

Corporate Credit Monthly Update

January 2021

New lockdown measures aimed at containing the spread of COVID-19 dominated the economic environment in the eurozone. The services sector has been particularly hard hit. In many countries, the catering and hospitality sectors are fully closed until at least end-January, and probably for even longer. The health impact of the pandemic worsened during the last quarter of 2020. New infection rates rose significantly, but some countries began mass vaccination campaigns for the most vulnerable.

The level of new issue activity remained modest in eurozone bond markets in December, as is often the case at year-end. However, there is still investor appetite for bonds, supported by encouraging announcements concerning vaccines and the European budget. The asset class therefore continues to perform well. Spreads in peripheral eurozone countries continued to tighten. Meanwhile, the 10-year Bund yield remained unchanged in December, closing at -0.57%. The European corporate index yield ended the month at 2.66%.

The US Federal Reserve announced that it would maintain its crisis policy. After numerous difficulties, the US government also approved a new USD 900 billion stimulus package aimed at countering the negative impact of the pandemic on the economy, particularly for small businesses and the unemployed. Much of the positive sentiment in markets is also driven by the approval and rollout of COVID-19 vaccines, with the hope of a return to normality during 2021.

Corporate bond issues in December reached USD 65.3 billion, bringing the total for 2020 to USD 2.28 trillion. The US 10-year benchmark yield rose by 8 basis points to close the year at 0.92%, sharply down on the previous year's close of 1.92%. However, this is well ahead of the historic low of 0.51% seen at the beginning of August 2020. Credit spreads continued to tighten, with the US high-yield index closing the year up 6.10%, and currently yielding 3.70%.

China is leading the recovery in emerging markets. It is the only major economy to show any real improvement from the crisis in 2020: industrial production, investment and exports are all above pre-COVID-19 levels, while retail sales are only very slightly lower. Emerging markets should continue to grow more quickly than developed economies, despite the COVID-19 crisis.

Although emerging market bonds suffered major capital outflows in March and April 2020, this trend subsequently reversed and there were net inflows for the full year. Prices for hard currency emerging assets have been supported from the trough by inflows into the asset class and an upturn in commodity prices. Capital inflows accelerated on the back of US election results and positive news regarding the vaccines. Investors are attracted by the growth momentum of emerging countries, and emerging market debt saw inflows of USD 16.6 billion in December. In this context, the EM corporate index yield stood at 5.74%.

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Companies in the Spotlight

Alain Afflelou

Alain Afflelou, the French optician group, has reported solid Q1/20-21 results. Sales rebounded strongly after COVID-19-related store closures were lifted mid-May. Revenues rose 15.1% year-on-year to EUR 92 million, while adjusted EBITDA jumped by 25% to EUR 26 million. The company's stores have been allowed to remain open during the latest lockdown owing to the essential nature of its retail operations, and expects a limited impact from the second lockdown, with November's network activity similar to levels of prior years. The company has continued to support its franchisees by postponing the November instalment (EUR 1.5 million) on receivables due.

Cardtronics

Cardtronics agreed to be acquired for USD 2.3 billion by Hudson Executive Capital LP and Apollo Global Management in an all-cash deal expected to be completed by the first half of 2021. The offer represented a 35% premium versus the closing price of the day prior to the offer. Following the news, the 5.5% Senior Unsecured Notes converged to the call price of 104.125%, and we expect a full refinancing to occur once the deal closes during the second quarter of 2021.

FS Agrisolutions

FS Agrisolutions is Brazil's largest producer of corn-based ethanol, and also produces corn-derived animal nutrition products. It holds two plants with a production capacity of 1.12 billion litres of ethanol a year, which is expected to reach 1.4 billion by March 2021 with the completion of the Sorriso facility's expansion. For LTM Q120-21, FS had net revenues of BRL 1.2 billion and EBITDA of BRL 571 million. In December 2020, FS Agrisolutions issued a USD 550 million 5-year Secured Green Notes with a coupon of 10%.

