

# Corporate Credit Monthly Update

## August 2022

### Europe

Despite good growth figures, there is still considerable concern in the eurozone about the fragility of the economic recovery and the risk of recession. The latest PMI figures show that manufacturing contracted in July in all of the region's major economies. As in the United States, inflation is reaching dangerously high levels and labour markets are under strain. And yet the situation seems more precarious in Europe, which is contending with an uncertain energy supply. The region is facing greater adverse effects owing to its dependence on Russian oil and gas. Excessive monetary tightening could therefore prove more detrimental in Europe. Nonetheless, the ECB took the market by surprise with a rate hike of 50 basis points in response to mounting inflationary risks. It also sought to facilitate the policy normalisation process by introducing the new transmission protection instrument (TPI), which is designed to limit spreads between the region's various economies. Europe may not need to raise its key rates as much as the United States, though.

The German 10-year Bund yield fell to 0.7% in July, which was the lowest level seen in over three months. It ended the month down 52 basis points, at 0.81%. The deterioration of the macroeconomic context and strict energy-saving measures in Germany prompted investors to favour less risky assets. The European corporate index yield also ended the month down, at 6.27%.

In the United States, the Federal Reserve continued to tighten monetary policy in response to the highest level of inflation in 40 years (+9.1%), and despite weaker-than-expected growth in Q2 when GDP contracted by 0.9%. The Fed announced another rate hike of 75 basis points in July but it also adopted a more conciliatory tone, leaving scope for investors to infer that future rises may occur at a slower pace. Many of the multiple factors contributing to inflation look set to last. However, a fall in the prices of commodities and oil came as something of a relief.

July afforded the financial markets some respite. Mounting fears of a recession between now and the end of the year favoured US government bonds. The yield curve steepened as a result. The 10-year yield fell to 2.65% at month-end, which was 36 basis points below the level at the end of June. The corporate bond markets continued to recover. The uplift, which began in mid-June, was fuelled by strong corporate earnings results. July was the best month of the year so far for credit, wiping out most of the losses from June. Spreads for all ratings categories narrowed as risk tolerance increased. Investment grade bonds saw the largest monthly rise for over two years. High yield outperformed, with spreads narrowing by around a hundred basis points. The average yield offered by the US corporate index was 6.94% at the end of the month.

### United States

### Emerging

Many central banks in emerging markets reacted to inflationary fears more swiftly than their peers in developed markets. Even so, global economic growth slowed. There are early signs that inflationary pressure is easing, with a fall in commodities prices and freight charges. Although the Chinese economy bounced back post-lockdown, GDP growth for the second quarter was surprisingly low. The country is facing fresh headwinds in the form of mounting pressures on the housing market and weaker global demand.

July saw credit spreads widen somewhat on emerging markets, in contrast to the substantial narrowing seen on US markets. Corporate bond yields on offer in emerging markets therefore appear, for most ratings categories, to be more attractive. Emerging markets nonetheless saw a change in trend over the month: after sharp sell-offs in recent months, they achieved modest positive performance in July, with a larger rise for investment grade bonds than the high yield segment. Capital flows to emerging market debt were negative over the month, at USD -8.8 billion. The emerging market corporate index yield was 11.86% at the end of the month.

*Edited: 08/08/2022*

### Atalian (EU)

French facility services group Atalian has received a binding and irrevocable offer from CD&R to acquire Atalian's entire share capital and voting rights. Completion of the proposed transaction will be subject to customary conditions and the proposed transaction is expected to close by the end of 2022. At closing Atalian will redeem in full the senior notes due 2024 and 2025. This is positive credit news that we have been expecting for some time.

### Resolute Forest Products (US)

Resolute Forest Products has entered into an agreement to be acquired by Domtar, a subsidiary of Paper Excellence Group, for an enterprise value of approximately \$1.9bn. According to Paper Excellence management, Resolute is an ideal fit for its long-term growth strategy and complements an existing pulp, paper, and packaging business, while also adding capabilities in lumber and tissue. The Change of Control clause at 101% should apply and the deal is expected to be approved at a General Meeting of RFP in early autumn.

