Corporate Credit Monthly Update

October 2022

Europe

The eurozone is facing high inflation, an energy crisis resulting from dependence on Russian gas, and a weakening currency as the stronger dollar weighs on the rest of the world. On the energy front, Russia cut the flow of natural gas through Nord Stream 1, which supplied more than a third of Europe's gas. The impact differs between countries. Germany, the biggest European economy – and dependent on Russian gas – is worst affected. Policies are being implemented to overcome this geopolitical challenge. Eurozone countries are working together to find alternative sources of energy. On top of these difficult macroeconomic conditions comes political upheaval in the United Kingdom. The new UK government's substantial tax cuts showed how quickly unfunded fiscal stimulus could rock the markets. Investors reacted very badly, forcing the Bank of England to intervene on the long end of the yield curve. Meanwhile, the ECB raised its interest rates by an unprecedented amount: 75 bps in September.

At a time when interest rates are being hiked aggressively, credit markets remain damaged. The situation in the United Kingdom has had a major impact on European bond markets, as has the deepening of the Ukraine conflict. The 10-year Bund yield reached 2.3% in September, a level unseen for more than eight years. It ended the month at 2.11%, 57 basis points higher than in August. The European corporate index yield also moved higher over the month, closing at 8.29%.

United States

In the United States, the Federal Reserve raised its interest rates for the third consecutive time, by 75 basis points, and announced some big future increases to combat persistently high inflation, while lowering its economic growth forecasts. The pace of the Fed's rate hikes make this the fastest tightening cycle in modern history, which is the main reason why bond markets have fallen so far this year. The prospect of slower growth dragged oil prices below 80 dollars a barrel, the lowest level since January. The Fed's hawkish approach also ravaged the foreign exchange market. Over the first nine months of the year, the dollar gained more than 17% versus the world's other major currencies, with an all-time high against sterling.

Bond markets were shaken by the surge in yields, by concern about the possibility of Japan – the biggest overseas holder – selling US government bonds, and by the run on UK bonds. Interest rate volatility continued in September, reaching new highs. The 10-year T-note yield approached the 4% mark, last seen in 2010. It ended the month at 3.83%. The 2-year Treasury yield breached 4.3%, its highest level since 2007, compounding the inversion of the yield curve. The short end of the Treasury curve has probably already priced in the rate increases planned for November and December, while the middle segment and long end are more suggestive of a recession. Corporate bond spreads widened to a year-to-date high in September amid fears of an economic slowdown. The yield on the US corporate index was 8.63% at the end of the month.

Emerging

As in developed countries, most central banks in emerging countries are trying to balance the fight against high inflation with the need to avoid slamming the brakes on the economy. However, it seems that growth is more resilient in emerging than developed markets at present. That said, China is pursuing its zero-Covid policy, offering little encouragement for the short-term outlook. Government intervention to help property developers has been too little too late, failing to prevent a shock to the sector. Growth forecasts have had to be revised downwards as a result.

Emerging market debt had a difficult September, affected by the Fed's decisions and strong dollar. Government bond yields have risen in nearly all global economies, dragging corporate bond yields in their wake. Furthermore, the stronger US dollar is discouraging foreign investment and making borrowing on financial markets more costly for emerging economies. Emerging markets saw net capital outflows of USD 2.9 billion over the month, with bond inflows of USD 6 billion offset by equity outflows of USD 8.9 billion. Bond yields are now attracting investors at the expense of equities. The emerging market corporate index yield was 13.63% at the end of the month.

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Companies in the Spotlight

Playtech (EU)

Playtech, the gaming technology company, reported strong H1 22 results with revenues rising 73% yoy to EUR 792m, supported by growth of 17% in B2B Gambling and 148% in B2C Gambling. Adjusted EBITDA improved by 64% to EUR 204m, with the margin contracting by 140 bps to 25.7%. Cash flow generation was robust, resulting in net leverage falling to 1.5x from 2.2x. The management remained confident on Playtech's outlook. The strong H1 22 performance has continued into H2, with the usual seasonal trends.

