Corporate Credit Monthly Update

December 2020

Fresh lockdown measures weighed heavily on economic activity in the eurozone, despite being less severe than those imposed in spring. This had a significant impact on sectors that are highly dependent on tourism and leisure. By contrast, November was a very positive month for risk assets. Credit spreads tightened and high yield outperformed. Peripheral bond yields fell to low levels amid developments on the vaccine front and hopes that the ECB would confirm an increase in its asset purchase programme. Investors are now far more confident that economic growth will recover in the second half of 2021.

Activity on the eurozone primary market remained subdued in November compared with previous years. Supply dropped most among non-financial issuers. This lack of supply reflects the fact that issuers had less need to rely on the market and felt confident in their cash positions. The 10-year Bund yield rose by 6 basis points to end November at -0.57%. Meanwhile, the European corporate index yield ended the month at 2.79%.

The US economy performed well in November despite the resurgence of COVID-19 cases. The month brought positive announcements regarding the effectiveness of COVID-19 vaccines and the results of the presidential elections, which reinforced a sense of optimism about the economic outlook. This resulted in an impressive spike in risk appetite. At present, it seems likely that the country will be governed by a Democratic White House and a Republican-majority Senate for the next two years. Negotiations in the US Congress about new fiscal stimulus measures showed little sign of progress and it is far from certain that a deal will be done in the near future. Democrats and Republicans remain divided on the scale and aims of such measures. Government bond yields were volatile throughout the month. The US 10-year benchmark yield fell by 3 basis points to 0.84% despite major intraday swings linked to the US elections and vaccine news.

The US yield curve barely changed in November, with inflation low and the Federal Reserve staying out of the spotlight. Credit spreads on investment grade and high yield corporate bonds tightened significantly over the month relative to previous highs, despite still being an attractive source of value. The US corporate index yield stands at 4.08%.

In terms of emerging markets, 10 ASEAN countries, plus another five from the Asia-Pacific region, signed the world's largest trade deal in terms of GDP. This free-trade agreement should foster economic growth across a region that is still feeling the effects of the COVID-19 pandemic. The economic recovery is ongoing in emerging markets, with China leading the way.

Bonds denominated in strong currencies rose by 3.9% and corporate bonds by 2.7%; high yield was the main driver behind both trends. EM inflows, coupled with a significant narrowing of credit spreads on these markets, demonstrated that there was still considerable appetite for risk assets. Portfolio flows into emerging markets stood at USD 76.5 billion in November, USD 36.7 billion of which was accounted for by debt instruments. In this context, the EM corporate index yield stood at 6.37%.

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9, rue Scribe 75009 Paris, France
Rue du Mont-Blanc 19, 1201 Geneva, Switzerland
Level 17 Dashwood House, 69 Old Broad Street, EC2M 1QS London
Tel: +33 (0)9 73 87 13 20
Tel: +41 (0)22 716 18 20
Tel: +44 (0)20 7786 3506
Fax: +33 (0)1 42 65 80 46
Fax: +41 (0)22 716 18 29
Fax: +44 (0)20 7786 3507
www.anaxiscapital.com

Companies in the Spotlight

CMA CGM

CMA CGM, the French worldwide container shipping group, has released solid results for Q3 and 9M/20, driven by strong volume recovery in Q3, steady freight rates and operational/cost efficiencies. Overall revenues for Q3 were up approx. 9% YoY, while EBITDA of USD 1.7 bn was up 68% YoY. Going forward, management believes that maritime activity has stabilised, with momentum for the LatAm and US trade lanes, which points to another strong quarter in Q4/20. Taking this and the impact of cost actions into consideration, CMA expects further improvement in the EBITDA margin this quarter.

G-III

G-III designs, sources and markets women's and men's apparel at a wide range of retail price points. It has a substantial portfolio of more than 30 licensed and proprietary brands, anchored by five global power brands: DKNY (owned brand), Donna Karan (owned brand), Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. In FY2020 (Jan 2020), G-III's revenues amounted to USD 3.16 bn and it generated an adjusted EBITDA of USD 379 m. Despite suffering from Covid this year, the company managed its inventory well and achieved positive Free Cash Flow during the 1st semester of its 2021 fiscal year. Going forward, we expect the company to continue generating positive FCF and maintain a net leverage ratio in the 2x-2.5x range (in 2022 and thereafter).

