Corporate Credit Monthly Update

March 2021

In the eurozone, bond yields trended higher, following the pattern of US Treasury yields. While short-term rates remain at very low levels, long-term bond yields are more sensitive to changes in the macroeconomic context. However, recent movements in interest rates must not be regarded as completely good or bad for the markets and the economy. The steepening of the yield curve in recent months is a sign of an upturn in economic expectations. At a time when economies are trying to recover from the COVID-19 related crisis – a recovery that should be boosted by the vaccination programmes – it is natural for the yield curve to steepen. It should be noted however that Europe is facing an unwelcome tightening of monetary conditions and if interest rates continue to rise in the coming weeks, the ECB will have no choice but to increase its bond purchases.

Against this backdrop, the 10-year Bund yield increased by 27 basis points to close the month at -0.25%. The European corporate index yield narrowed by 7 basis points, closing the month at 2.58%.

In the United States, expectations of increased economic support from the Biden administration, positive signs of COVID-19 being brought under control thanks to vaccination programmes, and expectations of a new commodities super-cycle drove up interest rates. This increase is an indicator of the improvement in the pace of the economy and growth expectations, but also of a possible return of inflation. Fears of inflation encourage investors to speculate about the need for the Federal Reserve to change track earlier than planned, either by reducing its bond purchases or even by increasing its key rates, although for the time being inflation remains within the Fed's target range.

This combination of factors pushed the US 10-year benchmark yield to 1.61% in the last week of February – its highest level for over a year – before finally closing the month at 1.41%. It posted its highest monthly increase since 2016. Nonetheless, sovereign bond yields remain close to their all-time lows in all the G7 economies. On the other hand, credit valuations are relatively normal in an environment where risk premiums are narrow. Fund inflows remain positive despite the rise in yields. The US corporate index yield stands at 3.92%.

In emerging markets, the global economy is expected to recover strongly in 2021, as evidenced by the rapid increase in purchasing managers' indices (PMI) after a challenging year in 2020. If the recovery has been driven by robust economic growth in the developed economies and China, emerging markets should also benefit from the improvement in global trade, increased investment and rising commodity prices. However, the road to economic normalisation is more uncertain and will in all likelihood be more uneven than in the developed countries.

Given that in the world almost USD 17 trillion of government bonds are trading with negative yields and around USD 4.3 trillion are invested in money market funds with yields near zero, the higher yields on emerging market debt should continue to attract large inflows into this asset class. Portfolio flows have increased in line with the search by investors for yield on Chinese bond markets and for growth in East Asia The emerging corporate index yield remained almost unchanged at 5.88%.

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Companies in the Spotlight

The Very Group

The Very Group (UK retailer) reported strong results for Q2 and H1 20-21, especially considering the challenging macroeconomic environment in the UK due to COVID-19. H1 20-21 revenues came in 12.1% higher YoY at GBP 1.3 billion while reported EBITDA margin increased by a resounding 30 bps to 10.4% thanks to ongoing progress on the cost-rationalisation programme. Net debt decreased to GBP 495 million from GBP 562 million, with net leverage reducing to 2x vs. 2.4x one year ago. During the earnings call, management said that Q3 20-21 current trading is in line with expectations. We expect refinancing of the bond to take place later this year given recent strong operating and financial performance.

The Fresh Market

The Fresh Market is seeking to refinance both its senior secured notes 2023 and super senior secured notes 2025 by raising a new USD 915 million Term Loan with a 7Y maturity, and using some cash from the balance sheet. The fresh-focused, specialty retailer, benefited strongly from Stay at Home during the COVID crisis, with net revenues of USD 1.887 billion in FY 2020 (+23.9% YoY) while its adjusted EBITDA almost doubled YoY (+83% to USD 222 million). Since the new management started in 2018, net leverage decreased organically from 7.8x to 3.8x (pro forma the contemplated transaction).

Luye Pharma

Luye Pharma, the Chinese pharmaceutical company, strengthened its balance sheet with the introduction of private equity firm Hillhouse as its second largest shareholder. The proceeds are estimated at around RMB 1.25 billion (c. USD 191 million), allowing Luye Pharma’s gearing to drop from 40% to 25%.

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
EG Global	6.25%	2026	GBP 675M	B3
IQVIA	1.75%	2026	EUR 550M	Ba3

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Carnival Corp	5.75%	2027	$3.5Bn	B+
Davita Inc (Tap)	4.625%	2030	$1.0Bn	B+

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Atento Luxco	8.00%	2026	$500M	Ba3
Lippo Malls	7.50%	2026	$200M	B1

Rating moves

Builders FirstSource	Moody’s	↗	Ba2
LKQ	S&P	↗	BB+
Smurfit Kappa	S&P	↗	Baa3
Zoomlion	S&P	↗	BB-

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Macro Economic Events

Eurozone: the consumer confidence indicator increased to -14.8 in February 2021, up on -15.5 in the previous month, and above market expectations of -15, because of an improvement in households' assessments of their future financial conditions, their intentions to make major purchases and their expectations about the general economic situation. However, the indicator remained well below its long-term average of -11.1.

Germany: the manufacturing PMI index was revised upwards to 60.7 in February 2021, compared with 57.1 in January. It is the highest it has been since January 2018, in a context of strong foreign demand. Order book growth has gained momentum and stands at its highest level since October 2020, driven by strong demand from Asia, especially China, the United States and Europe as a whole. Export sales growth was the strongest since December 2017. Production levels increased accordingly, at the fastest rate for three months, thanks to particularly strong growth of the capital goods category.

France: French economic activity stabilised at 5% below pre-COVID-19 levels, while the government is refraining from imposing a general lockdown over and above the current curfew and closures in some business sectors.

