

Corporate Credit Monthly Update

April 2022

The eurozone once again finds itself in a tricky situation, forced to juggle slowing economic growth and rising inflation. Russian military operations against Ukraine have intensified, with limited progress being made in peace talks. The sanctions against Russia are impacting European economic activity and reinforcing concerns about inflation. In particular, Europe has announced ambitious plans to reduce its dependence on Russian gas. However, in the short term, without these imports, the European economy would suffer significant damage. Despite this, relative optimism emerged in the second half of the month about the negotiations between Russia and Ukraine.

Eurozone yields rose in response to inflation data and comments from Christine Lagarde. In particular, investors are expecting monetary tightening cycles to accelerate. Yields on German 10-year Bunds rose to 0.74% during the month, closing at 0.55%, close to the highest level in four years. Credit markets fell during the first half of the month, before changing course and rising over the last fortnight. High yield bonds recovered particularly well, after losing almost 2%. They ended the month in slightly negative territory but outperformed investment grade bonds over the period. In this context, the yield on the European corporate index ended the month relatively stable at 4.32%.

Markets in the US, and particularly credit markets, were weighed down by persistent concerns about inflation, interest rate volatility and the Fed's tightening cycle. The rise in inflation to 7.9%, largely driven by energy, food and real estate, left the US central bank with no choice but to raise rates by 25 basis points, as expected by the markets. The Fed's rate now stands at 0.50% and markets are expecting six to seven more rate hikes this year. WTI crude was volatile over the period. It closed up 5% at USD 100.95 per barrel, after having reached USD 130 during the month.

The US also confirmed the release of a significant portion of its strategic oil reserves. Treasury yields rose significantly, with an even larger increase for short maturities. As a result, 10-year yields fell below 2-year yields and the curve briefly inverted for the first time since 2019. 10-year yields closed the month up 51 basis points at 2.34%. US corporate bond spreads tightened in March, even for lower quality bonds. The yield on the US corporate index rose 36 basis points to end the month at 5.55%.

Emerging markets also saw collateral damage from the war in Europe. The impact was particularly strong for countries highly dependent on imports from Russia and Ukraine. The geopolitical crisis has added to the surge in commodity prices and is exacerbating inflation and disruption to supply chains. Closely tied to geopolitical risks, global market volatility is expected to persist, making the economic outlook even more uncertain.

Following the lead of the Fed, various central banks in emerging countries have raised their key rates, with the main aim of controlling inflation. Others are likely to follow, with the notable exception of China. Concerns were already present in China in 2021 about regulatory restrictions and the collapse in the real estate market. These concerns continue to weigh on the economy. The reintroduction of COVID-19 lockdowns is causing further concern, with greater uncertainty about growth prospects. However, the Chinese authorities have relaxed their regulatory approach to a certain degree, leading to a slight improvement in credit markets. Bond markets in other emerging countries had a particularly difficult start to the year, with widespread weakness and a significant rise in yields. Emerging markets saw capital outflows of USD 9.8 billion in March, of which USD 3.1 billion was debt. The yield on the emerging market corporate index stood at 9.88% at the end of the month.

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Companies in the Spotlight

CBR

CBR, the German retailer, reported better than expected Q4 results. Q1 pre-orders and FY22 guidance were also positive, while the company disclosed the return of shareholder dividends (Q1 64m) sooner than anticipated. Q4 sales of EUR157m were well up +23% yoy and adjusted. EBITDA was EUR38m compared with 30m prior year and our est. of 33m driven by solid Wholesale performance which more than offset a slight decline in e-Commerce attributed to higher freight costs. Liquidity remained strong and net leverage stands at c. 3x including announced dividend. Outlook commentary was positive, with wholesale pre-orders for H1 up 18% yoy and just -1% vs FY19 despite Omicron disruption in Jan/Feb.

Horizon Therapeutics

Horizon Therapeutics' ratings were upgraded by Moody's in March, with senior unsecured notes now being rated Ba2. The move was triggered by Horizon's increasing size (sales above \$3bn in 2021), high price points for its drugs, good growth and high barriers to entry. According to Moody's, the company targets 2.0x gross financial leverage, but its M&A strategy might result in temporary upswings. As at 31 December 2021, net debt/EBITDA was 1.20x and Horizon had more than \$1.58bn in cash and cash equivalents versus total debt of \$2.67bn.

