

# Corporate Credit Monthly Update

## January 2022

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The Eurozone experienced a surge in Covid-19 cases in December, with the arrival of the Omicron variant. This increase forced several countries to implement new restrictions, particularly on non-vaccinated persons, and to impose confinements. However, the credit markets ended the year on a positive note. They were supported by the success of the vaccination roll-out. Moreover, this highly contagious Omicron variant is not believed to be causing an increase in severe cases. Some scientists have even suggested that it could mark the end of the pandemic.

On the economic front, the ECB announced a revamp of its asset purchase programs, with no significant change in its global accommodative stance. The Bank of England hiked interest rates in December. With the easing of fears about the Omicron variant, risk appetite returned to the markets, especially in the high yield bond segment. Oil jumped more than 14% while the benchmark price for European natural gas spiked at EUR 180 per MWh in mid-December on the back of rising geopolitical tensions between Russia and NATO, and disappointing Russian deliveries to European customers. The German Bund yield rose over the month and reached -0.17% in the last week of December, its highest level for almost eight weeks. Against this backdrop, the yield on the European corporate index fell by 22 basis points to end the month at 2.93%.

In the US, high yield outperformed during December, along with the rest of the global credit markets. All recovered from their November losses, as concerns over the severity of the Omicron variant dissipated.

However, investors had to absorb a hawkish Fed pivot between November and December, to a less accommodative policy. US inflation jumped 7% in December. This was the seventh consecutive month in which inflation topped 5%.

The US Treasury curve continued to steepen at the short end with 2-year rates reaching their highest since March 2020. The yield on the US corporate index tightened by 54 basis points, closing the month at 3.92%.

Despite record Covid cases worldwide, EM credit markets ended the year on a strong footing too. The positive mood was supported by rising hopes that the Fed's monetary policy tightening will be gradual and proportionate, despite its latest statements, and should not derail the global recovery. This mood is also buoyed by expectations that inflationary pressures should ease in 2022 with less stress on global supply chains.

Chinese authorities stepped up measures to help the economy, with the central bank lowering its main reference rate and cutting the reserve requirement ratio. In Turkey, volatility remained extremely high, with the Lira losing more than 20% of its value against USD at one stage, before retracing to 13TRY a dollar at month-end (still down almost 50% YTD). Unorthodox monetary policy should prevail in this country. Against this backdrop, the yield on the emerging corporate index narrowed by 37 basis points, ending the month at 8.69%.

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## Companies in the Spotlight

### Kaefer

Kaefer, the German provider of industrial services, announced in December the entry of two shareholders, SMS and PE firm Altor, into a partnership with the group that will see them acquire a 50% equity stake in Kaefer, while the existing Kaefer shareholder family will hold the remaining 50% shares. This will include a cash contribution to fund the development of the company. The news is credit positive as it will bring an additional source of funding if needed and improve the group's governance. The Change of Control event on the bond should not be triggered since it occurs when a person or a group of persons acquire control over more than 50% of the issued and outstanding voting stock of Kaefer.

### CommScope

CommScope hosted a virtual analyst day during which it provided what the company called its Strategic Transformation Update. The management targets EBITDA to grow to a 2024 midpoint run rate of \$1.7bn compared to 1.1bn in 2020, and gross leverage to decline below 4x from about 7.1x today. Details were provided on how to reduce costs by \$200m and increase the top line such that it generates an additional \$300m in EBITDA on a yearly basis by 2024. The execution of this plan remains key and the global industry supply chain could weigh on the short term but the details on how the company achieves its goals appear very well received by investors.

### Grupo Unicomer

Grupo Unicomer, a retailer with operations in 24 countries across Central America, South America and the Caribbean, reported strong Q2/21-22 results (ended Sept 2021). Revenues and EBITDA have already exceeded the pre-Covid-19 levels and net leverage fell 0.5x q-o-q to 2.9x. Revenues rose 2.6% y-o-y to USD 390m and EBITDA margin improved by 4.3 pts q-o-q to 12.2%, boosted by sales rising at a faster pace than opex. A bond refinancing is expected for next year with the management intending to refinance after the end of its fiscal year on 31 March.

