

# Corporate Credit Monthly Update

## November 2021

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In the eurozone, the ECB maintained its stimulus measures at its October meeting. The economy continues to grow thanks to the vaccine rollout and the strength of household spending. However, supply shortages and strong price pressure could restrict the momentum of the recovery. Europe continues to be affected by the energy crisis and raw materials shortages in the manufacturing sector.

The German 10-year Bund yield gained 9 basis points over the month to close at -0.11%. This move proved to be a drag on European credit assets. The European high-yield segment suffered in particular and saw some weakness in October. However, the bond market continues to see record new issue volumes, with many companies coming to the market for the first time. Although uptake for these primary issues was generally good, they were a burden on the secondary market. Against this backdrop, the European corporate index yield rose by 35 basis points, closing the month at 2.90%.

In the US, growth slowed significantly during the third quarter. This slowdown was due to the current wave of Delta variant infections, which started this summer, and the global shortages that have affected many products. The Fed is trying to strike a balance between the need to control inflation and the need to give the economy as much time as possible to recover, in particular, in order to enable the employment market to return to pre-pandemic levels.

Bond markets had a volatile month. The US 10-year yield reached nearly 1.70% during the month, and closed at 1.55%, up 6 basis points versus the previous month. On the corporate debt side, investors focused, on the one hand, on positive third quarter corporate earnings reports and, on the other hand, on worries related to the slowdown of economic growth, inflationary pressures and persistent supply-chain issues. Investors also expect the Fed to start to reduce its stimulus measures in November. The primary market was active, with USD 108 billion of new US bond issues in October. The US corporate index yield gained 23 basis points to end the month at 3.93%.

In emerging countries, inflation was significantly higher than expected in October, against the backdrop of a slowdown in global economic growth. Raw materials prices continued to rise. The causes of these inflationary pressures persist, notably global supply chain constraints and labour market tightness.

Long-term interest rates continued to rise, with central banks moving towards tightening their monetary policies. EM corporate credit markets again had a difficult month, with China in the grips of both an energy crisis and a financial crisis, with the difficulties of the real estate developer Evergrande. In this context, the EM corporate index yield stood at 8.49% at the end of the month, up 97 basis points.

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## Companies in the Spotlight

**Dufry**

Travel retailer Dufry reported Q3 2021 revenue figures which, despite being below 2019 levels, showed a strong sequential improvement, driven by the continued easing of travel restrictions worldwide as vaccination campaigns continue to be rolled out. The company was able to open c. 84% of its 2019 sales capacity, compared with 65% as of end-June. The company delivered positive cash flow of CHF254m, broadly in line with the 3Q19 level. This has been supported by continued cost-saving initiatives. Monthly improvements are expected to continue as restrictions are eased further, driven by the rollout of vaccination campaigns. Liquidity is strong and the company does not face any significant maturity before 2024.

**Scientific Games**

Scientific Games announced a deal to sell its Lottery business to Brookfield for \$5.85bn. The company plans to use proceeds to "aggressively de-lever" its balance sheet and marks the next, and largest, leg in SGMS' move to reposition toward digital activities. Following the transaction, Moody's placed the ratings of Scientific Games under review for upgrade. Depending on how much of the proceeds the company uses to de-lever the balance sheet, its net leverage could be halved compared to the low-to-mid 6x leverage that defined the company in the pre-pandemic years.

**Digicel Group**

Digicel Group announced on 24 October the sale of Digicel Pacific Limited to Telstra Corporation for a total amount of \$1.85bn. Digicel will receive a \$250m earn-out subject to revenue targets in the 2022-2024 period included in the closing price. The company will use net proceeds, around \$1.4bn, to reduce debt. Specifically, Digicel expects to repay its \$1.048bn in senior secured notes due 2024 and most of its \$425m senior unsecured notes due 2025, both bonds benefiting from collateral including the capital stock of Digicel Pacific. Moody's expects the transaction to decrease proforma adjusted leverage from 6.3x to 6.1x.

## Significative Primary Issues

**EUR**

Issuer	Coupon	Maturity	Amount	Rating
Iliad Holding	6.50%	2026	EUR 1.2Bn	B2
Modulaire	6.75%	2029	GBP 435M	Caa1

**US**

Issuer	Coupon	Maturity	Amount	Rating
Carnival Corp.	6.00%	2029	\$2.00Bn	B2
Hexaware	5.375%	2026	\$1.01Bn	B1

**EM**

Issuer	Coupon	Maturity	Amount	Rating
Minsur	4.50%	2031	\$500M	BB+
Tower Bersama	2.80%	2027	\$400M	BBB-

## Rating moves

ADP	Fitch	▼	BBB+
Atlantia	Moody's	↗	Ba2
Bunge	Moody's	↗	Baa2
Ecolab	Moody's	↗	A3
Elis	S&P	↗	BB+
Getlink	Fitch	▼	BB
Hornbach Baumarkt	S&P	↗	BB+
Intertrust	S&P	▼	BB
Jaguar Land Rover	S&P	↗	B+
Louis Dreyfus Co.	S&P	↗	BBB
Merck	Moody's	↗	A3
Netflix	S&P	↗	BBB
Standard Industries	Moody's	▼	Ba3
TUI	S&P	↗	B-

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## Macro Economic Events

**Eurozone:** the consumer confidence indicator was confirmed at -4.8 in October, down from -4.0 the previous month, reflecting a more negative view of households on their financial situation, and expectations of the general economic situation. The inflation expectations index surged to 40.0 in October, the highest value since 1993.

**ECB:** at its October meeting, the European Central Bank maintained a stable monetary policy and did not announce any plans for a gradual rise in interest rates, despite persistent inflationary pressures.

