

Corporate Credit Monthly Update

February 2021

Eurozone growth deteriorated in January. The consumer confidence index fell below its December level of 49.1 to 47.8. These low levels of activity reflect the impact of the ongoing pandemic. New, more infectious, strains of the virus discovered in the United Kingdom, South Africa and Brazil are adding to the challenge facing governments, which have responded with stricter lockdowns and social distancing measures. As such, a double-dip recession is now a plausible hypothesis. The slow pace of vaccine rollouts in the major eurozone economies is increasing the risk of a delayed economic recovery.

On the bond markets, a rise in yields in early January was subsequently offset by the perceived ruthlessness of the European Central Bank (ECB) and mounting political risk in Italy. The 10-year Bund yield rose by 5 basis points to -0.52%. Spreads in peripheral eurozone countries remained stable across the board. The European corporate index yield ended the month at 2.65%.

In the United States, victories for the two Democratic candidates in the Senate run-off elections in Georgia mean that their party now has control of Congress. This result is expected to spur on US growth in 2021. Just a week after the win, the new administration proposed a fresh US rescue plan worth USD 1.9 trillion. This plan supplements the bipartisan USD 900 billion recovery plan passed in late December 2020. The macroeconomic data paints quite a mixed picture of the US economy, however.

After a traditionally calm December, the primary bond market once again seems to have been buoyed by the prospect of stimulus measures, with issuance volumes higher than expected in January. Corporate bond issues totalled USD 163 billion over the month. The US 10-year benchmark yield climbed 17 basis points to 1.09% at month-end, having hit 1.15% on 12 January. The US yield curve steepened quickly. Valuations continue to be bolstered by the unprecedented support measures adopted to date and spreads have returned to pre-pandemic levels. The US corporate index yield stands at 3.84%.

In most emerging markets, access to vaccines remains very limited for the moment. However, these economies should still benefit from vaccine distribution in developed markets, which will kickstart global growth. China and Russia have developed their own vaccines since the Pfizer, Moderna and AstraZeneca jabs are expensive and in short supply. For developing countries, therefore, the solution is likely to come from China, Russia and India.

Global liquidity and an unabated hunt for yield enabled emerging market issuers to issue record amounts of debt in January. High yield issue volumes in particular increased significantly, indicating strong risk appetite among investors. Portfolio flows into emerging markets stood at USD 53.5 billion in January, with USD 44.2 of this accounted for by debt instruments. In this context, the EM corporate index yield stood at 5.91%.

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Companies in the Spotlight

Douglas

Douglas, the German perfume and cosmetics retailer, released weak but reassuring FY2019-2020 results. Sales were down 6.6% organically, driven by a 15.6% drop in store sales. This was partly offset by solid online growth of 38.8%. Profitability was also affected with adjusted EBITDA margin slumping 120 bps to 9%. Douglas gave an update on trading in Q1/20-21, which it said was affected by lockdowns in France and Germany, partly offset by still-robust growth in online sales. Management announced an ambitious store optimisation and cost-cutting programme, which it estimates will boost EBITDA by EUR118-120m with net one-off costs of EUR 94m. Management said that it is considering refinancing options alongside its shareholder.

Meredith

Meredith, the leading US television broadcaster and magazine advertising business reported a solid set of Q2 2021 results (period ending December 31, 2020). Strength in the quarter was attributed to record digital and local political revenue. For the first time, National Media Group's digital advertising revenue exceeded magazine advertising revenue. The growth in digital is a key pillar of MDP's long-term strategy. Year-on-year, revenues are up 11.2% to USD 902m and adjusted EBITDA margin reached 33.8% vs 23.9% in Q2 2020. Aided by positive Free Cash Flow generation, net leverage improved 1.1x to 3.9x and the management reiterated its medium-term target of 2.0x.