### Significative Primary Issues

#### EUR

| Issuer      | Coupon | Maturity | Amount   | Rating |
|-------------|--------|----------|----------|--------|
| T-Mobile NL | 5.50%  | 2030     | EUR 550M | Caa1   |

#### US

| Issuer              | Coupon | Maturity | Amount  | Rating |
|---------------------|--------|----------|---------|--------|
| FirstCash           | 5.625% | 2030     | \$550M  | Ba2    |
| Standard Industries | 4.375% | 2030     | \$1.6Bn | B1     |

#### EM

| Issuer     | Coupon | Maturity | Amount   | Rating |
|------------|--------|----------|----------|--------|
| Alesa S.A. | 7.75%  | 2026     | \$500M   | B1     |
| Pemex      | 6.70%  | 2032     | \$6.81Bn | Ba3    |

### Rating moves

|                      |         |   |     |
|----------------------|---------|---|-----|
| Aquafin NV           | Moody's | ▼ | Aa3 |
| Baxter               | S&P     | ▼ | BBB |
| Ferrovie dello Stato | Fitch   | ↗ | BBB |
| FNM SpA              | Fitch   | ↗ | BBB |
| Inter Media and Com. | Fitch   | ▼ | B+  |
| Kedrion              | Moody's | ▼ | B2  |
| Merlin Entertainment | S&P     | ↗ | B-  |
| Ontex                | S&P     | ▼ | B+  |
| Prosus               | S&P     | ↗ | BBB |
| Wepa                 | S&P     | ▼ | B+  |

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## Macro Economic Events

**ECB:** the ECB announced in December a reduction in the pace of its asset purchases, but promised further stimulus measures. It avoided any discussion of potential future rate hikes.

**Germany:** the consumer confidence indicator fell to -6.8, well below the market forecast of -2.7. This is the lowest figure since June, due to rising inflation and an increase in Covid-19 cases.

**France:** according to the Banque de France, the economy is expected to grow by 6.7% in 2021. Growth and inflation will certainly weaken in 2022, after a faster than expected recovery this year. In particular, a tighter labor market should lead to wage increases.

**United Kingdom:** house prices jumped 10.4% y/y in December, above the 10% increase recorded in November, making 2021 the strongest year for house price growth since 2006.

**United States:** consumer confidence improved further in December and suggests that the economy will continue to grow in 2022, despite the resurgence of Covid-19 infections and reduced fiscal stimulus.

**China:** the production index stood at 52.2 in December, unchanged from the previous month. It remains at its highest level since July, reflecting continued expansion in the overall production and operating activities of Chinese companies.

**Turkey:** the annual inflation rate is expected to reach 30.6% in December, crossing the 30% mark for the first time since 2003. Prices rose due to the record volatility of the lira.

| Market Data Indices (end of December) |  | Performance |        | Duration | Yield  |
|---------------------------------------|--|-------------|--------|----------|--------|
| High Yield                            |  | MTD*        | YTD*   | DTW*     | YTW*   |
| HE00                                  | High Yield Europe                                  | 0.88%       | 3.35%  | 3.47     | 2.89%  |
| JOA0                                  | High Yield United States                           | 1.92%       | 5.29%  | 3.82     | 4.24%  |
| H7PC                                  | High Yield Europe BB/B Excluding Financials        | 0.87%       | 2.85%  | 3.40     | 2.93%  |
| JC4N                                  | High Yield United States BB/B Excluding Financials | 1.94%       | 4.58%  | 3.90     | 3.92%  |
| HYEF                                  | High Yield Emerging Countries Excluding Financials | 0.07%       | -6.40% | 3.70     | 8.69%  |
| Investment Grade                      |  |             |        |          |        |
| ER00                                  | Investment Grade Europe                            | -0.14%      | -1.02% | 5.25     | 0.51%  |
| COA0                                  | Investment Grade United States                     | -0.17%      | -0.95% | 8.22     | 2.36%  |
| EMIC                                  | Investment Grade Emerging Countries                | 0.13%       | -0.06% | 6.13     | 2.50%  |
| Governments                           |  |             |        |          |        |
| G4D0                                  | 10-Year German Bond                                | -1.40%      | -2.74% |          | -0.18% |
| G402                                  | 10-Year US Bond                                    | -0.31%      | -3.13% |          | 1.51%  |

