

Corporate Credit Monthly Update

February 2022

In the Eurozone, several factors weighed on market sentiment. The impact of higher energy prices continued to preoccupy investors. Geopolitical risks also moved centre stage with the build-up of Russian troops on the Ukrainian border. Finally, at the very beginning of February, the ECB President's speech surprised European investors. Ms Lagarde said that there is a high probability of a rate hike as early as this year. Automatically, the yield curve shifted upwards by about 50 basis points.

Against this background, European bond markets fell. Long-term bonds were most sensitive to this sell-off. In terms of ratings, the lowest quality bonds were hardest hit. The German Bund yield reached its highest level in almost three years, closing the month in positive territory at 0.026%. The European corporate index yield rose by 52 basis points to stand at 3.45% at month-end.

In the US, inflation was again the major worry this month, reaching its highest level in four decades. The continued rise in inflation exacerbated volatility in markets, which now expect the Fed to raise rates more aggressively than initially anticipated. Fed funds futures are predicting five rate hikes by the end of the year. The change in the Fed's tone provoked a negative reaction across all US financial markets, with bond yields rising and credit spreads widening. Treasury yields rose across all maturities, with greater rises on short-dated paper. The 10-year yield moved from 1.51% to 1.78% during the month. Meanwhile the oil price rose 17.7% in January, continuing its march towards the USD 100 per barrel threshold. WTI closed the month at USD 88.1 per barrel.

High-yield corporate debt also had a difficult month after strong performance in 2021. It initially held up well as equity markets fell and Treasury yields rose but buckled as spreads widened. In this environment, the US corporate index yield rose by 98 basis points, closing the month at 4.90%.

Emerging markets were also hit by growing inflation worries and the Fed's increasingly restrictive stance. Many central banks in emerging countries also raised interest rates. However, the People's Bank of China continued to ease its monetary policy to deal with the slowdown in the country's growth. Investors struggled to cope with this new environment and heightened geopolitical tension in Eastern Europe. In Ukraine, the market now seems to be ruling out a widescale invasion, but the doubling in the price of Russian CDS and the collapse of the rouble versus the US dollar served as a reminder that such action would be severely sanctioned by the market.

The emerging primary market remained calmer than expected in January against this backdrop of an increase in volatility across the board. Emerging markets remain under pressure in the short term with the tightening of central bank policies. However, the outlook is favourable, with issuer fundamentals at healthy levels and inflows likely to resume if the situation stabilises. Emerging market debt saw inflows of USD 4.5 billion over the month. However, this was dominated by China, which saw inflows of USD 9 billion, whilst other emerging countries recorded net outflows of USD 4.5 billion. The US corporate index yield stood at 8.76% at the end of the month.

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Companies in the Spotlight

Tendam

Tendam, the Spanish retailer, reported a strong Q3 21-22 with revenues rising 31.2%. EBITDA also significantly increased to EUR33m from EUR4m in the previous year, supported by the sales rebound across all brands and improvement in gross margins. Cash-flow performance benefited from the strong earnings trajectory with positive FCF leading to reported net leverage falling to 3.3x. Management said that dividend payments are not on the agenda and it is focused on further deleveraging. Tendam's Board has not made a decision regarding a refinancing of the capital structure, which will come due in 2024. Overall, the company performed exceptionally well in the quarter despite the ongoing supply chain challenges and inflation in the cost of raw materials.

AMC Entertainment

AMC Entertainment, a leading US theatrical exhibition operator, released better-than-expected 4Q21 results. For the last quarter of 2021, revenues were only 20% below the pre-Covid level, a sequential improvement on last quarter (c. -50% yoy). More importantly, operating cash generation turned positive as expected, but to a much larger extent than previously forecasted by the company (+\$217m vs 'just positive'). The strong finish to the year was helped by the release of the blockbuster Spider-Man: No Way Home, which generated \$573m in revenues domestically through December 31. This strong set of results provides positive read-across for other US theatre exhibitors, but also for other re-opening trades (leisure, casino, restaurants).