Copper Mountain Mining (US)

Copper Mountain Mining agreed to sell its Australian development project for up to USD 230m to Harmony Gold. This amount includes USD 170m in cash and USD 60m dependent on copper prices and future production volumes. The closing is expected in Q1 23 and is subject to regulatory and bondholder approval. With USD 240m in outstanding bond and limited other debt, a sale of the Eva project could significantly de-risk the credit. The secured notes are callable at 104% starting in October 2023.

Frigorífico Concepción (EM)

Frigorífico Concepción, the Paraguayan meatpacker, reported solid Q2 22 results, with record high revenues, EBITDA and EBITDA margin. Revenues of USD 481m and EBITDA of USD 69m for the first half indicate that the company should be able to surpass the guidance of about USD 900m in revenues and USD 90m in EBITDA this year. Moreover, Frigorífico Concepción expects to turn free cash flow positive next year as capex cools down. In June 2022, net leverage reached 3.1x, while interest coverage stood at 3.9x, an improvement versus the metrics of December 2021 (4.1x and 3.2x respectively). The management remains confident that the opening of the US market will more than compensate for lost sales from the termination of Russian business.

Rating moves

Alsea	Moody’s	↗	Ba3
Ceconomy	Moody’s	↘	Ba2
Consolis	Moody’s	↘	B3
Elis	Moody’s	↗	Ba1
Europcar	S&P	↗	B
Grifols	S&P	↘	B+
Grupo Antolin	Moody’s	↘	B3
Ontex	S&P	↘	B
Parts Holding	Moody’s	↗	B2
Samsonite	S&P	↗	BB-

Significative Primary Issues

Europe

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
No new issues in September				

United States

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Newell Brands	6.375%	2027	$500M	BBB-
Royal Caribbean Cruises	8.25%	2029	$1.00Bn	BB-

Emerging

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
No new issues in September				

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Macro Economic Events

Europe

Eurozone: PMIs show that the economic slowdown worsened across the region in September. Pressure mounted on prices, especially for energy. Consumer confidence dropped further, by 3.8 points to -28.8 in September, below market expectations.

ECB: the central bank is now well in to its monetary tightening cycle. It has pushed its key interest rates up by 125 bps since July and has promised to keep raising them, as inflation is showing no sign of easing. The president, Christine Lagarde, stressed that the bank would have to keep raising interest rates to get a grip on inflation, even if this means weaker growth.

United Kingdom: concerns about the economic outlook and political uncertainty weighed on the pound. Higher interest rates and inflation, and the prospect of a recession, linger at a time when the country is facing a series of reforms under new prime minister Liz Truss. The announcement of large tax cuts to stimulate the economy put the markets and pound into nosedive.

US & EM

United States: consumer confidence improved further in September despite concerns about inflation and higher interest rates. The index climbed to 108 from 103.6 the previous month. This follows on from some encouraging employment and wage figures as well as the drop in fuel prices.

China: divergence between the monetary policies of China and the United States has further widened the spread between the two powerhouses' 10-year government bond yields, to a level last seen in 2009. Chinese assets seem less attractive, which increases the risk of further capital outflows and a depreciation of the yuan. The central bank pumped nearly USD 25 billion into the economy at the end of September.

Indonesia: the trade surplus increased to a four-month high of USD 5.76 billion. This figure exceeded the expectations of a market that had been predicting a figure of USD 4.09 billion. Exports were up 30% yoy to set a new record, driven by global demand.

South Africa: the central bank raised its interest rates by 75 basis points to 6.25% in September, reflecting some aggressive monetary tightening as it sought to bring inflation within the target range of 3% to 6%. The government is continuing its discussions on the best way to resolve the country's energy crisis. South Africa is suffering lengthy blackouts due to the rotations introduced by Eskom, the country's struggling electricity supplier.