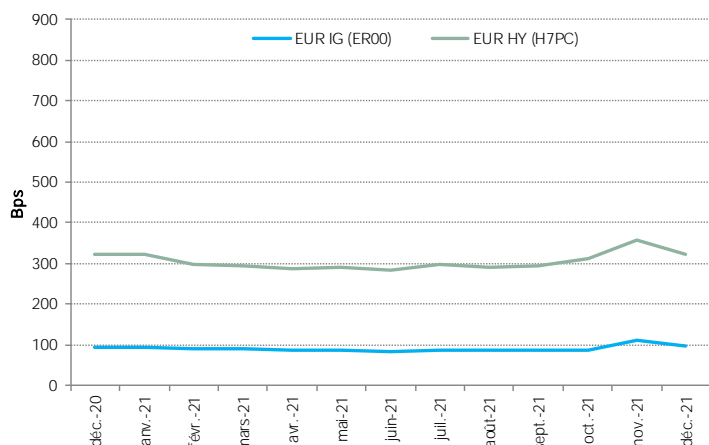
| Inflation (end of December) |  |          |          |         |       |        |
|-----------------------------|--|----------|----------|---------|-------|--------|
| Expected inflation          |  | December | November | October | 6M    | 12M    |
| EURO INF                    | Expected inflation for 2021 in Europe                      | 2.50%    | 2.50%    | 2.30%   | 1.80% | 0.30%  |
| US INF                      | Expected inflation for 2021 in the United States           | 4.70%    | 4.50%    | 4.40%   | 3.50% | 1.20%  |
| Realized inflation          |  | December | November | October | 6M    | 12M    |
| EUR CPI                     | Realized inflation in Europe (rolling 12-month)            | 5.00%    | 4.90%    | 4.10%   | 1.90% | -0.30% |
| US CPI                      | Realized inflation in the United States (rolling 12-month) |          | 6.80%    | 6.20%   | 5.40% | 1.40%  |

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

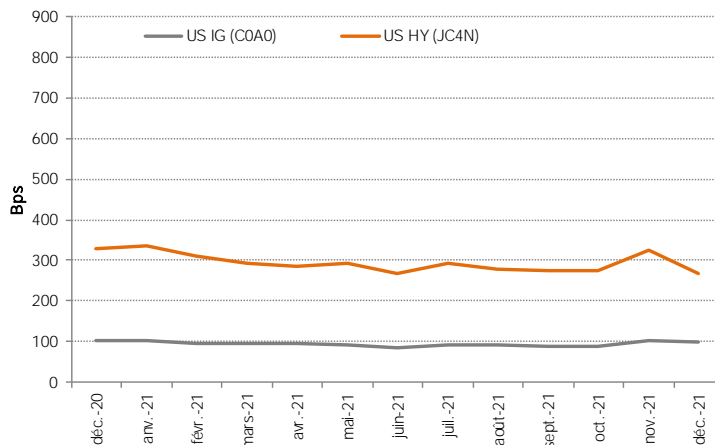
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



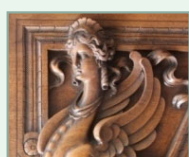
| Corporate Bond Spreads    |  | December | November | October | 12 months |
|---------------------------|--|----------|----------|---------|-----------|
| <b>Europe</b>             |  |          |          |         |           |
| ER00                      | Investment Grade Europe                            | 97       | 110      | 87      | 92        |
| HE00                      | High Yield Europe                                  | 341      | 381      | 334     | 358       |
| H7PC                      | High Yield Europe BB/B Excluding Financials        | 332      | 368      | 322     | 330       |
| ER30                      | Bonds rated A Europe                               | 84       | 96       | 74      | 76        |
| ER40                      | Bonds rated BBB Europe                             | 112      | 125      | 102     | 112       |
| HE10                      | Bonds rated BB Europe                              | 269      | 299      | 253     | 271       |
| HE20                      | Bonds rated B Europe                               | 455      | 505      | 451     | 468       |
| <b>United States</b>      |  |          |          |         |           |
| C0A0                      | Investment Grade United States                     | 95       | 100      | 86      | 98        |
| J0A0                      | High Yield United States                           | 322      | 379      | 328     | 383       |
| JC4N                      | High Yield United States BB/B Excluding Financials | 290      | 346      | 297     | 335       |
| C0A3                      | Bonds rated A United States                        | 74       | 79       | 67      | 74        |
| C0A4                      | Bonds rated BBB United States                      | 119      | 124      | 108     | 125       |
| JUC1                      | Bonds rated BB United States                       | 235      | 285      | 238     | 281       |
| JUC2                      | Bonds rated B United States                        | 375      | 436      | 388     | 422       |
| <b>Emerging Countries</b> |  |          |          |         |           |
| EMIC                      | Investment Grade Emerging Countries                | 138      | 152      | 139     | 159       |
| HYEF                      | High Yield Emerging Countries                      | 693      | 806      | 751     | 548       |
| EMAO                      | Bonds rated A Emerging Countries                   | 103      | 107      | 102     | 125       |
| EM2B                      | Bonds rated BBB Emerging Countries                 | 183      | 207      | 183     | 201       |
| EM3C                      | Bonds rated BB Emerging Countries                  | 410      | 444      | 411     | 362       |
| EM6B                      | Bonds rated B Emerging Countries                   | 935      | 958      | 1047    | 696       |

Source : Merrill Lynch

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