Italy: Mario Draghi, the former President of the ECB, became the new Prime Minister, after the resignation of Matteo Renzi following a dispute over the planning for the Next Generation EU funds. Draghi has chosen to appoint a number of key technocrats to the most budget-sensitive positions, such as the finance, ecological transition and digital transformation ministers. On the EU political scene, Draghi will clearly adopt a pro-European stance, while taking a pragmatic approach in order to secure agreements.

United States: the PMI index increased slightly to 58.8 in February 2021. This figure represents the fastest rate of expansion of private sector activity since March 2015. The service sector recorded its strongest growth for almost three years, while manufacturing output growth slowed slightly, but with a growth rate still among the highest over the last decade.

India: GDP is expected to contract by a record 7.7% during the current fiscal year ending 31 March 2021. India's previous record annual contraction was 5.2% in the 1979-80 fiscal year. The agriculture sector was the only plus point, while services, industry and construction have been the worst affected by the lockdown imposed to contain the COVID-19 epidemic.

Market Data Indices (end of February)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.59%	1.01%	3.57	2.76%
J0A0	High Yield United States	0.33%	0.65%	3.64	4.30%
H7PC	High Yield Europe BB/B Excluding Financials	0.38%	0.73%	3.48	2.58%
JC4N	High Yield United States BB/B Excluding Financials	0.17%	0.27%	3.71	3.92%
HYEF	High Yield Emerging Countries Excluding Financials	0.62%	0.32%	3.26	5.88%
Investment Grade					
ER00	Investment Grade Europe	-0.78%	-0.91%	5.31	0.38%
C0A0	Investment Grade United States	-1.96%	-3.15%	7.99	2.11%
EMIC	Investment Grade Emerging Countries	-0.99%	-1.20%	5.82	2.21%
Governments					
G4D0	10-Year German Bond	-1.92%	-2.12%		-0.26%
G402	10-Year US Bond	-2.77%	-3.91%		1.40%

Inflation (end of February)						
Expected inflation		February	January	December	6M	12M
EURO INF	Expected inflation for 2021 in Europe	1.30%	0.90%	0.30%	0.40%	1.20%
US INF	Expected inflation for 2021 in the United States	2.20%	2.10%	1.20%	1.00%	2.00%
Realized inflation		February	January	December	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	0.90%	0.90%	-0.30%	-0.20%	1.20%
US CPI	Realized inflation in the United States (rolling 12-month)		1.40%	1.40%	1.30%	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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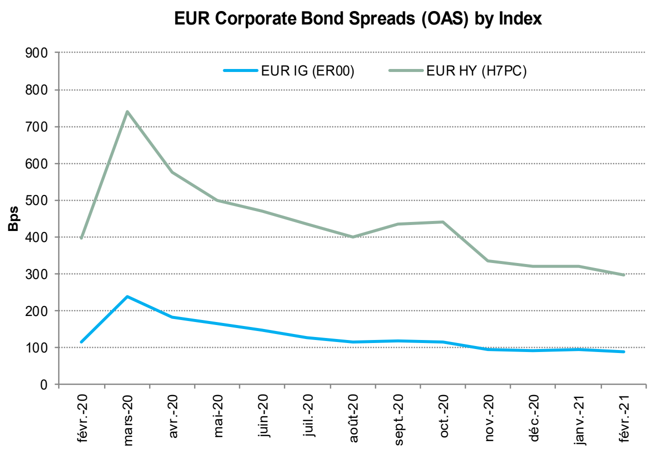

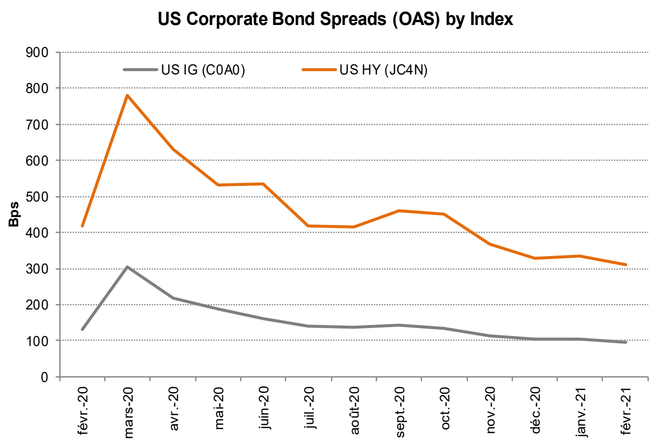

Corporate Bond Spreads		February	January	December	12 months
Europe					
ER00	Investment Grade Europe	88	94	92	114
HE00	High Yield Europe	331	355	358	419
H7PC	High Yield Europe BB/B Excluding Financials	304	328	330	405
ER30	Bonds rated A Europe	74	79	76	97
ER40	Bonds rated BBB Europe	106	112	112	137
HE10	Bonds rated BB Europe	254	274	271	312
HE20	Bonds rated B Europe	430	457	468	596
United States					
C0A0	Investment Grade United States	89	97	98	128
J0A0	High Yield United States	368	384	383	520
JC4N	High Yield United States BB/B Excluding Financials	329	343	335	436
C0A3	Bonds rated A United States	66	74	74	98
C0A4	Bonds rated BBB United States	113	122	125	163
JUC1	Bonds rated BB United States	272	286	281	352
JUC2	Bonds rated B United States	419	436	422	544
Emerging Countries					
EMIC	Investment Grade Emerging Countries	139	152	159	174
HYEF	High Yield Emerging Countries	539	560	548	577
EMAQ	Bonds rated A Emerging Countries	105	118	125	125
EM2B	Bonds rated BBB Emerging Countries	181	194	201	236
EM3C	Bonds rated BB Emerging Countries	348	358	362	396
EM6B	Bonds rated B Emerging Countries	672	727	696	682

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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