

Corporate Credit Monthly Update

April 2021

In the eurozone, numerous countries are coming to grips with a third wave of COVID-19 infections, which in some regions has led to tighter restrictions. The vaccination programme is lagging behind those in the United States and the United Kingdom.

The fall in the bond market in Q1 reflected stronger global growth, upward pressure on yields and the prospect of higher inflation. Data have shown inflation in the eurozone is rising, which has prompted investors to shun government debt. Consumer prices increased in the zone by 1.3% in March: German inflation hit its highest level since 2019, at 2%, whereas Italy saw the opposite trend, with its inflation rate falling over the month. In an interview given by Christine Lagarde, President of the ECB, she was reassuring and stated that the upward pressure on prices will be short-lived. Against this backdrop, the German 10-year yield rose from -0.57% to -0.33%. The European corporate index yield narrowed by 7 basis points, closing the month at 2.51%.

The big winner in the recovery race among the developed economies is the United States, thanks to an effective vaccination programme and significant fiscal stimulus. In addition to the latest USD 1.9 trillion Congress relief bill, another for USD 2.2 trillion has been put forward. The emphasis this time is on investments in infrastructure, mainly through an increase in corporate taxes. This bill has further improved investor sentiment, although it is unclear to what extent it will be passed. These stimulus packages and optimism on the economic recovery pushed bond yields to pre-pandemic levels in March, leading to another significant steepening of the Treasury bill curve.

The dollar rallied as a result. The US 10-year benchmark yield reached a new high of 1.78% in the last week of March to close the month at 1.74%. US corporate bond issues totalled almost USD 600 billion in the first quarter of the year. The US corporate index yield remained relatively stable at 3.88%.

For most emerging countries, the COVID-19 vaccination campaign will be properly rolled out in the second half of this year and in 2022, and growth prospects differ from region to region.

In the bond markets, EM debt took a beating. Q1 performance reflected the sharp rise in US Treasury bond yields and the strengthening of the dollar, on the back of the improving economic outlook in the US. High yield bonds continued to outperform, while those most sensitive to US interest rates (i.e. investment grade sovereign bonds) underperformed due to their longer duration profile and tight spreads. These characteristics have made these bonds vulnerable to rising yields. However, emerging markets are benefiting from favourable trends, and there are countries and sectors that offer real opportunities. Emerging corporate credit fundamentals remain strong, with better debt ratios, default rates, income and cash levels than in developed markets. The EM corporate index yield stood at 6.19%.

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Companies in the Spotlight

Douglas

Douglas, the perfume retailer, recently completed the refinancing of its entire capital structure with the issuance of EUR 1.3bn in 5y senior secured notes and EUR 475m in 5.5y senior unsecured PIK notes, while shareholders provided an equity injection of EUR 220m. This is clearly a positive outcome for a retailer that saw store closures in Europe with a highly leveraged balance sheet. Still, the group has made a successful shift towards an integrated multichannel premium beauty retailer, which is expected to further boost growth in the future and lead to some deleveraging.

Mattel Inc.

The leading producer of toys benefited from a two-notch upgrade by both Moody's and S&P in March. The upgrades reflect solid progress on the company's multi-year turnaround plan with improved margins, operating profit, free cash flow and leverage. At the issuer level, Mattel is now rated Ba2 by Moody's and BB by S&P, with a stable outlook. Mattel took the opportunity to issue \$1.2bn in new senior unsecured notes in 5 and 8-year tranches, to refinance short-dated bonds. We believe Mattel is a credible rising star candidate in 2022.

PT Japfa Comfeed

PT Japfa Comfeed, priced \$350 million in senior fixed-rate sustainability-linked bonds with a 5.375% coupon maturing in 2026 (NC3). Net proceeds will be used to repay the existing SN due in 2022, and to finance capex linked to the construction of nine water recycling facilities for poultry operations. The coupon will be subject to a one-time 25 bps step-up in case the issuer doesn't comply with the objective set in terms of recycled water use. In H2 2020, Japfa Comfeed posted solid results, with net debt/EBITDA ratio lower at 1.7x and adjusted EBITDA margin flat at 11.1%.