InterCement

InterCement, the Brazilian cement maker reported strong 4Q 2021 results, with revenues up 38% yoy at \$476m, driven by solid pricing and some volumes flat. Despite rising costs (petcoke, natural gas), the company managed to increase adjusted EBITDA margin during the fourth quarter to 26.4% (vs 26.2% in 3Q21). In full year 2021, adjusted EBITDA rose 37% to 470m, with the margins expanding by 90 bps to 27.7%. Consolidated net leverage decreased to 2.8x. On the back of this positive set of results, Fitch upgraded InterCement's ratings to B- from CCC.

Significant Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
Teollisuuden Voima Oyj	2.625%	2027	EUR 600M	BB+

US

Issuer	Coupon	Maturity	Amount	Rating
Ford Motor Credit	4.95%	2027	\$1.5Bn	BB+
Owens & Minor	6.625%	2030	\$600M	B

EM

Issuer	Coupon	Maturity	Amount	Rating
<i>No new issues this month</i>				

Rating moves

Diocle	Moody's	↗	B1
Fnac Darty	S&P	↗	BB+
Holcim	S&P	↗	BBB+
Kraft Heinz	S&P	↗	BBB-
Metinvest	S&P	↘	B-
OHLA	Moody's	↗	B3
Ontex	Moody's	↘	B2
Oriflame	Moody's	↘	B2
Paprec	S&P	↗	BB-
SGLT	Fitch	↗	B+
Stellantis	S&P	↗	BBB
Telecom Italia	S&P	↘	BB-
Tendam	Moody's	↗	B1

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Macro Economic Events

Eurozone: growth in business activity slowed by less than forecast in March. The PMI fell only slightly to 54.5 from 55.5 in February, which was ahead of market expectations. It remains above the 50 threshold, indicating continued improvement in trading conditions. As far as the eurozone's two largest economies are concerned, growth in business activity strengthened in France, whilst growth decelerated in Germany but remained strong. Annual eurozone inflation hit a new record high for the fourth consecutive month, reaching 7.5% in March versus 5.9% in February, well above the market forecast of 6.6%.

Germany: inflation is likely to reach 7.3% in March – the highest level since 1981 and well above market expectations (6.3%). The business climate indicator fell to its lowest level for 14 months, at 90.8 in March versus 98.9 in February. This was well below the market forecast of 94.2.

France: consumer confidence fell to 91 in March versus 97 in the previous month, below the market forecast of 94. This is the weakest reading since February 2021 and well below the long-term average of 100. The war in Ukraine and the rise in inflation are depressing expectations and living standards.

United States: the economy grew by 6.9% on an annualised quarterly basis in the fourth quarter of 2021, and by 5.7% for the full year. Economists are expecting growth of 3.5% in 2022, which means activity is still ahead of pre-pandemic levels. The employment market also remains favourable. The US economy created 431,000 jobs in March, slightly short of the forecast of 490,000. The unemployment rate fell to 3.6%, which is its lowest level in two years.

Brazil: the manufacturing index reached 52.3 in March, versus 49.6 in the previous month. This is the first expansion in industrial activity in Brazil since October 2021, with a recovery in production and new orders. There is also positive momentum in the employment market.

South Africa: the central bank raised its benchmark rate by 25 basis points to 4.25% in March. This is the third consecutive hike due to increased inflation risks stemming from the war in Ukraine in particular. Policymakers said that the overall risks to the medium-term growth outlook are assessed to be balanced, while risks to the inflation outlook have been revised upwards.

