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Corporate Credit Monthly Update

January 2023

Europe

Eurozone inflation fell to 9.2% in December, its lowest in four months. This figure is an encouraging sign and appears to suggest that, although still high, the region's inflation is moving in the right direction. Energy and electricity prices in particular have kept stabilising. However, food and energy have driven headline inflation much more than they have in the United States these past few months. At its December meeting, the ECB raised its three key interest rates by 50 basis points, as widely expected. The main Western central banks' offensive stance in combatting inflation points towards a recession in most economies during the first half of 2023, with the Eurozone still more affected than the United States.

The ECB's comments and the reopening of the Chinese market caused interest rates to move sharply. The German 10-year Bund yield rose by 64 basis points to close at 2.57%. European high yield, which remains unstable, dropped away from its trend of the last two months. With economic growth fragile, aggressive monetary tightening is still affecting investors. For investment grade and high yield alike, spreads remain above their long-term average, and yields much higher. The yield on the European corporate index closed the month at 7.48%.

United States

Inflation also showed signs of slowing in the United States. However, it remains well above the central bank's target. Strong macroeconomic data also reveals that the US economy recovered more quickly than expected in the third quarter, heightening fears that interests will remain high for a long time. The Fed raised its interest rates by 50 basis points in December, to a 15-year high. Job starts were relatively strong in 2022, but the labour market will probably lose momentum as companies freeze recruitment and announce redundancies for 2023. Access to housing has fallen to its lowest level in 10 years due to rising interest rates.

On bond markets, the US 10-year yield climbed 26 basis points to 3.87%. However, the 2-year yield remained 55 basis points higher at the end of December. It was the sixth consecutive month in which the curve between the two benchmark yields has been inverted, fuelling fears of recession. There has never been such an inverted yield curve without a recession. At a corporate bond level, the rebound of October and November did not continue in December, and the year ended on a low note for the market. Over the full year, high yield corporate bonds proved more resilient than government bonds and investment grade corporate bonds. The yield on the US corporate index stood at 8.14% at the end of the month.

Emerging

Overall, 2022 will go down as one of the most volatile years that financial markets have ever experienced, notable for soaring oil prices, supply chain bottlenecks, the war in Ukraine and rapidly rising interest rates. China remains at the forefront of emerging countries, raising both hopes and concerns. The country suddenly abandoned its zero-Covid policy. It is hard to say what the impact of the consequent surge in Covid-19 cases will be. However, this easing of restrictions and weakening of the US dollar have been positive catalysts for the region. Data on economic growth, and the real estate sector in particular, has been encouraging. In general, high dollar liabilities and financing costs mean a weaker dollar tends to benefit the performance of emerging markets, and this was confirmed in December.

Emerging credit markets rallied strongly over the month. They were able to enjoy a prolonged recovery after having suffered some of the worst losses ever seen in 2022. Overall, they seem in better shape than developed markets, and better positioned to take advantage of any commodity price increases. In this context, the EM corporate index yield ended the month at 11.15%.

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Companies in the Spotlight

Tereos (EU)

Tereos, the agro-industrial company, released solid H1 22/23 results. Revenue grew 35.3% year-on-year to EUR 3 billion, supported by higher prices across all segments. Adjusted EBITDA more than doubled to EUR 464 million thanks to higher prices as well as Tereos' commercial and hedging strategies, which supported margins. Cash flow generation came in slightly weaker year-on-year as significant earnings improvements and lower CapEx were more than offset by working capital movements and higher interest paid. Reported net debt stood at EUR 2.2 billion, down from EUR 2.4 billion a year earlier, while net leverage was 2.4x down from 3.5x. Liquidity was strong at EUR 1.203 billion, and compared favourably to EUR 713 million of debt maturing in less than a year.

VICI (US)

VICI announced that it has acquired the real estate assets of two smaller regionally focused casinos. Following its recent merger with MGP (MGM's gaming REIT), VICI earned an investment grade rating from all rating agencies and the management seems committed to sticking to this rating, while allowing for bolt-on deals. Pro forma for the incremental annual rent from the BREIT transaction, VICI's EBITDA is expected to reach adjusted EBITDA of approximately USD 2.8 bn.