Significative Primary Issues

EUR				
Issuer	Coupon	Maturity	Amount	Rating
Gamma Bidco	5.125%	2025	EUR 570M	B1
Kirk Beauty	6.00%	2026	EUR 1.3Bn	B3
US				
Issuer	Coupon	Maturity	Amount	Rating
American Airlines	5.50%	2026	\$3.5Bn	Ba2
NCR Corp	5.125%	2029	\$1.2Bn	B3
EM				
Issuer	Coupon	Maturity	Amount	Rating
Car Inc	9.75%	2024	\$250M	B-
Cliffon (Delhi Airport)	6.25%	2025	\$450M	Ba3

Rating moves

AP Moller Maersk	Moody's	↗	Baa2
CMA CGM	Moody's	↗	B1
Diamond BC	S&P	↗	B
EDP	S&P	↗	BBB
Engie	Fitch	↘	A-
Hapag-Lloyd	Moody's	↗	Ba2
JC Decaux	Moody's	↘	Baa3
Kirk Beauty (Douglas)	Moody's	↗	B3
RWE	Fitch	↗	BBB+
SAS	Moody's	↘	Caa1
Schaeffler	Fitch	↘	BB+

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Macro Economic Events

Eurozone: the services confidence indicator rose 7.7 points from February 2021 to -9.3 in March, its highest level since April 2020. This reflects the first strong improvement in morale since September 2020, driven by more optimistic expectations of demand.

ECB: the Central Bank announced that it would step up the pace of its debt securities purchases as part of its pandemic programme (PEPP) in the next quarter. This upholds its commitment to keeping the region's borrowing costs under control, in order to prevent a rise in bond yields from derailing economic recovery in the 19 eurozone countries.

Germany: Consumer price inflation is expected to reach 1.7% YOY in March 2021, the highest rate since February 2020. Goods prices are forecast to grow at a faster pace, driven by rising energy costs and larger increases in food prices, while inflation in services is expected to accelerate from 1.4% to 1.6%. These data evidence a gradual recovery in domestic demand.

France: The consumer confidence index rose from 91 in February to 94 in March 2021, despite increased COVID-19 cases and health restrictions. These data are in line with market forecasts. Sentiment improved on the personal financial situation, future standard of living, unemployment and the chances of saving. Nevertheless, the confidence index remains below the long-term average of 100.

United States: President Joe Biden announced a USD 2.25 trillion infrastructure plan over eight years, which includes USD 621 billion for transportation, USD 580 billion for manufacturing and USD 400 billion for elderly and disabled care. To fund the plan, the Biden administration has proposed raising corporate taxes from 21% to 28% and increasing taxes on corporations' foreign profits. These proposals are expected to meet strong opposition from Republicans, however, because of the tax hikes.

China: the general manufacturing PMI unexpectedly fell to 50.6 in March 2021, from 50.9 a month earlier; market expectations were 51.3. This is the lowest figure since April 2020, and an indication that the post-epidemic recovery might falter. Production and new orders grew at lower rates, while the employment level stabilised.

Market Data Indices (end of March)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.53%	1.55%	3.55	2.62%
JOA0	High Yield United States	0.16%	0.81%	3.68	4.21%
H7PC	High Yield Europe BB/B Excluding Financials	0.48%	1.21%	3.48	2.51%
JC4N	High Yield United States BB/B Excluding Financials	0.03%	0.30%	3.80	3.88%
HYEF	High Yield Emerging Countries Excluding Financials	-0.76%	-0.44%	3.31	6.19%
Investment Grade					
ER00	Investment Grade Europe	0.20%	-0.71%	5.36	0.35%
COA0	Investment Grade United States	-1.39%	-4.49%	7.92	2.30%
EMIC	Investment Grade Emerging Countries	-0.68%	-1.87%	5.82	2.34%
Governments					
G4D0	10-Year German Bond	0.33%	-1.79%		-0.29%
G402	10-Year US Bond	-1.98%	-5.81%		1.74%