Auna

Auna SAA is one the largest private players in the Peruvian healthcare industry, with vertically integrated oncology services and a growing network of hospitals, day clinics and facilities offering complementary health services in Peru and Colombia. The group reported consolidated revenues and EBITDA of PEN 1.3 bn (USD 377 m) and PEN 188 m (USD 53 m) as of LTM Q2/20. In late November, Auna SAA issued an inaugural USD 300 m senior note with a coupon of 6.5%.

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
United Group	4.00%	2027	EUR 400M	B2

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Carnival Corp.	7.625%	2026	$1.45Bn	B2
Veritas	7.50%	2025	$750M	B2

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Auna SAA	6.50%	2025	$300M	B+
Total Play	7.50%	2025	$575M	B2

Rating moves

Accor	Fitch	↘	BB+
Azzurra Aeroporti	Moody's	↘	Ba1
Boparan	S&P	↗	B-
Catalent	Moody's	↗	Ba3
Engie	Moody's	↘	Baa1
Ericsson	S&P	↗	BBB-
Heathrow	Moody's	↘	Ba2
ISS Group	S&P	↘	BBB-
Lufthansa	S&P	↘	BB-
Masmovil	S&P	↘	B+
Pfizer	S&P	↘	A+
SAS	Moody's	↗	B3
Sunrise Com.	Fitch	↘	BB-
Telefonica	S&P	↘	BBB-

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Tel: +41 (0)22 716 18 20
Tel: +44 (0)20 7786 3506

Fax: +33 (0)1 42 65 80 46
Fax: +41 (0)22 716 18 29
Fax: +44 (0)20 7786 3507

www.anaxiscapital.com

Macro Economic Events

Eurozone: Hungary and Poland opposed the approval of the post-COVID-19 recovery plan, much to the dismay of their European neighbours, which had to exert pressure on these two countries. Blocking the EU budget was at the heart of these discussions owing to provisions regarding respect for the rule of law, which Hungary and Poland saw as a threat to their sovereignty.

ECB: Christine Lagarde stated that the COVID-19 vaccine would have no impact on the European Central Bank’s recovery plans, which should continue to provide substantial support to the European credit market.

France: consumer prices rose by 0.22% in November, once adjusted for seasonal variations, relative to the previous month, whereas they had fallen by 0.04% in October. Harmonised inflation went from 0.1% in October to 0.3% in November, which was the highest inflation rate since July. The annual average harmonised inflation remained at 0.7%.

United-Kingdom: Prime Minister Boris Johnson and the President of the European Commission, Ursula von der Leyen, agreed to meet to try to overcome the roadblocks in the trade talks before the end of the year, which coincides with the end of the Brexit transition period.

United States: the unemployment rate stood at 6.7% in November, which was a slight fall compared with the previous month (6.9%). However, it is important to note that this figure does not fully reflect the scale of unemployment since it does not include people who have dropped out of the labour market and are not actively looking for a job.

China: the PMI went from 51.4 in October to 52.1 in November. November’s reading reflects significant gains in terms of manufacturing and new orders. There was a major improvement in stock levels, too, although job creation saw a more modest rise. However, suppliers’ delivery times lengthened over the month.

Turkey: a presidential decree was issued stating that the central bank governor would be replaced by the former finance minister, Naci Agbal, after the lira hit a record low. The finance minister resigned one day after the president made this decision amid a worsening economic crisis. At the first meeting under the leadership of Naci Agbal, on 19 November, the Monetary Policy Committee of the Central Bank of Turkey raised the key rate by a massive 475 basis points from 10.25% to 15%.

Market Data Indices (end of November)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	4.33%	1.92%	3.56	3.04%
J0A0	High Yield United States	3.97%	4.21%	3.47	4.66%
H7PC	High Yield Europe BB/B Excluding Financials	4.10%	1.17%	3.49	2.79%
JC4N	High Yield United States BB/B Excluding Financials	3.52%	4.47%	3.56	4.08%
HYEF	High Yield Emerging Countries Excluding Financials	3.92%	5.08%	3.29	6.37%
Investment Grade					
ER00	Investment Grade Europe	1.02%	2.49%	5.32	0.25%
C0A0	Investment Grade United States	2.67%	9.27%	8.33	1.84%
EMIC	Investment Grade Emerging Countries	1.40%	5.93%	5.92	2.15%
Governments					
G4D0	10-Year German Bond	-0.47%	2.79%		-0.57%
G402	10-Year US Bond	0.29%	10.28%		0.84%

