Corporate Credit Monthly Update

September 2022

Europe

Pessimism about the energy situation is the prevailing sentiment in Europe, where there is considerable uncertainty regarding gas. Although an immediate gas crisis has been averted, the drop in supply is hitting European economies. Furthermore, inflation has accelerated at a record pace, reaching 9.1% in August, while the consumer confidence index stands at its lowest level since records began in the 1980s. The weakness of the euro is adding to the problems facing the bloc. The European currency has fallen below parity with the dollar and hit its lowest level in 20 years. Europe's proximity to the Ukrainian front, soaring electricity prices and the slowdown in the Chinese economy, to which German companies in particular are exposed, have caused greater market volatility. Added to these factors are less generous monetary policy and high-risk general elections in Italy, planned for the end of September, coming in the aftermath of a governmental crisis.

This backdrop sets the scene for one of the worst months in the history of the European bond markets. Government bonds fell as much as 5% in the course of the month. The German 10-year Bund yield crossed the 1.50% level, ending the month up 73 basis points, at 1.54%. In corporate credit, Investment Grade bonds also fell by almost 5%, underperforming the High Yield segment (1.25%), as the latter benefited from much lower sensitivity to interest rates. Investors remain fearful of an aggressive rate hike from the ECB, as the economic outlook for the Eurozone grows gloomier. The yield on the European corporate index closed the month up, at 6.83%.

United States

At the symposium of central bankers in Jackson Hole in the United States, the Federal Reserve reaffirmed the need to tighten monetary policy. The objective is still to bring inflation under control, at the risk of tipping the US economy into recession. Inflation figures indicate that an inflexion point may have been reached. However, the fight is far from over and this should remain the main focus of concern. The extent of any likely recession is difficult to predict, given the current strength of the labour market and corporate earnings that continue to beat expectations. In general, prices for commodities fell in August. Notably, Brent crude oil ended the month 12% lower. Most of this decline occurred after the symposium.

US bond markets were under severe pressure for most of August. The yield on the 10-year Treasury note saw a spectacular rise of 54 basis points to close at 3.19%. The yield curve remains inverted, though, with the yield on 2-year Treasuries higher than that on 10-year Treasuries. This rally in yields has strengthened the US dollar: the euro and the yen have fallen to levels not seen in more than 20 years. Investment Grade and High Yield corporate bonds tracked government debt by declining sharply in August. New issue volumes remained low. By the end of the month, the yield offered by the US corporate index was 7.59%.

Emerging

Emerging markets were impacted by the drop in business activity in the developed economies, indicating a slowdown in global economic growth. Rising prices have eroded consumer demand and the war in Ukraine has disrupted global supply chains. Bucking the trend seen in other major economies, China further eased its monetary policy in order to deal with this slowdown. The Chinese economy remains under pressure because of the government's zero-Covid strategy, difficulties in the real estate sector and power shortages in manufacturing centres. This situation increases the risk of further capital outflows and a depreciation of the yuan. Turning to international relations, tensions between China and the United States spiked in the wake of Nancy Pelosi’s visit to Taiwan.

EM bond markets got off to a good start in August and spreads tightened. This trend was followed by a partial reversal in the second half of the month, albeit a smaller one than that seen on bond markets in the developed world. The High Yield segment rose more than Investment Grade and was one of the few segments to achieve positive performance in August. Dollar-denominated Chinese High Yield bonds rallied over the month after the announcement of government support for the struggling real estate sector. Valuations remain attractive across the various segments of the EM credit market, and default rates are expected to remain below historical averages. The emerging market corporate index yield was 12.11% at the end of the month.

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Companies in the Spotlight

Ellaktor (EU)

Ellaktor, the Greek industrial conglomerate, reported solid H1 2022 results with both revenue and EBITDA securing double-digit growth. Cash flow generation was also sound at c. EUR 59 million up from EUR 16 million a year ago. Net debt amounted to EUR 606 million, down from FYE 2021. In August, the company also confirmed the sale of 75% of its renewables business to Motor Oil. Proceeds from this sale are to be used for debt repayment, providing a key source of funds to redeem the EUR 670 million 6.375% 2024 notes issued by Ellaktor.