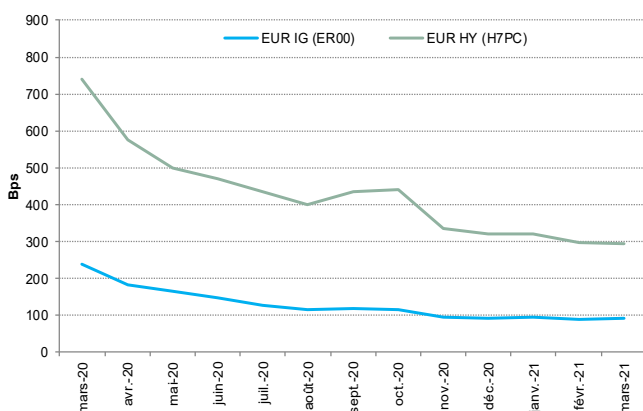
Inflation (end of March)		March	February	January	6M	12M
Expected inflation						
EURO INF	Expected inflation for 2021 in Europe	1.50%	1.30%	0.90%	0.40%	1.00%
US INF	Expected inflation for 2021 in the United States	2.40%	2.20%	2.10%	1.10%	1.70%
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	1.30%	0.90%	0.90%	-0.30%	0.70%
US CPI	Realized inflation in the United States (rolling 12-month)		1.70%	1.40%	1.40%	1.50%

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

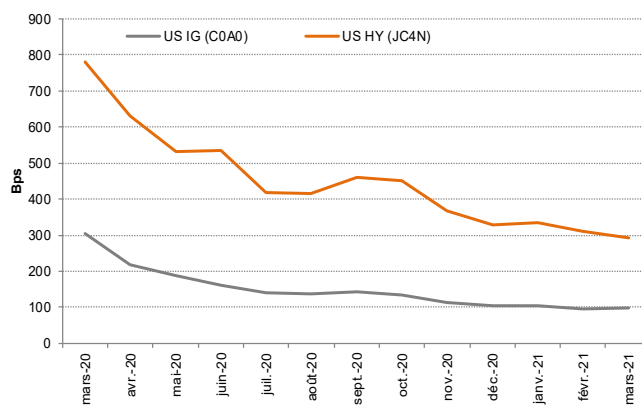
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		March	February	January	12 months
Europe					
ER00	Investment Grade Europe	90	88	94	236
HE00	High Yield Europe	322	331	355	754
H7PC	High Yield Europe BB/B Excluding Financials	301	304	328	735
ER30	Bonds rated A Europe	76	74	79	207
ER40	Bonds rated BBB Europe	106	106	112	279
HE10	Bonds rated BB Europe	250	254	274	574
HE20	Bonds rated B Europe	422	430	457	1130
United States					
C0A0	Investment Grade United States	91	89	97	302
JOA0	High Yield United States	347	368	384	871
JC4N	High Yield United States BB/B Excluding Financials	311	329	343	780
C0A3	Bonds rated A United States	69	66	74	230
C0A4	Bonds rated BBB United States	114	113	122	391
JUC1	Bonds rated BB United States	260	272	286	654
JUC2	Bonds rated B United States	394	419	436	979
Emerging Countries					
EMIC	Investment Grade Emerging Countries	141	139	152	349
HYEF	High Yield Emerging Countries	560	539	560	1204
EMAO	Bonds rated A Emerging Countries	105	105	118	235
EM2B	Bonds rated BBB Emerging Countries	183	181	194	491
EM3C	Bonds rated BB Emerging Countries	361	348	358	844
EM6B	Bonds rated B Emerging Countries	748	672	727	1424

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.



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