Corporate Credit Monthly Update December 2021

In the eurozone, the main worry for investors is no longer whether the ECB may raise rates in 2022, but the spread of the Omicron variant of Covid-19, and how it might affect the global economy. The ECB is expected to take longer than other central banks in returning its monetary policy to normal. However, rising prices for energy, services and raw materials have pushed inflation to record highs. Risk appetite has waned with the increasing likelihood of further restrictions intended to tackle the increase in infections. These fears have sparked a bond rally.

The yield on the German Bund fell to -0.35%, which is its lowest level in nearly ten weeks. The UK Treasuries yield also fell, to 0.8%. In corporate credit, European high yield showed signs of weakness, although company profits have reached record levels and the fundamentals remain strong. Against this backdrop, the European corporate index yield rose by 25 basis points, closing the month at 3.15%.

In the United States, Jerome Powell raised the possibility of a further reduction in the Fed's bond purchases at its next meeting in December, signalling to markets that the US central bank is focusing more on fighting inflation than on the threat from the new Omicron variant. The US bond markets reacted strongly to these comments. November was a much more volatile month for the markets, with concerns over government decisions and the future repercussions of their actions leading investors to reconsider their position and the risks to which they were exposed.

The US 10-year yield reached 1.41% during the month, its lowest point since September, closing at 1.44%. It is down 11 basis points from October, while 2-year yields are up 7 basis points. These movements consequently led to a flattening of the yield curve, with a rise in short-term yields and a fall in those on long-term bonds. Meanwhile, the US corporate index yield gained 53 basis points to end the month at 4.46%.

In emerging markets, local currencies weakening under conditions of widespread inflation, tightening Fed policy and supply chain difficulties prompted central banks to consider interest rate hikes earlier than expected. Emerging market yield curves are trending toward historic flattening, given the magnitude of recent declines in bond yields, linked to the announcement of the Omicron variant and geopolitical risks in certain countries.

High yield credit underperformed investment grade bonds. One of the main reasons for this underperformance was the lack of capital inflows into the asset class. Spreads in EM corporate debt widened considerably in November, with its index yield standing at 9.06% at the end of the month, up 57 basis points.

Edited: 07/12/2021

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Companies in the Spotlight

Worlwide Flight Services

Worldwide Flight Services, a ground-handling company, reported strong numbers for Q3 21. Revenues surged 42% y-o-y to EUR 358m, driven by significant improvement in organic revenue, which offset FX headwinds. Organic revenue grew 43.6%, thanks to a recovery in both cargo-handling activity and ground-handling activity. Reported adjusted EBITDA surged to a EUR 35m profit from the EUR 12m profit a year ago. Net leverage fell to 5.1x from 6.1x. Management provided an optimistic outlook for Q4 21, with trends similar to 9M being observed during the quarter.

Avis

Moody's upgraded Avis' corporate family ratings to B1 from B2, with the outlook revised to stable. The unsecured notes were also upgraded one notch to B2 on the back of expectations that the company's good financial performance will continue, as demand recovers and given the mismatch between fleet and demand. 3Q21 saw record earnings for the company, with EBITDA more than doubling when compared with 2019 levels. Avis upgraded its guidance twice following the strong results, with outperformance now expected to persist into 2022.

JBS SA

Moody's has upgraded the JBS SA issuer rating from Ba1 to Baa3, propelling the company to a widely expected IG status. With a second IG rating (after Fitch), JBS bonds will now be included in the IG indices, a move supportive for technical. Following several years of strong improvement in credit metrics, rating agencies highlighted JBS's recent improvement in corporate governance and board independence. JBS ended Q2 2021 with LTM revenues of BRL 307.02bn (c. $61bn) and EBITDA of BRL 33.61bn (c. $6.7bn).

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Faurecia	2.75%	2027	EUR 1.2Bn	Ba2
Gamma Bonco	8.125%	2026	EUR 400M	Caa1

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Dish DBS	5.75%	2028	$2.50Bn	Ba3
Tenet Healthcare	4.375%	2030	$1.45Bn	B+

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
IHS Holding	5.625%	2026	$500M	B
Stillwater Mining	4.00%	2026	$675M	BB-

Rating moves

Avis Budget	Moody's	↗	B1
Cemex	Fitch	↗	BB
Codere	Moody's	↗	Caa3
Coty	S&P	↗	B
Lottomatica	Moody's	↘	B2
Outokumpu	Moody's	↗	Ba3
Piaggio	S&P	↗	BB-
Telecom Italia	S&P	↘	BB
Teleperformance	S&P	↗	BBB
Verallia	Moody's	↗	Ba1

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Macro Economic Events

Eurozone: the consumer confidence indicator was confirmed at -6.8 in November, down from -4.8 the previous month. Households are worried about any new lockdown measures that may result from the increase in COVID-19 cases across the region. This is the lowest figure since April 2021. Inflation set a new record in November, driven up by energy prices. It has reached a 30-year high of 4.9% year-on-year, compared with 4.1% in October.

Germany: consumer price inflation reached 5.2% year-on-year in November, the highest rate since June 1992, above the market's forecast of 5%. This figure is also much greater than the ECB's 2% target, heightening concerns about mounting inflationary pressure in Europe's biggest economy.

France: the services PMI climbed to 57.4 in November from 56.6 the previous month. This is the fastest rate of expansion in five months, supported by firm demand, a pick-up in tourism and the resumption of certain activities hit by the pandemic.