**Germany:** the consumer price inflation rate is expected to accelerate to 4.5% year-on-year in October, the highest rate since October 1993. Market expectations were 4.4%. This figure heightens concerns about inflationary pressures in Europe's largest economy.

**United Kingdom:** the yield on 10-year government bonds fell at the end of the month to 1%, moving further away from a recent peak of 1.22% hit on 21 October, amid inflationary pressure, rising interest rates and the energy crisis.

**United States:** the latest GDP figures disappointed investors. Economic growth slowed to an annual rate of 2% in the third quarter, compared with market expectations of 2.7%. This is the weakest growth rate since the recovery began in April 2020.

**China:** the world's second largest economy expanded 4.9% in the third quarter, falling short of market expectations (5.2%) and marking the slowest pace of expansion for a year. Power shortages and supply chain bottlenecks account for this figure.

**Brazil:** the Central Bank announced its sixth interest rate hike this year and the biggest in almost two decades. It raised its rate by 150 basis points to 7.75%. Markets expected a hike of 100 basis points.

Market Data Indices (end of October)		Performance		Duration	Yield
		MTD*	YTD*	DTW*	YTW*
<b>High Yield</b>					
HE00	High Yield Europe	-0.60%	3.06%	3.54	2.90%
JOA0	High Yield United States	-0.17%	4.38%	3.96	4.23%
H7PC	High Yield Europe BB/B Excluding Financials	-0.59%	2.51%	3.48	2.90%
JC4N	High Yield United States BB/B Excluding Financials	-0.17%	3.64%	4.04	3.93%
HYEF	High Yield Emerging Countries Excluding Financials	-3.07%	-4.79%	3.68	8.49%
<b>Investment Grade</b>					
ER00	Investment Grade Europe	-0.70%	-1.05%	5.31	0.49%
COA0	Investment Grade United States	0.25%	-0.87%	8.22	2.23%
EMIC	Investment Grade Emerging Countries	-0.35%	-0.30%	6.14	2.45%
<b>Governments</b>					
G4D0	10-Year German Bond	-0.99%	-3.46%		-0.11%
G402	10-Year US Bond	-0.31%	-3.83%		1.55%

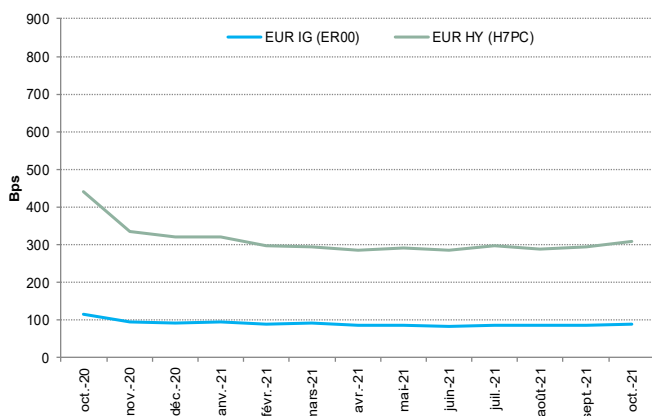
Inflation (end of October)						
Expected inflation		October	September	August	6M	12M
EURO INF	Expected inflation for 2021 in Europe	2.30%	2.20%	2.00%	1.60%	0.30%
US INF	Expected inflation for 2021 in the United States	4.40%	4.30%	4.20%	2.60%	1.20%
Realized inflation		October	September	August	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	4.10%	3.40%	3.00%	1.60%	-0.30%
US CPI	Realized inflation in the United States (rolling 12-month)		5.40%	5.30%	4.20%	1.20%

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

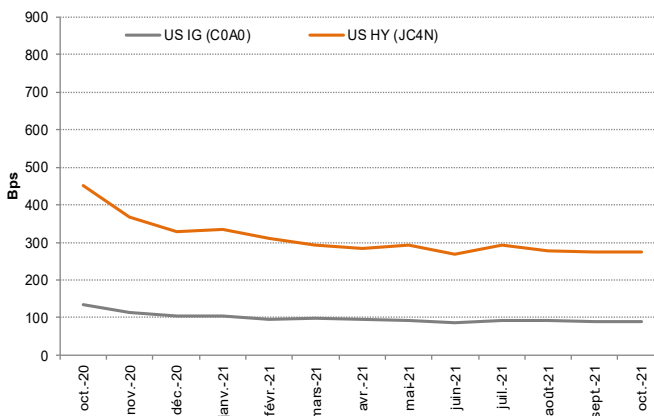
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		October	September	August	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	87	84	85	115
HE00	High Yield Europe	334	314	312	486
H7PC	High Yield Europe BB/B Excluding Financials	322	301	298	444
ER30	Bonds rated A Europe	74	72	73	96
ER40	Bonds rated BBB Europe	102	97	99	141
HE10	Bonds rated BB Europe	253	243	240	366
HE20	Bonds rated B Europe	451	422	418	644
<b>United States</b>					
C0A0	Investment Grade United States	86	84	88	128
JOA0	High Yield United States	328	324	326	529
JC4N	High Yield United States BB/B Excluding Financials	297	291	292	458
C0A3	Bonds rated A United States	67	65	68	94
C0A4	Bonds rated BBB United States	108	106	110	164
JUC1	Bonds rated BB United States	238	235	235	388
JUC2	Bonds rated B United States	388	383	387	574
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	139	134	134	182
HYEF	High Yield Emerging Countries	751	683	606	702
EMAO	Bonds rated A Emerging Countries	102	100	102	137
EM2B	Bonds rated BBB Emerging Countries	183	176	174	235
EM3C	Bonds rated BB Emerging Countries	411	392	347	452
EM6B	Bonds rated B Emerging Countries	1047	867	709	914

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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