe					
ER00	Investment Grade Europe	114	127	146	110
HE00	High Yield Europe	450	491	524	363
H7PC	High Yield Europe BB/B Excluding Financials	406	441	471	334
ER30	Bonds rated A Europe	92	104	122	90
ER40	Bonds rated BBB Europe	142	159	182	136
HE10	Bonds rated BB Europe	330	366	400	249
HE20	Bonds rated B Europe	582	624	654	547
United States					
C0A0	Investment Grade United States	131	137	155	124
J0A0	High Yield United States	503	519	644	423
JC4N	High Yield United States BB/B Excluding Financials	419	425	541	349
C0A3	Bonds rated A United States	95	99	115	95
C0A4	Bonds rated BBB United States	170	180	201	160
JUC1	Bonds rated BB United States	355	359	471	255
JUC2	Bonds rated B United States	532	552	676	462
Emerging Countries					
EMIC	Investment Grade Emerging Countries	187	204	227	163
HYEF	High Yield Emerging Countries	672	722	775	606
EMAQ	Bonds rated A Emerging Countries	139	153	174	120
EM2B	Bonds rated BBB Emerging Countries	242	264	289	219
EM3C	Bonds rated BB Emerging Countries	461	500	553	378
EM6B	Bonds rated B Emerging Countries	789	849	882	853

Source : Merrill Lynch

Edited: 16/09/2020

Anaxis Asset Management

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@anaxiscapital.com

www.anaxiscapital.com