United States: the consumer confidence index fell 2.1 points to 109.5 in November, after rising in October. Higher inflation and the continued spread of COVID-19 are weighing on household morale, with less confidence in the economy and in short-term employment and income prospects.

China: the manufacturing PMI leapt to 50.1 in November, above the market's forecast of 49.6. This is the first increase in four months, attributable to the implementation of political measures and improvement in the situation with energy shortages.

Brazil: the consumer confidence index fell to 74.9 points in November, compared with 76.3 points in October. This is the lowest figure since April, dragged down by high inflation and a more restrictive monetary policy.

Market Data Indices (end of November)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-0.60%	2.44%	3.61	3.16%
J0A0	High Yield United States	-1.03%	3.31%	4.24	4.78%
H7PC	High Yield Europe BB/B Excluding Financials	-0.54%	1.96%	3.54	3.15%
JC4N	High Yield United States BB/B Excluding Financials	-1.02%	2.59%	4.33	4.46%
HYEF	High Yield Emerging Countries Excluding Financials	-1.76%	-6.47%	3.81	9.06%
Investment Grade					
ER00	Investment Grade Europe	0.17%	-0.88%	5.31	0.49%
C0A0	Investment Grade United States	0.09%	-0.78%	8.25	2.30%
EMIC	Investment Grade Emerging Countries	0.12%	-0.19%	6.15	2.52%
Governments					
G4D0	10-Year German Bond	2.18%	-1.35%		-0.35%
G402	10-Year US Bond	1.04%	-2.82%		1.44%

Inflation (end of November)						
Expected inflation		November	October	September	6M	12M
EURO INF	Expected inflation for 2021 in Europe	2.50%	2.30%	2.20%	1.70%	0.30%
US INF	Expected inflation for 2021 in the United States	4.50%	4.40%	4.30%	3.00%	1.20%
Realized inflation		November	October	September	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	4.90%	4.10%	3.40%	2.00%	-0.30%
US CPI	Realized inflation in the United States (rolling 12-month)		6.20%	5.40%	5.00%	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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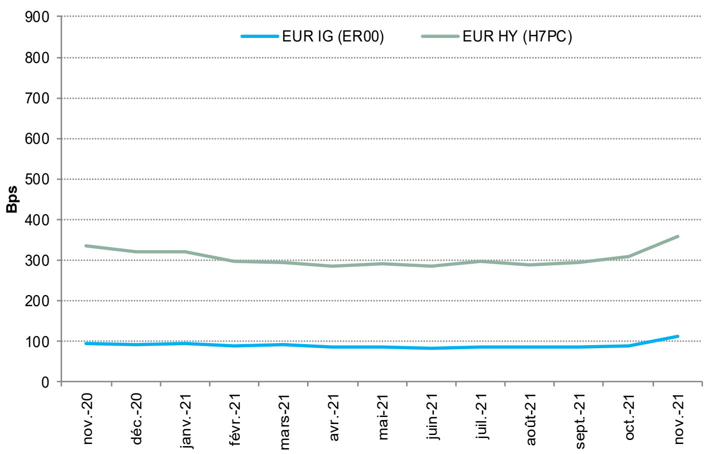
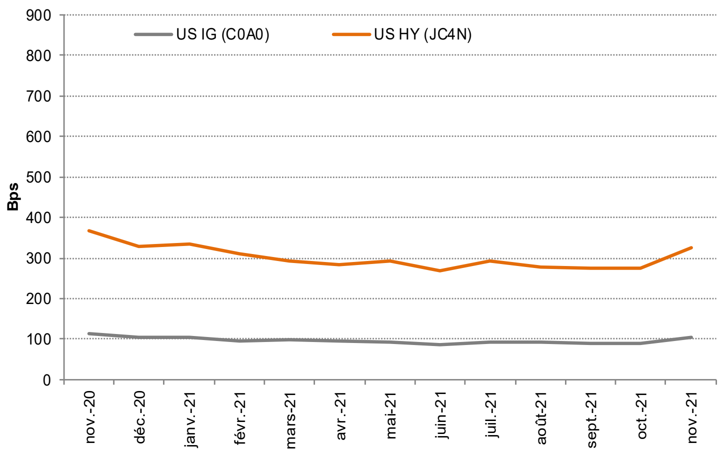
EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		November	October	September	12 months
Europe					
ER00	Investment Grade Europe	110	87	84	94
HE00	High Yield Europe	381	334	314	376
H7PC	High Yield Europe BB/B Excluding Financials	368	322	301	342
ER30	Bonds rated A Europe	96	74	72	77
ER40	Bonds rated BBB Europe	125	102	97	115
HE10	Bonds rated BB Europe	299	253	243	283
HE20	Bonds rated B Europe	505	451	422	488
United States					
C0A0	Investment Grade United States	100	86	84	107
J0A0	High Yield United States	379	328	324	431
JC4N	High Yield United States BB/B Excluding Financials	346	297	291	373
C0A3	Bonds rated A United States	79	67	65	80
C0A4	Bonds rated BBB United States	124	108	106	137
JUC1	Bonds rated BB United States	285	238	235	311
JUC2	Bonds rated B United States	436	388	383	473
Emerging Countries					
EMIC	Investment Grade Emerging Countries	152	139	134	169
HYEF	High Yield Emerging Countries	806	751	683	609
EMAQ	Bonds rated A Emerging Countries	107	102	100	130
EM2B	Bonds rated BBB Emerging Countries	207	183	176	217
EM3C	Bonds rated BB Emerging Countries	444	411	392	394
EM6B	Bonds rated B Emerging Countries	958	1047	867	796

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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