Significative Primary Issues

EUR				
Issuer	Coupon	Maturity	Amount	Rating
Casino	6.625%	2026	EUR 400M	Caa1
Sofima	3.75%	2028	EUR 830M	B2
US				
Issuer	Coupon	Maturity	Amount	Rating
Albertsons Cos	3.50%	2029	\$1.35Bn	BB-
NCL Corporation	5.625%	2026	\$850M	B
EM				
Issuer	Coupon	Maturity	Amount	Rating
FS Agrisolutions	10.00%	2025	\$550M	B1
Fosun	5.95%	2025	\$300M	BB

Rating moves

eDreams ODIGEO	S&P	▼	CCC+
Novomatic	S&P	▼	BB
Platin 1425 GmbH	S&P	▼	B-
Sigma Holdco	Fitch	▼	B
Smurfit Kappa	Fitch	↗	BBB-
Telecom Italia	S&P	▼	Ba2

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Macro Economic Events

Eurozone: the manufacturing sector closed 2020 with a flourish. Activity in this sector accelerated to its highest tempo since mid-2018, suggesting that the economy was less affected by the pandemic than at the beginning of the year. The revised manufacturing PMI for December was 55.2 (November 53.8), its highest level since May 2018.

ECB: the ECB announced an increase of EUR 500 billion in the envelope of its pandemic emergency purchase programme (PEPP) to a total of EUR 1.85 trillion. It also extended the time horizon for net purchases under the PEPP by nine months, from June 2021 to March 2022. In any case, the ECB will continue with net purchases until it judges that the COVID-19 crisis phase is over.

Germany: exports fell by at least 12% in 2020. There was a marked collapse in US and UK demand as a result of the COVID-19 pandemic, with Asia remaining the sole positive for Europe's largest economy.

France: government debt at the end of the third quarter of 2020 was EUR 2.675 trillion, which represents 116.4% of GDP. After an unprecedented rise of over EUR 200 billion in the second quarter of 2020, the third quarter increase of EUR 36 billion is close to the level seen in the same quarter of 2019 (EUR 39.5 billion).

United-Kingdom: the country finalised its divorce settlement with the European Union, abandoning the single market and the customs union more than four years after the vote in favour of Brexit. On 24 December, the EU and the United Kingdom managed to reach an agreement on trade and future cooperation, ending months of disagreement and intense negotiations.

United States: after months of delays, the US Congress adopted a USD 900 billion aid package for victims of the pandemic, providing business and individuals with the support they had long been demanding. This package includes higher unemployment benefits, direct cash payments and the funding required for the country's vaccination programme. This is the second largest federal stimulus package after the USD 2 trillion CARES Act approved by Congress in March.

China: China and the EU concluded in principle the negotiations for a Comprehensive Agreement on Investment (CAI). Details of the Agreement are still yet to be finalised, but the trend towards protectionism and anti-globalisation seems to have stalled for the moment. Once ratified, the Agreement should ensure a better balance in trade relations between China and EU member countries.

Market Data Indices (end of December)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.83%	2.76%	3.53	2.88%
JOA0	High Yield United States	1.91%	6.20%	3.37	4.18%
H7PC	High Yield Europe BB/B Excluding Financials	0.76%	1.94%	3.47	2.66%
JC4N	High Yield United States BB/B Excluding Financials	1.59%	6.13%	3.46	3.70%
HYEF	High Yield Emerging Countries Excluding Financials	2.37%	7.57%	3.19	5.74%
Investment Grade					
ER00	Investment Grade Europe	0.15%	2.65%	5.32	0.24%
COA0	Investment Grade United States	0.49%	9.81%	8.31	1.78%
EMIC	Investment Grade Emerging Countries	0.60%	6.56%	5.95	2.07%
Governments					
G4D0	10-Year German Bond	-0.10%	2.69%		-0.57%
G402	10-Year US Bond	-0.29%	9.96%		0.91%