Silknet (EM)

Silknet, a leading telecom company in the Republic of Georgia, reported robust Q3 22 financial results: the company's revenue improved 11% yoy, driven by higher mobile data as well as carrier services with increased roaming. The company's EBITDA followed the top line higher (+12%) and the margin remained stable at 62%. Net leverage improved to 2.1x and Fitch revised the company's rating to B+ from B in November 2022.

Rating moves

Canpack	Fitch	↘	BB-
Cemex	S&P	↗	BB+
McKesson Corp	Moody's	↗	Baa1
Mytilineos	S&P	↗	BB
PostNL	S&P	↘	BBB
Rakuton	S&P	↘	BB
Rekeep	Moody's	↘	B3
Safran	S&P	↗	A-
SIG	Moody's	↘	B2
Stena AB	Moody's	↗	B1

Significative Primary Issues

Europe

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
House of HR	9.00%	2029	€415M	B2

United States

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Chart Industries	7.50%	2030	$1.46Bn	B+

Emerging

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

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Macro Economic Events

Europe

Eurozone: the consumer confidence indicator rose 1.7 points to -22.2 in December, continuing its recovery from the historic trough of -28.7 in September. Consumer confidence remains well below its long-term average but is now slightly higher than the dip seen at the start of the COVID-19 pandemic.

ECB: the European Central Bank raised rates by 50 basis points, increasing borrowing costs to their highest level since 2009 in an attempt to combat inflation. It also promised to introduce new rate hikes and to start to reduce its EUR 5 trillion worth of bond holdings from March.

Germany: inflationary pressure abated in December in Europe's largest economy, after government measures to reduce households' natural gas bills came into effect. The unemployment rate was 5.5%, unchanged versus November and slightly below the market consensus of 5.6%. The employment market remains stable despite the energy crisis and inflationary pressure.

US & EM

United States: the economy recorded annualised growth of 3.2% in the third quarter, outperforming expectations. It recovered from two consecutive quarters of contraction, with exports and consumer spending proving more robust than anticipated The housing market index declined to 31 in December, below market forecasts of 34. This is a fresh low since 2012 if we exclude the immediate onset of the pandemic. Homebuilders' confidence fell for the 12th consecutive month, as high mortgage rates weighed on affordability.

China: the country is facing soaring infection levels following the easing of restrictions related to the zero-Covid policy. However, the government has undertaken to stimulate growth and consumption with the introduction of new measures. The People's Bank of China has stated that it will seek to better respond to the needs of the real economy and maintain a good level of liquidity in financial markets. It held its key lending rates unchanged for the fourth month running, seeking to strike a balance between support for the economy and avoidance of a new fall in the yuan.

South Africa: political risk declined after the re-election of President Cyril Ramaphosa as leader of the ruling ANC, despite major accusations of corruption. Ramaphosa's political future had been called into question at the end of November when an independent panel accused him of violating the constitution, which could have resulted in his impeachment. Ramaphosa reaffirmed his intention to combat corruption within the party although his credibility on this issue has been dented.

Market Data Indices

Indices (end of December)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	-0.74%	-11.47%	3.18	7.69%
J0A0	High Yield United States	-0.76%	-11.11%	4.26	8.94%
H7PC	High Yield Europe BB/B Excluding Financials	-0.72%	-10.89%	3.11	7.48%
JC4N	High Yield United States BB/B Excluding Financials	-0.81%	-10.47%	4.36	8.14%
HYEF	High Yield Emerging Countries Excluding Financials	3.20%	-16.58%	3.64	11.15%
Investment Grade					
ER00	Investment Grade Europe	-1.62%	-13.94%	4.58	4.22%
C0A0	Investment Grade United States	-0.21%	-15.44%	6.86	5.51%
EMIC	Investment Grade Emerging Countries	0.91%	-14.19%	5.23	5.73%
Governments					
G4D0	10-Year German Bond	-4.01%	-18.61%		2.57%
G402	10-Year US Bond	-1.09%	-14.72%		3.87%