Varex (US)

Varex, a leading innovator, designer and manufacturer of X-ray imaging components for medical imaging and industrial applications, reported sound 3Q22 results. Versus the third quarter of fiscal year 2021, total revenue increased by 2%, with the medical segment flat and the industrial segment up 8%. In the nine months to July 2022, Varex's revenue grew by 6% and the adjusted EBITDA margin increased to 16.6% from 15.8% the previous year. For the fiscal year 2023, the management now expects revenue to reach USD 853 million – an increase of 4.3% vs 2022. Despite a significant build-up in inventories since the beginning of FY23, the company should report a positive FCF for the full year, and its net leverage, currently 2.3x EBITDA, should remain at pre-pandemic levels.

KIO Networks (EM)

KIO Networks, the Mexican IT services company, reported modest 1Q22 earnings with revenue increasing by 6% QoQ but EBITDA decreasing by 7%. However, the company expects EBITDA to improve during the remainder of 2022 and FY22 EBITDA to increase by 21% against 2021. This, coupled with further USD 30-40 million in shareholder contributions to fund data centre expansions, should bring net leverage to 3.8x by the end of this year. Since acquiring KIO Networks in December 2021, I Squared Capital has injected roughly USD 190 million.

Rating moves

Carnival	Moody's	↘	B2
OI European Group	Moody's	↗	Ba3
Stellantis	Moody's	↗	Baa2

Significative Primary Issues

Europe

Issuer	Coupon	Maturity	Amount	Rating
No new issues in August				

United States

Issuer	Coupon	Maturity	Amount	Rating
Ford Motor Co	6.1%	2032	$1.75Bn	BB+
Royal Caribbean Cruises	11.625%	2027	$1.25Bn	B

Emerging

Issuer	Coupon	Maturity	Amount	Rating
No new issues in August				

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Macro Economic Events

Europe

Eurozone: the economic sentiment indicator fell to -54.9 in August, from -51.1 the previous month. This is the lowest figure since November 2011. The economic outlook continues to deteriorate, in the current context of the energy crisis and ECB rate hikes. In addition, business activity in the Eurozone contracted in August. Germany recorded the largest drop in production since June 2020. Moreover, inflation reached a new peak, at 9.1%.

Germany: the latest macroeconomic data indicate that investor confidence fell in August to its lowest level since October 2008. High energy costs are weighing on the outlook. Germany expects to have to cut its gas consumption by one fifth to avoid rationing this winter.

United Kingdom: inflation has risen above 10%, which is the highest rate since 1982. Food, non-alcoholic beverages and transport were the largest contributors to this jump. This inflation rate is the highest among developed countries and portends a similar trend for the Eurozone.

US & EM

United States: the housing market index continued to fall for the eighth consecutive month to 49 in August. This is the lowest point since May 2020 and well below the market forecast of 55. The tightening of monetary policy by the Fed and persistently high construction costs have caused a recession in this sector. The total volume of housing starts is likely to decline in 2022 for the first time since 2011.

China: the latest figures demonstrate that the country's economy is struggling to recover, because of its zero-Covid policy, high temperatures and several other unfavourable factors. Manufacturing activity contracted again in August and services fell to their lowest level in three months.

Brazil: the consumer confidence index rose by 4.1 points in August to 83.6, which is its highest level since January 2020. This increase reflects the improvement in economic conditions and more encouraging prospects for the coming months. The recovery in the labour market and the slowdown in inflation are encouraging household spending, particularly for the wealthy. Nevertheless, the political environment remains a concern for the next few months.

Turkey: at its August meeting, the central bank unexpectedly lowered its key rate by 100 basis points to 13%. The move came as a surprise to markets, which had expected rates to remain stable with inflation close to 80%. The central bank is thus seeking to ease its monetary policy to stimulate economic growth, with an eye on next year's elections.

Market Data Indices

Indices (end of August)		Performance		Duration	Yield
High Yield		**MTD**	**YTD**	**DTW**	**YTW**
HE00	High Yield Europe	-1.25%	-11.92%	3.41	6.92%
J0A0	High Yield United States	-2.43%	-11.01%	4.49	8.25%
H7PC	High Yield Europe BB/B Excluding Financials	-1.25%	-11.39%	3.31	6.83%
JC4N	High Yield United States BB/B Excluding Financials	-2.78%	-10.68%	4.60	7.59%
HYEF	High Yield Emerging Countries Excluding Financials	1.67%	-19.43%	3.81	12.11%
Investment Grade					
ER00	Investment Grade Europe	-4.25%	-12.01%	4.74	3.28%
C0A0	Investment Grade United States	-2.66%	-13.75%	7.19	4.85%
EMIC	Investment Grade Emerging Countries	-0.78%	-13.12%	5.44	4.94%
Governments					
G4D0	10-Year German Bond	-5.58%	-12.27%		1.54%
G402	10-Year US Bond	-3.72%	-11.19%		3.19%