### Continuum Green Energy (EM)

Continuum Green Energy owns and operates three large wind farms and one large wind-solar co-located hybrid farm in India. Total installed and commissioned capacity is currently 722 MW, and the company benefits from long term purchase price agreements (PPAs) with two State distribution companies and 89 commercial and industrial consumers. Following an intense phase of capex spending, Continuum is expected to continue to post positive FCF in the coming years and management expects the company's net debt to EBITDA ratio to decrease from the current level of 5.5x to 3x by the end of 2026.

### Rating moves

Aeroporti di Roma	S&P	➔	BBB
Atlantia	S&P	➔	BB+
Atos	S&P	➔	BB
Prestige Bidco	Moody's	➔	B1
REN	Moody's	➔	Baa2
REWE	S&P	➔	BBB
Rxel	S&P	➔	BB+
Securitas AB	S&P	➔	BBB-
Telecom Italia	Moody's	➔	B1
Tereos	Fitch	➔	BB

### Significant Primary Issues

#### Europe

Issuer	Coupon	Maturity	Amount	Rating
888	7.558%	2027	EUR 400M	B1
Prestige Bidco	7.00%	2027	EUR 350M	B1

#### United States

Issuer	Coupon	Maturity	Amount	Rating
Avient Corp	7.125%	2030	\$725M	BB-
Camelot Return	8.75%	2028	\$710M	B

#### Emerging

Issuer	Coupon	Maturity	Amount	Rating
America Movil	4.70%	2032	\$750M	A-
Lenovo Group	5.831%	2028	\$625M	BBB-

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Macro Economic Events

Europe

**Eurozone:** the zone's economy grew by 0.7% in Q2, after a 0.5% downward revision of growth for Q1. It thus exceeded market forecasts of 0.2%. This is the strongest performance in three quarters, boosted by the easing of Covid 19-related restrictions and the summer tourist season in southern countries. Spain, Italy and France experienced strong, vigorous growth, while the German economy has stalled and some countries are already suffering a contraction. Inflation rose still further, reaching a record level of 8.9%.

**ECB:** the central bank raised its key rates by 50 basis points in July. This hike, which surprised markets on the upside, ended an eight-year period of below zero borrowing costs. It was the first increase since 2011, and the largest since 2000, shortly after the creation of the euro.

**Germany:** in July the unemployment rate hit a nine-month high of 5.4%. This increase was chiefly caused by the registration of Ukrainian refugees as job-seekers. Nevertheless, the labour market remains broadly stable.

US & EM

**United States:** the PMI was revised down slightly to 52.2 in July, representing the weakest growth in manufacturing activity since July 2020. Production fell for the first time since June 2020, due to weakening demand, difficulties in finding suitable candidates for vacancies and raw material shortages. The volume of new orders fell at the fastest rate in more than two years. Further supply chain disruptions and price increases inhibited customer demand.

**China:** the yuan weakened against the dollar to its lowest level in three months, due to lacklustre data on Chinese manufacturing activity in July. These data highlighted the fragility of the country's economic recovery. The resurgence of Covid 19 and the gloomier global outlook weighed on demand. In addition, the country's monetary policy which diverges from the rest of the world, its strict zero-Covid approach and the difficulties in its real estate sector are all factors increasing the risk of capital outflows and further yuan depreciation.

**Brazil:** the trade surplus narrowed to USD 5.4 billion in July compared with USD 7.4 billion in the same month a year earlier. It was below market expectations, which had projected USD 7 billion. Imports jumped 41.6% year-on-year due to purchases of manufactured, mining and agricultural products. At the same time, exports rose at a slower rate of 23%.