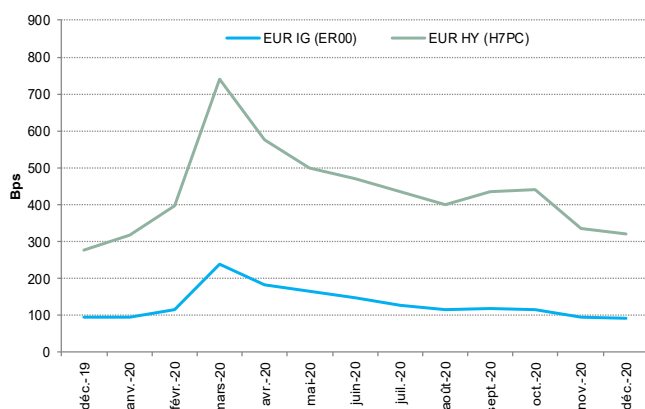
Inflation (end of December)		December	November	October	6M	12M
Expected inflation						
EURO INF	Expected inflation for 2020 in Europe	0.30%	0.30%	0.30%	0.40%	1.20%
US INF	Expected inflation for 2020 in the United States	1.20%	1.20%	1.20%	0.80%	2.10%
Realized inflation		December	November	October	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	-0.30%	-0.30%	-0.30%	0.30%	1.30%
US CPI	Realized inflation in the United States (rolling 12-month)		1.20%	1.20%	0.60%	2.30%

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

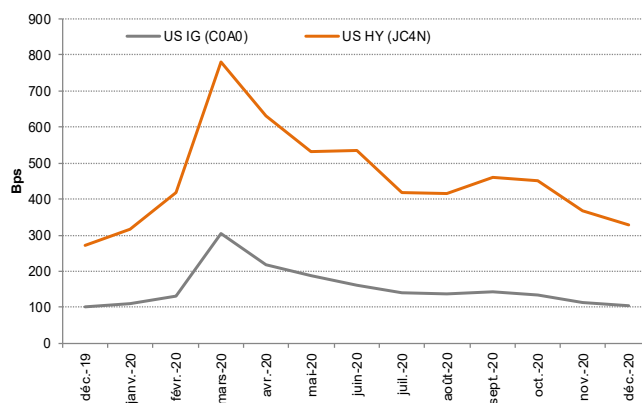
Source : Merrill Lynch

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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
Europe					
ER00	Investment Grade Europe	92	94	115	93
HE00	High Yield Europe	358	376	486	313
H7PC	High Yield Europe BB/B Excluding Financials	330	342	444	283
ER30	Bonds rated A Europe	76	77	96	76
ER40	Bonds rated BBB Europe	112	115	141	115
HE10	Bonds rated BB Europe	271	283	366	220
HE20	Bonds rated B Europe	468	488	644	437
United States					
C0A0	Investment Grade United States	98	107	128	99
JOA0	High Yield United States	383	431	529	370
JC4N	High Yield United States BB/B Excluding Financials	335	373	458	285
C0A3	Bonds rated A United States	74	80	94	74
C0A4	Bonds rated BBB United States	125	137	164	128
JUC1	Bonds rated BB United States	281	311	388	213
JUC2	Bonds rated B United States	422	473	574	373
Emerging Countries					
EMIC	Investment Grade Emerging Countries	159	169	182	142
HYEF	High Yield Emerging Countries	548	609	702	489
EMAO	Bonds rated A Emerging Countries	125	130	137	108
EM2B	Bonds rated BBB Emerging Countries	201	217	235	185
EM3C	Bonds rated BB Emerging Countries	362	394	452	312
EM6B	Bonds rated B Emerging Countries	696	796	914	565

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.



Anaxis Asset Management
9 rue Scribe
75009 Paris

+33 (0)9 73 87 13 20
info@anaxiscapital.com

www.anaxiscapital.com