Market Data Indices (end of March)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-0.12%	-4.83%	3.69	4.35%
JOA0	High Yield United States	-0.92%	-4.53%	4.44	5.93%
H7PC	High Yield Europe BB/B Excluding Financials	0.15%	-4.28%	3.59	4.32%
JC4N	High Yield United States BB/B Excluding Financials	-0.83%	-4.49%	4.55	5.55%
HYEF	High Yield Emerging Countries Excluding Financials	-3.24%	-11.62%	3.96	9.88%
Investment Grade					
ER00	Investment Grade Europe	-1.39%	-5.26%	5.09	1.54%
COA0	Investment Grade United States	-2.64%	-7.74%	7.79	3.63%
EMIC	Investment Grade Emerging Countries	-3.97%	-9.07%	5.87	3.84%
Governments					
G4D0	10-Year German Bond	-3.31%	-5.79%		0.55%
G402	10-Year US Bond	-3.93%	-6.49%		2.34%

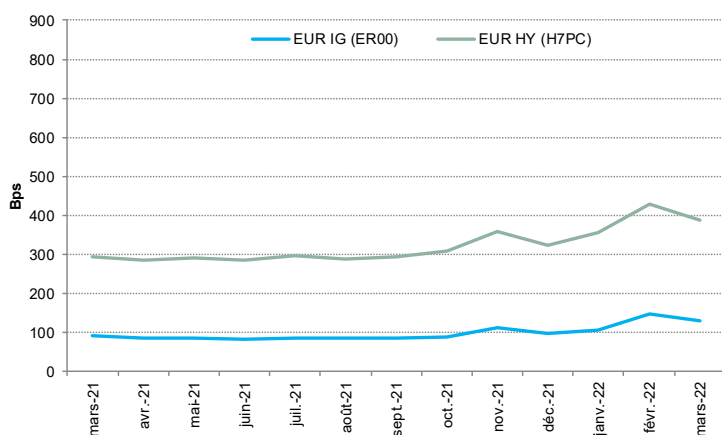
Inflation (end of March)						
Realized inflation		March	February	January	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	7.50%	5.90%	5.10%	3.40%	1.30%
US CPI	Realized inflation in the United States (rolling 12-month)		7.90%	7.50%	5.40%	2.60%

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

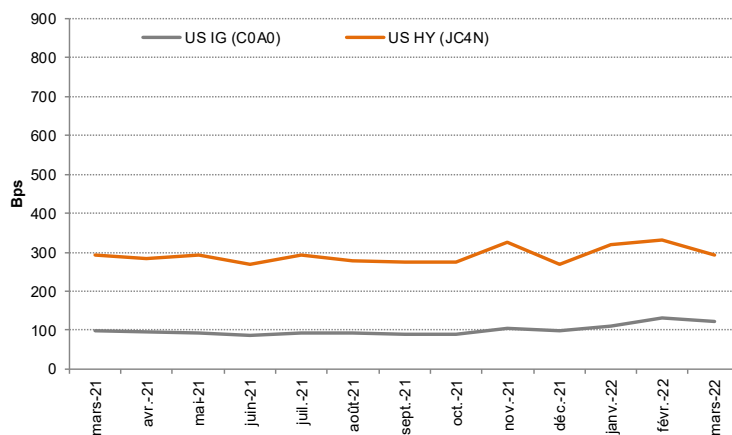
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



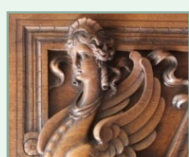
Corporate Bond Spreads		March	February	January	12 months
Europe					
ER00	Investment Grade Europe	127	146	106	90
HE00	High Yield Europe	410	450	374	322
H7PC	High Yield Europe BB/B Excluding Financials	395	431	363	301
ER30	Bonds rated A Europe	107	123	91	76
ER40	Bonds rated BBB Europe	151	170	123	106
HE10	Bonds rated BB Europe	323	358	293	250
HE20	Bonds rated B Europe	525	586	506	422
United States					
C0A0	Investment Grade United States	121	128	107	91
J0A0	High Yield United States	361	389	373	347
JC4N	High Yield United States BB/B Excluding Financials	323	353	340	311
C0A3	Bonds rated A United States	96	100	84	69
C0A4	Bonds rated BBB United States	151	160	133	114
JUC1	Bonds rated BB United States	267	298	286	260
JUC2	Bonds rated B United States	404	436	418	394
Emerging Countries					
EMIC	Investment Grade Emerging Countries	163	206	148	141
HYEF	High Yield Emerging Countries	760	863	740	560
EMAO	Bonds rated A Emerging Countries	120	118	105	105
EM2B	Bonds rated BBB Emerging Countries	221	308	200	183
EM3C	Bonds rated BB Emerging Countries	383	497	402	361
EM6B	Bonds rated B Emerging Countries	921	1218	1017	748

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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