Market Data Indices

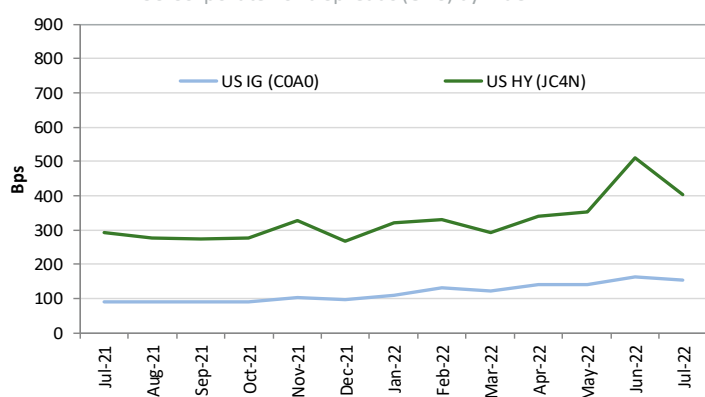
Indices (end of July)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	5.07%	-10.81%	3.50	6.34%
JOA0	High Yield United States	6.04%	-8.80%	4.51	7.56%
H7PC	High Yield Europe BB/B Excluding Financials	5.27%	-10.26%	3.40	6.27%
JC4N	High Yield United States BB/B Excluding Financials	6.24%	-8.12%	4.62	6.94%
HYEF	High Yield Emerging Countries Excluding Financials	0.34%	-20.75%	3.89	11.86%
Investment Grade					
ER00	Investment Grade Europe	4.65%	-8.10%	4.92	2.33%
COA0	Investment Grade United States	2.95%	-11.39%	7.39	4.39%
EMIC	Investment Grade Emerging Countries	1.21%	-12.44%	5.53	4.78%
Governments					
G4D0	10-Year German Bond	4.85%	-7.09%		0.81%
G4O2	10-Year US Bond	2.96%	-7.76%		2.65%

Inflation (end of July)		July	June	May	6M	12M
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	8.90%	8.60%	8.10%	5.10%	2.20%
US CPI	Realized inflation in the United States (rolling 12-month)		9.10%	8.60%	7.50%	5.40%

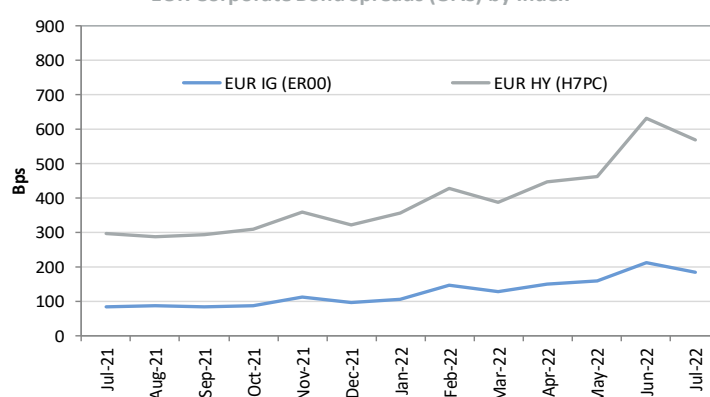
Month-to-date = MTD      Duration-to-worst = DTW  
Year-to-date = YTD      Yield-to-worst = YTW

Source: Merrill Lynch  
Edited: 08/08/2022

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

		July	June	May	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	181	205	156	85
HE00	High Yield Europe	580	636	474	321
H7PC	High Yield Europe BB/B Excluding Financials	561	617	454	305
ER30	Bonds rated A Europe	150	174	131	72
ER40	Bonds rated BBB Europe	220	244	185	99
HE10	Bonds rated BB Europe	462	511	372	251
HE20	Bonds rated B Europe	752	815	606	432
<b>United States</b>					
COA0	Investment Grade United States	154	163	138	87
JOA0	High Yield United States	480	575	422	338
JC4N	High Yield United States BB/B Excluding Financials	420	515	368	307
COA3	Bonds rated A United States	123	130	109	68
COA4	Bonds rated BBB United States	193	205	173	109
JUC1	Bonds rated BB United States	339	426	292	248
JUC2	Bonds rated B United States	551	654	479	403
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	210	196	177	148
HYEF	High Yield Emerging Countries	909	928	769	649
EMAQ	Bonds rated A Emerging Countries	134	130	124	108
EM2B	Bonds rated BBB Emerging Countries	305	281	247	196
EM3C	Bonds rated BB Emerging Countries	559	565	424	381
EM6B	Bonds rated B Emerging Countries	1093	1075	987	873

Source: Merrill Lynch

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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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