Inflation (end of August)						
Realized inflation		August	July	June	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	9.10%	8.90%	8.60%	5.90%	3.00%
US CPI	Realized inflation in the United States (rolling 12-month)		8.50%	9.10%	7.90%	5.30%

Month-to-date = MTD
Year-to-date = YTD

Duration-to-worst = DTW
Yield-to-worst = YTW

Source: Merrill Lynch
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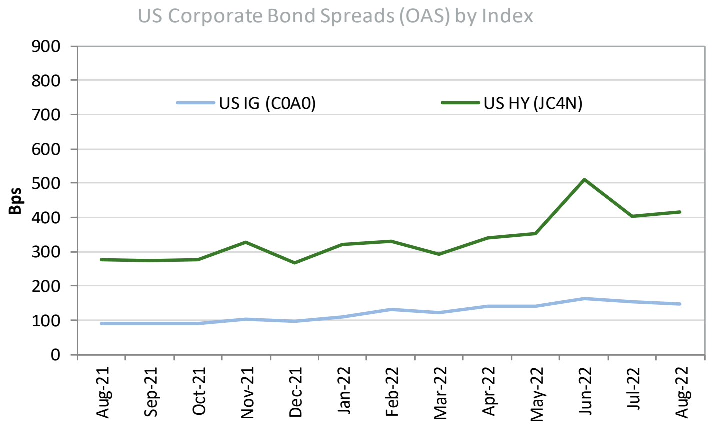

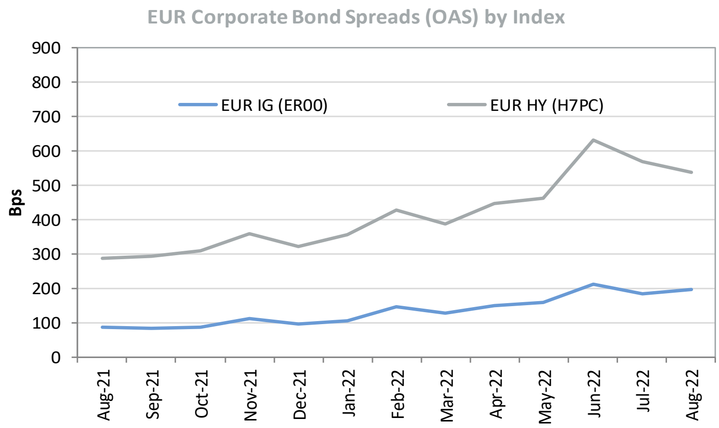

Corporate Bond Spreads

		August	July	June	12 months
Europe					
ER00	Investment Grade Europe	195	181	205	85
HE00	High Yield Europe	556	580	636	312
H7PC	High Yield Europe BB/B Excluding Financials	533	561	617	298
ER30	Bonds rated A Europe	167	150	174	73
ER40	Bonds rated BBB Europe	230	220	244	99
HE10	Bonds rated BB Europe	447	462	511	240
HE20	Bonds rated B Europe	707	752	815	418
United States					
C0A0	Investment Grade United States	149	154	163	88
J0A0	High Yield United States	492	480	575	326
JC4N	High Yield United States BB/B Excluding Financials	427	420	515	292
C0A3	Bonds rated A United States	119	123	130	68
C0A4	Bonds rated BBB United States	187	193	205	110
JUC1	Bonds rated BB United States	359	339	426	235
JUC2	Bonds rated B United States	535	551	654	387
Emerging Countries					
EMIC	Investment Grade Emerging Countries	170	210	196	134
HYEF	High Yield Emerging Countries	885	909	928	606
EMAQ	Bonds rated A Emerging Countries	120	134	130	102
EM2B	Bonds rated BBB Emerging Countries	239	305	281	174
EM3C	Bonds rated BB Emerging Countries	561	559	565	347
EM6B	Bonds rated B Emerging Countries	953	1093	1075	709

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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