

# Corporate Credit Monthly Update

## October 2021

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The Delta variant of COVID-19 continues to circulate in the eurozone, but hospitalisations and deaths have declined from recent peaks. As regards the economy, the ECB has adopted a more optimistic tone than the Fed and the BoE regarding the likelihood of a hike in interest rates. It has indicated that it does not wish to endanger the still fragile economic upturn by tightening its monetary policy too soon.

Energy prices have soared in Europe in recent weeks as a result of supply chain disruptions. Eurozone government bond yields have risen on the back of these inflation fears. The German 10-year Bund yield gained 18 basis points over the month to close at -0.20%. This move had a negative impact on longer-term assets. A number of factors combined to put pressure on European debt during the second part of the month: high volume of new issues, a less accommodative stance by the Fed and the realisation that there could be a continued and sustained rise in inflation for a longer period than expected. Against this backdrop, the European corporate index yield rose by 14 basis points, closing the month at 2.55%.

Inflationary worries are running high in the US. At its September meeting, the Fed indicated that it may start to reduce its stimulus measures earlier than forecast, and that interest rates could rise from 2022. It also reduced its growth forecasts and raised its projections for inflation for this year. At the same time, tensions remain high in the labour market, with a rise in new claims for unemployment benefits in September.

In addition, the US government was struggling with two issues at the end of September: preventing a government shutdown and a potential default on its debt. A critical situation was avoided by the adoption of a last-minute bill. The 10-year Treasury yield broke through the 1.50% barrier to hit a three-month high, and closed the month up 19 basis points at 1.49%. The US corporate index yield rose by 16 basis points to close at 3.70%.

In emerging countries, uncertainty surrounding interest payments on the dollar-denominated debt of Evergrande, China's second largest real estate developer, incited caution in the markets, particularly in light of the risk of repercussions from this potential payment default for the rest of the Chinese economy and the global financial system. These fears of contagion and measures taken by the Chinese government to tighten credit terms in the real estate segment resulted in volatility in all markets, not just in Asia.

Emerging market corporate bonds declined in September, by 0.86% in the investment grade segment and by 2.60% in the high yield segment, with Asian debt underperforming. In this context, the EM corporate index yield stood at 7.52% at the end of the month, up 93 basis points.

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## Companies in the Spotlight

**Grifols**

In September, Spanish pharmaceutical group Grifols announced the acquisition of Biotest, specialized in hematology and immunology solutions derived from blood plasma, for an EV of EUR 2 billion including a EUR 313 million shareholder loan. While the acquisition price appears expensive at 19x EBITDA, Grifols expects a significant ramp-up in Biotest's operating earnings in the coming years from the launch of new products and cost-saving synergies. As part of the debt financing, Grifols issued two bonds.

**Solenis**

Solenis issued USD 1.4 billion equivalent senior secured notes and USD 1.0 billion equivalent unsecured notes to partially finance its takeover by Platinum Equity (for an EV of USD 5.3 billion). Solenis will be combined with Sigura to create a global leader in water treatment services. The company has a track record of strong free cash flow generation and offers innovative products. The business takes a comprehensive approach to its own ESG compliance, while also focusing on addressing clients' environmental and sustainability needs.

**Bidvest**

Bidvest is a leading B2B services, trading and distribution group operating through two broad categories of operations, namely business services (facility management, freight and financial products), and trading and distribution (branded products, commercial products and automotive). The company, founded in 1988 and headquartered in Johannesburg, South Africa, employs 120,000 people. It is listed on the JSE with a market capitalization of USD 4.8 billion. Bidvest targets a blend of defensive, cyclical and growth assets with asset-light businesses that are highly cash generative and established markets players with identifiable opportunities to scale.

## Significative Primary Issues

**EUR**

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Europcar	3.00%	2026	EUR 500M	B2
Grifols	3.875%	2028	EUR 1.4Bn	B3

**US**

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Caesars Entmt.	4.625%	2029	\$1.20Bn	CCC+
Coinbase	3.375%	2028	\$1.00Bn	BB+

**EM**

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Adani Green Energy	4.375%	2024	\$750M	Ba3
Bidvest Group	3.625%	2026	\$800M	Ba2

## Rating moves

AP Moller Maersk	S&P	↗	BBB+
ArcelorMittal	Fitch	↗	BBB-
Atos	S&P	↘	BBB-
CMA CGM	Moody's	↗	Ba3
Coty	Moody's	↗	B2
Ecore	Fitch	↗	B
Europcar	Moody's	↗	Caa1
Grifols	Moody's	↘	B1
Kion Group	Fitch	↗	BBB
MasMovil	Moody's	↘	B2
SIG Combibloc	Moody's	↗	Ba1

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## Macro Economic Events

**Eurozone:** annual inflation is likely to reach 3.4% in September, versus 3% in the previous month and slightly ahead of market expectations of 3.3%. This represents the highest inflation rate since the global financial crisis of September 2008, raising worries as to the ECB's position. The central bank still believes that recently soaring prices are temporary, and that the economy needs reduced borrowing costs.

**Germany:** the PMI stood at 55.5 in September. Momentum continued to wane in manufacturing (58.4 versus 62.2 in August) and services (56.2 versus 60.8). The upturn in private sector employment also weakened due to this slowdown in economic growth rates.