Inflation (end of November)						
Expected inflation		November	October	September	6M	12M
EURO INF	Expected inflation for 2020 in Europe	0.30%	0.30%	0.40%	0.40%	1.20%
US INF	Expected inflation for 2020 in the United States	1.20%	1.20%	1.10%	0.80%	1.80%
Realized inflation		November	October	September	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	-0.30%	-0.30%	-0.30%	0.10%	1.00%
US CPI	Realized inflation in the United States (rolling 12-month)		1.20%	1.40%	0.10%	2.10%

**MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst* *Source : Merrill Lynch*

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Tel: +44 (0)20 7786 3506 Fax: +44 (0)20 7786 3507
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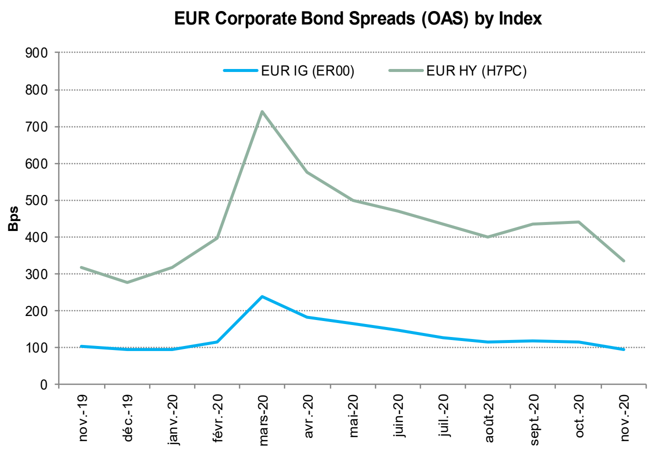

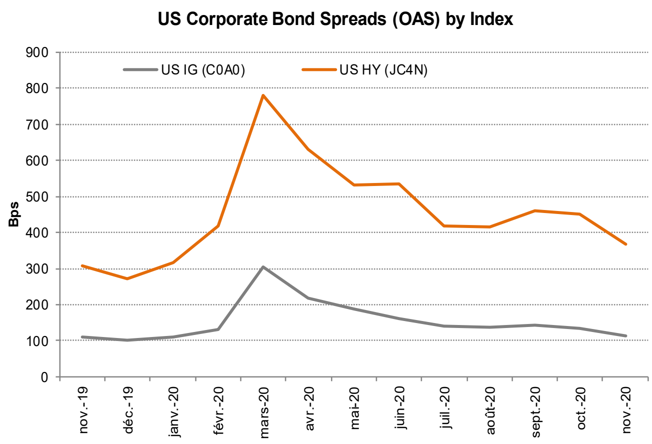

Corporate Bond Spreads		November	October	September	12 months
Europe					
ER00	Investment Grade Europe	94	115	117	103
HE00	High Yield Europe	376	486	477	356
H7PC	High Yield Europe BB/B Excluding Financials	342	444	439	324
ER30	Bonds rated A Europe	77	96	96	85
ER40	Bonds rated BBB Europe	115	141	146	127
HE10	Bonds rated BB Europe	283	366	363	248
HE20	Bonds rated B Europe	488	644	618	500
United States					
C0A0	Investment Grade United States	107	128	139	110
J0A0	High Yield United States	431	529	542	413
JC4N	High Yield United States BB/B Excluding Financials	373	458	467	324
C0A3	Bonds rated A United States	80	94	103	83
C0A4	Bonds rated BBB United States	137	164	178	142
JUC1	Bonds rated BB United States	311	388	400	235
JUC2	Bonds rated B United States	473	574	578	433
Emerging Countries					
EMIC	Investment Grade Emerging Countries	169	182	193	152
HYEF	High Yield Emerging Countries	609	702	709	518
EMAQ	Bonds rated A Emerging Countries	130	137	145	115
EM2B	Bonds rated BBB Emerging Countries	217	235	250	200
EM3C	Bonds rated BB Emerging Countries	394	452	473	330
EM6B	Bonds rated B Emerging Countries	796	914	884	594

Source : Merrill Lynch

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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