Inflation (end of December)						
Realized inflation		December	November	October	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	9.20%	10.10%	10.60%	8.60%	5.00%
US CPI	Realized inflation in the United States (rolling 12-month)		7.10%	7.70%	9.10%	7.00%

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

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

Source: Merrill Lynch
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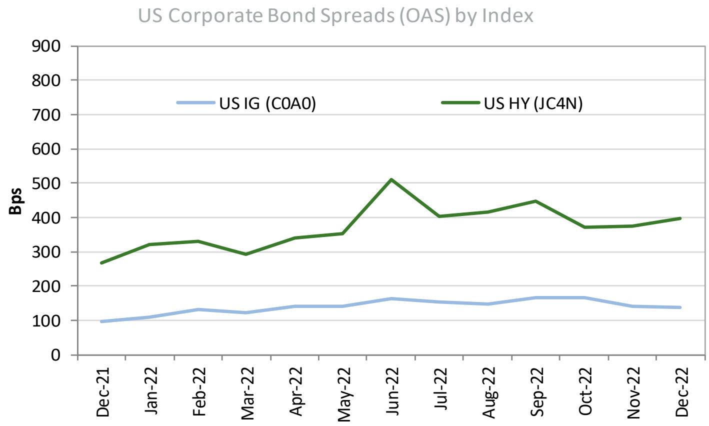

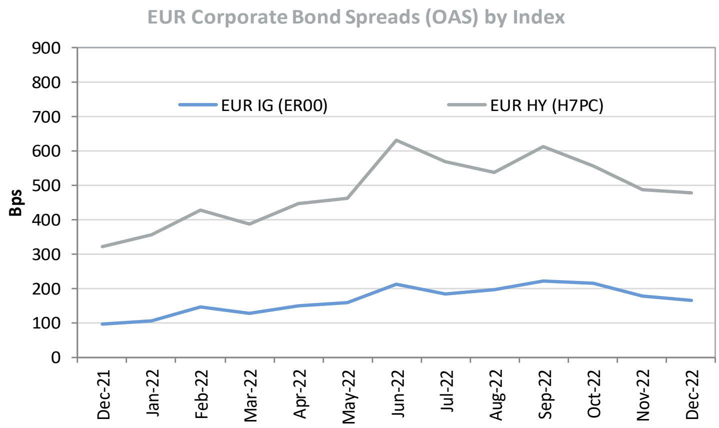

Corporate Bond Spreads

		December	November	October	12 months
Europe					
ER00	Investment Grade Europe	167	180	215	97
HE00	High Yield Europe	512	519	587	341
H7PC	High Yield Europe BB/B Excluding Financials	484	495	554	332
ER30	Bonds rated A Europe	137	152	181	84
ER40	Bonds rated BBB Europe	205	216	257	112
HE10	Bonds rated BB Europe	389	400	457	269
HE20	Bonds rated B Europe	609	628	732	455
United States					
C0A0	Investment Grade United States	141	146	167	95
J0A0	High Yield United States	485	461	458	322
JC4N	High Yield United States BB/B Excluding Financials	408	390	386	290
C0A3	Bonds rated A United States	117	121	140	74
C0A4	Bonds rated BBB United States	174	181	205	119
JUC1	Bonds rated BB United States	322	315	308	235
JUC2	Bonds rated B United States	523	492	500	375
Emerging Countries					
EMIC	Investment Grade Emerging Countries	168	192	213	138
HYEF	High Yield Emerging Countries	708	760	939	762
EMAQ	Bonds rated A Emerging Countries	121	138	147	103
EM2B	Bonds rated BBB Emerging Countries	236	267	306	183
EM3C	Bonds rated BB Emerging Countries	414	479	620	410
EM6B	Bonds rated B Emerging Countries	755	828	1037	935

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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