Market Data Indices

Indices (end of September)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	-3.99%	-15.43%	3.30	8.29%
J0A0	High Yield United States	-4.01%	-14.58%	4.41	9.37%
H7PC	High Yield Europe BB/B Excluding Financials	-4.32%	-15.22%	3.20	8.29%
JC4N	High Yield United States BB/B Excluding Financials	-3.88%	-14.14%	4.53	8.63%
HYEF	High Yield Emerging Countries Excluding Financials	-5.41%	-23.79%	3.69	13.63%
Investment Grade					
ER00	Investment Grade Europe	-3.47%	-15.06%	4.64	4.13%
C0A0	Investment Grade United States	-5.31%	-18.33%	6.86	5.74%
EMIC	Investment Grade Emerging Countries	-3.90%	-16.51%	5.20	5.79%
Governments					
G4D0	10-Year German Bond	-4.59%	-16.30%		2.11%
G402	10-Year US Bond	-4.92%	-15.56%		3.83%

Inflation (end of September)						
Realized inflation		September	August	July	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	10.00%	9.10%	8.90%	7.40%	3.40%
US CPI	Realized inflation in the United States (rolling 12-month)		8.30%	8.50%	8.50%	5.40%

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

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

Source: Merrill Lynch
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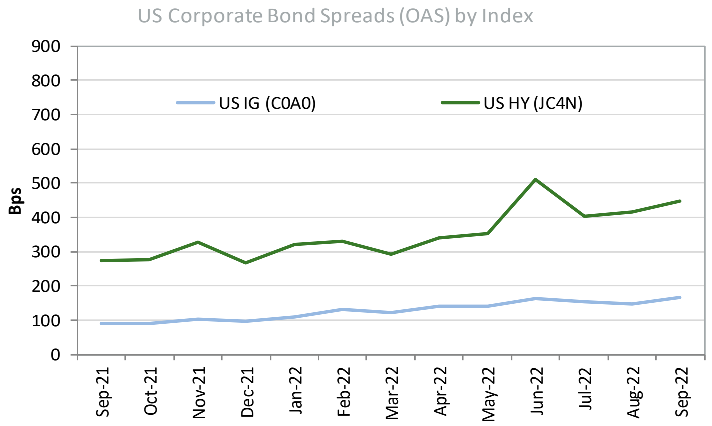

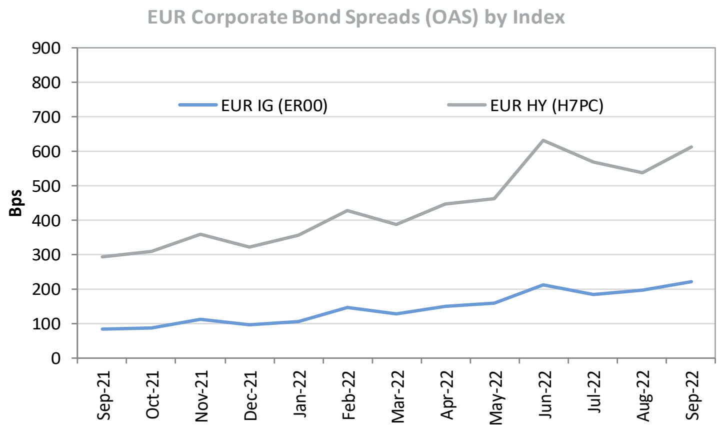

Corporate Bond Spreads

		September	August	July	12 months
Europe					
ER00	Investment Grade Europe	218	195	181	84
HE00	High Yield Europe	632	556	580	314
H7PC	High Yield Europe BB/B Excluding Financials	611	533	561	301
ER30	Bonds rated A Europe	187	167	150	72
ER40	Bonds rated BBB Europe	258	230	220	97
HE10	Bonds rated BB Europe	512	447	462	243
HE20	Bonds rated B Europe	809	707	752	422
United States					
C0A0	Investment Grade United States	168	149	154	84
J0A0	High Yield United States	528	492	480	324
JC4N	High Yield United States BB/B Excluding Financials	456	427	420	291
C0A3	Bonds rated A United States	138	119	123	65
C0A4	Bonds rated BBB United States	208	187	193	106
JUC1	Bonds rated BB United States	377	359	339	235
JUC2	Bonds rated B United States	578	535	551	383
Emerging Countries					
EMIC	Investment Grade Emerging Countries	181	170	210	134
HYEF	High Yield Emerging Countries	962	885	909	683
EMAQ	Bonds rated A Emerging Countries	118	120	134	100
EM2B	Bonds rated BBB Emerging Countries	262	239	305	176
EM3C	Bonds rated BB Emerging Countries	627	561	559	392
EM6B	Bonds rated B Emerging Countries	1043	953	1093	867

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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