Alesea

Alesea, a leading Mexican operator of Starbucks, Domino's Pizza and Burger King stores, accessed the high yield market twice in the last two months. In December 2021, it issued \$500m in senior unsecured notes due 2026 to refinance existing short-term bank loans. In January 2022, it issued EUR 300m in SUN due 2027 to refinance its European banking facilities. Alesea benefits from long-term agreements with strong brands and has diversified its activities across 11 countries while it remains mostly exposed to Mexico (56% of 3Q21 LTM sales), its country of origin. In 2021, recovery was rapid, with almost all its stores now open and a rising EBITDA margin compared with pre-Covid. The company is listed in the Mexican stock exchange and it has well-defined corporate governance practices as well as prudent financial policy (targets a net debt/EBITDA ratio of 2.5x-3.0x).

Significant Primary Issues					Rating moves			
EUR					Avis Budget Group	S&P	↗	BB
<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>	CNH Industrial	Fitch	↗	BBB+
Edreams	5.50%	2027	EUR 375M	Caa1	Elior	Moody's	↘	B1
Voyage Care	5.875%	2027	GBP 250M	B+	Enagas	S&P	↘	BBB
US					Isabel Marant	Moody's	↗	B2
<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>	Nexi	S&P	↗	BB
Bausch Health	6.125%	2027	\$1.00Bn	BB	OPAP	S&P	↗	BB-
CHS/Community Health	5.25%	2030	\$1.535Bn	B	Sazka	S&P	↗	BB-
EM					Thermo Fisher	Moody's	↗	A3
<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>				
Alesea S.A.	5.50%	2027	EUR 300M	B1				
Silknet	8.375%	2027	\$300M	B1				

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Macro Economic Events

Eurozone: GDP grew by 0.3% during the last quarter of 2021; this represents a marked slowdown compared with the 2.3% growth recorded in the third quarter. The various economies in the region suffered from an upsurge in COVID-19 cases and constant supply chain disruptions.

Germany: the unemployment rate fell slightly for the fourth consecutive month, to 5.1% in January, from 5.2% in December 2021. The registered jobless total fell by 48,000 to 2.345 million, the lowest level since March 2020.

France: annual inflation is likely to reach 2.9% in January, versus 2.8% in December, chiefly owing to a further rise in energy prices. This is higher than market expectations (2.4%) – the highest level since September 2008.

United States: the consumer confidence index was revised downwards to 67.2 in January, its lowest level since November 2011. Inflation forecasts have been confirmed at 4.9% for 2022.

China: the manufacturing PMI fell to a 10-month low, standing at 50.1 in January, compared with 50.3 in December. The index has nonetheless remained above the 50 threshold, indicating a continued, albeit moderate, improvement in trading conditions.

South Africa: at its January meeting, the central bank raised its key rate by 25 basis points to 4%. This is the second recent hike, largely dictated by rising inflation risks.

Turkey: inflation jumped from 36% in December 2021 to almost 47% in January. This is the highest rate in 20 years, as the lira continues to tumble, following the central bank's decision to cut interest rates, and amid price spikes and supply constraints.

Market Data Indices (end of January)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-1.53%	-1.53%	3.67	3.40%
JOA0	High Yield United States	-2.75%	-2.75%	4.41	5.22%
H7PC	High Yield Europe BB/B Excluding Financials	-1.48%	-1.48%	3.60	3.45%
JC4N	High Yield United States BB/B Excluding Financials	-2.85%	-2.85%	4.53	4.90%
HYEF	High Yield Emerging Countries Excluding Financials	-2.88%	-2.88%	3.80	8.76%
Investment Grade					
ER00	Investment Grade Europe	-1.32%	-1.32%	5.20	0.76%
COA0	Investment Grade United States	-3.12%	-3.12%	7.99	2.80%
EMIC	Investment Grade Emerging Countries	-2.11%	-2.11%	6.09	2.92%
Governments					
G4D0	10-Year German Bond	-1.36%	-1.36%		0.01%
G402	10-Year US Bond	-2.30%	-2.30%		1.78%