B2W

B2W Companhia Digital is one of the largest e-commerce platforms in Brazil. It is the digital arm of Lojas Americanas. Its operations comprise its own online sales as well as marketplaces for third-party sellers. In LTM Q3/20, B2W generated BRL 25.2bn in GMV, with revenues of BRL 9.1bn and adjusted EBITDA of BRL 819m. The low penetration rate of e-commerce in Brazil implies an important growth potential for B2W. Its strong shareholder base (Lojas Americanas is one of the largest Brazilian food and non-food retailers with more than 1,700 physical stores) and low leverage are other key supporting factors.

Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
Biogroup	5.00%	2029	EUR 250M	Caa1
Thom Europe	5.375%	2026	EUR 370M	B2

US

Issuer	Coupon	Maturity	Amount	Rating
Petsmart Inc	4.75%	2028	\$1.2Bn	BB-
SBA Communications	3.125%	2029	\$1.5Bn	BB-

EM

Issuer	Coupon	Maturity	Amount	Rating
Cemex SAB	3.875%	2031	\$1.75Bn	BB
Simpar JSL	5.20%	2031	\$625M	BB-

Rating moves

Becton Dickinson	Moody's	↗	Baa3
Enel	Moody's	↗	Baa1
FCA	Moody's	↗	Baa3
Ineos Styrolution	Moody's	↗	Ba3
Netflix	S&P	↗	BB+
Progest	Moody's	↗	Caa1
Synlab	Fitch	↗	B+

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Macro Economic Events

Eurozone: the economy shrank by 0.7% in Q4 2020, which was a little less than the expected fall of 1%, following record growth of 12.4% in Q3 2020. This contraction was brought about by lockdown measures to combat COVID-19. Among the block's major economies, Italy contracted by 2% and France by 1.3%, whereas Germany (+0.1%) and Spain (+0.4%) managed to stay in positive territory. Prospects for Q1 2021 are hardly encouraging, though, as many countries have tightened their restrictions and imposed fresh lockdown measures designed to halt the spread of the pandemic. Economic activity in the eurozone declined by 6.8% over the course of 2020.

ECB: having stepped up its recovery plan in December, the central bank announced in January that it would continue with its highly accommodative policy by maintaining its EUR 1.85 trillion asset purchase programme.

Germany: the business climate indicator fell to 90.1 in January 2021. This was the lowest figure in seven months, reflecting diminished optimism about the current situation in the business community. Lockdown measures have affected countless service providers, including in transportation and logistics, and retail has crumbled. Industry is still in a strong position, though. Economic uncertainty has therefore heightened and German GDP is likely to stagnate in Q1 as a result.

France: the annual inflation rate rose to 0.6% in January 2021 after stagnating in December. This is the highest inflation rate since July 2020, according to preliminary estimates. The main driver of this upward momentum was the rise in prices for services and tobacco and an uptick in the cost of manufactured goods, owing to the mitigating effect of the winter sales. Consumer prices increased by 0.2% over the month.

United States: the economy may have bounced back significantly since the first months of the pandemic, but it still shrank by 3.5% in 2020 because of the crisis, making this the worst year of growth since 1946. GDP dropped to 32.9% on an annualised basis between April and June. The Biden administration has set out an ambitious economic recovery plan and promised a substantial increase in vaccinations, but COVID-19 remains a major impediment to the recovery.

Brazil: the manufacturing index dropped from 61.5 in December to 56.5 in January 2021, representing the sector's lowest expansion since June. New orders and production continued to grow, though, albeit at a slower rate, whereas export orders stagnated overall. At the same time, job creation slowed to its lowest rate in the current seven-month expansion period as companies became more cautious regarding their spending.

Market Data Indices (end of January)		Performance		Duration	Yield
		MTD*	YTD*	DTW*	YTW*
High Yield					
HE00	High Yield Europe	0.42%	0.42%	3.55	2.85%
JOA0	High Yield United States	0.32%	0.32%	3.47	4.25%
H7PC	High Yield Europe BB/B Excluding Financials	0.35%	0.35%	3.47	2.65%
JC4N	High Yield United States BB/B Excluding Financials	0.09%	0.09%	3.56	3.84%
HYEF	High Yield Emerging Countries Excluding Financials	-0.30%	-0.30%	3.26	5.91%
Investment Grade					
ER00	Investment Grade Europe	-0.12%	-0.12%	5.35	0.26%
COA0	Investment Grade United States	-1.22%	-1.22%	8.17	1.90%
EMIC	Investment Grade Emerging Countries	-0.21%	-0.21%	5.89	2.08%
Governments					
G4D0	10-Year German Bond	-0.20%	-0.20%		-0.52%
G402	10-Year US Bond	-1.17%	-1.17%		1.07%