**France:** the consumer confidence indicator rose by 3 points to a 3-month high of 102 in September, ahead of the market consensus of 100. The share of households that believe living standards will improve over the coming twelve months jumped by 11 points, and the proportion that think it improved over the last twelve months rose by 7 points.

**United States:** the Chicago Business Barometer fell to 64.7 in September 2021, the lowest level since February, and a decline from 66.8 in August. The Order Backlogs indicator saw the sharpest fall, followed Supplier Deliveries and New Orders.

**China:** the central bank injected liquidity into the banking system in September. This underlines the authorities' intention of soothing fears of contagion from the situation of debt-ridden real estate developer Evergrande. The company will be in a position to settle interest payments on one of its domestic bonds.

**Brazil:** as part of its programme to combat rampant inflation and tighten monetary policy, the central bank raised interest rates by 100 basis points to 6.25% (the fifth hike in 2021), and announced an additional increase of the same magnitude for its next meeting.

Market Data Indices (end of September)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-0.09%	3.69%	3.42	2.55%
JOA0	High Yield United States	0.02%	4.55%	3.80	4.02%
H7PC	High Yield Europe BB/B Excluding Financials	-0.13%	3.12%	3.35	2.55%
JC4N	High Yield United States BB/B Excluding Financials	-0.04%	3.82%	3.88	3.70%
HYEF	High Yield Emerging Countries Excluding Financials	-2.58%	-1.78%	3.63	7.52%
Investment Grade					
ER00	Investment Grade Europe	-0.66%	-0.36%	5.33	0.34%
COA0	Investment Grade United States	-1.06%	-1.12%	8.17	2.14%
EMIC	Investment Grade Emerging Countries	-0.86%	0.05%	6.16	2.29%
Governments					
G4D0	10-Year German Bond	-1.52%	-2.49%		-0.20%
G402	10-Year US Bond	-1.70%	-3.53%		1.49%

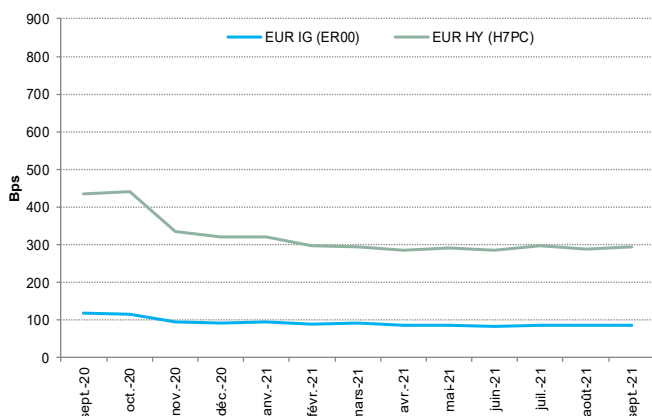
Inflation (end of September)		September	August	July	6M	12M
Expected inflation						
EURO INF	Expected inflation for 2021 in Europe	2.20%	2.00%	1.90%	1.50%	0.40%
US INF	Expected inflation for 2021 in the United States	4.30%	4.20%	3.80%	2.45%	1.10%
Realized inflation		September	August	July	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	3.40%	3.00%	2.20%	1.30%	-0.30%
US CPI	Realized inflation in the United States (rolling 12-month)		5.30%	5.40%	2.60%	1.40%

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

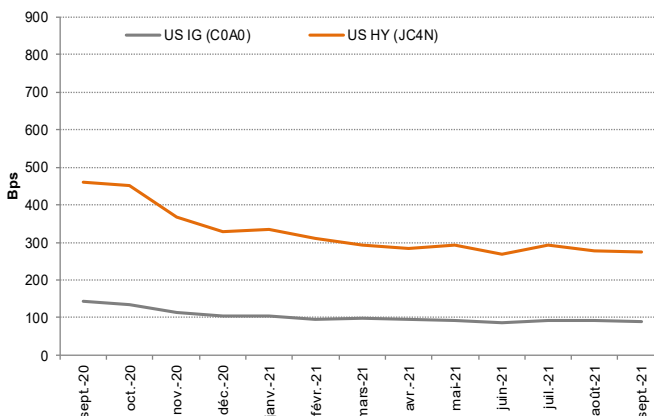
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		September	August	July	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	84	85	85	117
HE00	High Yield Europe	314	312	321	477
H7PC	High Yield Europe BB/B Excluding Financials	301	298	305	439
ER30	Bonds rated A Europe	72	73	72	96
ER40	Bonds rated BBB Europe	97	99	99	146
HE10	Bonds rated BB Europe	243	240	251	363
HE20	Bonds rated B Europe	422	418	432	618
<b>United States</b>					
C0A0	Investment Grade United States	84	88	87	139
JOA0	High Yield United States	324	326	338	542
JC4N	High Yield United States BB/B Excluding Financials	291	292	307	467
C0A3	Bonds rated A United States	65	68	68	103
C0A4	Bonds rated BBB United States	106	110	109	178
JUC1	Bonds rated BB United States	235	235	248	400
JUC2	Bonds rated B United States	383	387	403	578
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	134	134	148	193
HYEF	High Yield Emerging Countries	683	606	649	709
EMAO	Bonds rated A Emerging Countries	100	102	108	145
EM2B	Bonds rated BBB Emerging Countries	176	174	196	250
EM3C	Bonds rated BB Emerging Countries	392	347	381	473
EM6B	Bonds rated B Emerging Countries	867	709	873	884

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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