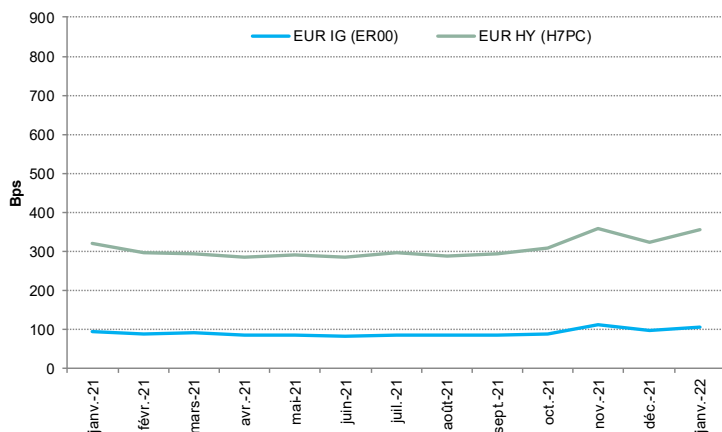
Inflation (end of January)						
Realized inflation		January	December	November	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	5.10%	5.00%	4.90%	2.20%	0.90%
US CPI	Realized inflation in the United States (rolling 12-month)		7.00%	6.80%	5.40%	1.40%

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

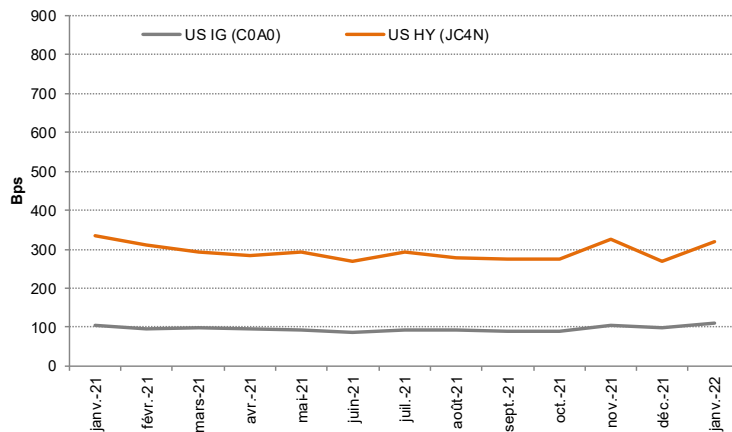
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		January	December	November	12 months
Europe					
ER00	Investment Grade Europe	106	97	110	94
HE00	High Yield Europe	374	341	381	355
H7PC	High Yield Europe BB/B Excluding Financials	363	332	368	328
ER30	Bonds rated A Europe	91	84	96	79
ER40	Bonds rated BBB Europe	123	112	125	112
HE10	Bonds rated BB Europe	293	269	299	274
HE20	Bonds rated B Europe	506	455	505	457
United States					
C0A0	Investment Grade United States	107	95	100	97
J0A0	High Yield United States	373	322	379	384
JC4N	High Yield United States BB/B Excluding Financials	340	290	346	343
C0A3	Bonds rated A United States	84	74	79	74
C0A4	Bonds rated BBB United States	133	119	124	122
JUC1	Bonds rated BB United States	286	235	285	286
JUC2	Bonds rated B United States	418	375	436	436
Emerging Countries					
EMIC	Investment Grade Emerging Countries	148	138	152	152
HYEF	High Yield Emerging Countries	740	762	806	560
EMAO	Bonds rated A Emerging Countries	105	103	107	118
EM2B	Bonds rated BBB Emerging Countries	200	183	207	194
EM3C	Bonds rated BB Emerging Countries	402	410	444	358
EM6B	Bonds rated B Emerging Countries	1017	935	958	727

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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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