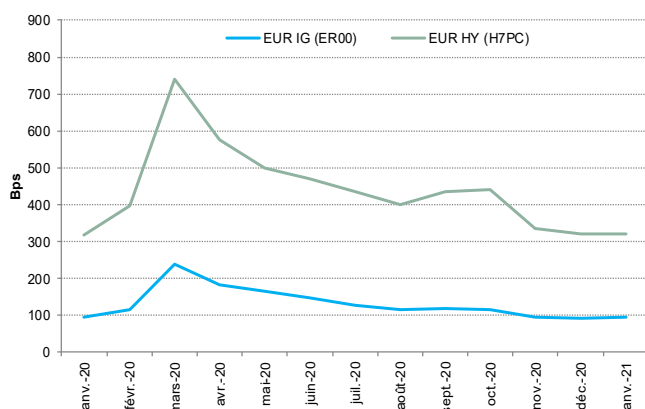
Inflation (end of January)						
Expected inflation		January	December	November	6M	12M
EURO INF	Expected inflation for 2021 in Europe	0.90%	0.30%	0.30%	0.40%	1.20%
US INF	Expected inflation for 2021 in the United States	2.15%	1.20%	1.20%	0.90%	2.10%
Realized inflation		January	December	November	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	0.90%	-0.30%	-0.30%	0.40%	1.40%
US CPI	Realized inflation in the United States (rolling 12-month)		1.40%	1.20%	1.00%	2.50%

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

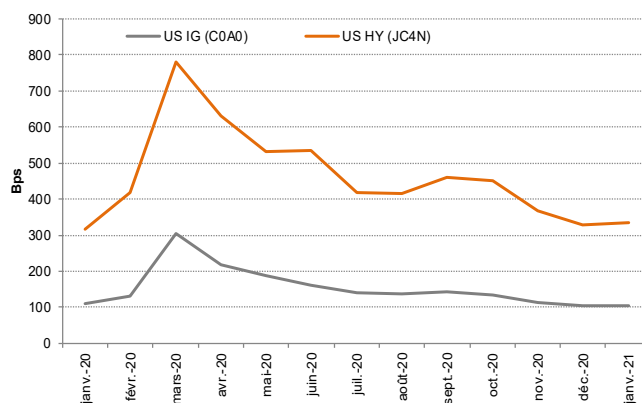
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		January	December	November	12 months
Europe					
ER00	Investment Grade Europe	94	92	94	94
HE00	High Yield Europe	355	358	376	341
H7PC	High Yield Europe BB/B Excluding Financials	328	330	342	324
ER30	Bonds rated A Europe	79	76	77	79
ER40	Bonds rated BBB Europe	112	112	115	115
HE10	Bonds rated BB Europe	274	271	283	249
HE20	Bonds rated B Europe	457	468	488	480
United States					
C0A0	Investment Grade United States	97	98	107	107
JOA0	High Yield United States	384	383	431	418
JC4N	High Yield United States BB/B Excluding Financials	343	335	373	335
C0A3	Bonds rated A United States	74	74	80	80
C0A4	Bonds rated BBB United States	122	125	137	137
JUC1	Bonds rated BB United States	286	281	311	258
JUC2	Bonds rated B United States	436	422	473	427
Emerging Countries					
EMIC	Investment Grade Emerging Countries	152	159	169	152
HYEF	High Yield Emerging Countries	560	548	609	500
EMAO	Bonds rated A Emerging Countries	118	125	130	114
EM2B	Bonds rated BBB Emerging Countries	194	201	217	202
EM3C	Bonds rated BB Emerging Countries	358	362	394	333
EM6B	Bonds rated B Emerging Countries	727	696	796	590

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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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