Corporate Credit Monthly Update

March 2023

Europe

Eurozone inflation is not falling as quickly as hoped. Headline inflation figures were higher than expected in Germany, France and Spain in February. Moreover, economic activity is showing signs of recovery early this year. The ECB is therefore likely to carry on raising interest rates and maintain a hawkish tone. The labour market remains tense. Service companies in particular are having trouble recruiting and retaining staff. European unemployment of 6.7% may seem high in comparison with the United States, but it has never been so low since the creation of the euro. Eurozone and UK PMIs improved in all areas, with services in particular moving into expansion territory above 50. The UK manufacturing industry is notably back on track, largely due to the drop in energy prices. Gas prices are now below the levels at which they stood before Russia invaded Ukraine.

After a good January, risk aversion hit financial markets in February. Equities and bonds lost ground and volatility resurfaced. European high yield is one of the few segments to have been virtually unchanged from the previous month, outperforming all the others. The 10-year Bund yield reached new highs during the month. It closed February up 37 basis points at 2.65%. The European corporate index yield ended the month at 7.09%.

United States

In the United States, above-forecast macroeconomic data raised expectations of the Federal Reserve tightening its monetary policy further to bring inflation under control. Although less aggressive than last year, the central bank is maintaining its anti-inflation stance. The US labour market remains firm, with employment growth well above predictions and the unemployment rate down to 3.4%, its lowest in more than 40 years. The economy therefore has yet to feel the full effects of higher interest rates. The markets had been anticipating rate cuts in the second half of the year but this expectation has largely disappeared, with the likelihood of a pivot before the end of the year receding. The assumption now is that the Fed will push its interest rates even higher, and keep them there for longer than expected. The terminal rate forecast climbed from 4.9% in January to 5.4% in February. The dollar strengthened after four months of decline, while gold prices fell. February also saw the publication of earnings for Q4 2022. More than 96% of S&P 500 companies announced results that, while mixed, pleasantly surprised the consensus.

On bond markets, stronger macroeconomic data, and unexpectedly persistent inflation trends, led to a sharp rise in US Treasury yields in February. The increase was greater for short-term yields, with the curve becoming even more inverted. The 10-year yield consolidated at around 4%, its highest level in three months. It ended the month 41 basis points higher at 3.92%. Yield volatility therefore picked up and remains a key theme for 2023, even if it appears to have peaked. Investment grade bond spreads widened in February, putting an end to five months of tightening. High yield showed more resilience, with smaller corrections. The yield on the US corporate index stood at 7.93% at the end of the month.

Emerging

In the rest of the world, all eyes were focused on China, not just for its importance among emerging markets, but also for the potential impact of its recent policy changes on the global economy. However, tensions between the United States and China regarding the spy balloons shot down over North America dampened investors' enthusiasm after the country reopened. In fact, they increased the need for businesses dependent on Chinese production to diversify their supply chains. Rumours that China may provide arms to Russia also fuelled mistrust in US-China relations.

Global credit markets remained dependent on macroeconomic data. Inflation indicators continue to influence expectations of higher interest rates not just in the United States and Europe but also in emerging countries, where high yield bond spreads widened considerably during the month. This gap shelters investors from the increase in government bond curves. For investment grade bonds, longer duration and narrower spreads do not afford the same level of protection. Strong business fundamentals are currently underpinning credit markets at a time when numerous uncertainties and fears of a global recession persist. The yield on the emerging corporate index closed the month at 10.97%.

Edited: 10/03/2023

Paris 9 rue Scribe, 75009 Paris, France Tel: +33 (0)9 73 87 13 20
Geneva Rue du Mont-Blanc 19, 1201 Geneva, Switzerland Tel: +41 (0)22 716 18 20
www.anaxis-am.com
info@anaxis-am.com

Corporate Credit Monthly Update
March 2023

anaxis

Companies in the Spotlight

Wienerberger (EU)

Wienerberger, the Austria-based building materials company, delivered superb Q4 22 results. Revenue rose 5.1% yoy to EUR 1.1bn, supported by around 3% organic growth, mostly driven by price hikes, which offset some pressure on volumes. EBITDA was up 10.4% at EUR 201m, with the margin increasing 86 bps to a very strong 17.8% for a Q4. This margin growth was mostly thanks to the company's success in implementing price increases, which surpassed cost inflation (15% for FY 2022). Cash-flow performance was robust with free operating cash flow surging 79% to EUR 88m. Credit stats improved further, with net leverage at 1.1x, down 0.6x YoY. Liquidity remained sound and should allow the group to weather the expected softening in demand in 2023.

International Game Technology (US)

International Game Technology, a US leading lottery and gaming technology provider, published strong Q4 22 results with revenue up 8% (ex-FX), to USD 1.1bn, exceeding management's guidance for USD 1bn. Adjusted EBITDA for the quarter was USD 149m, a 13% growth YoY, while net leverage reached 3.1x, well below management's target range for 2022 of 3.5-4.0x. Given management's aim of reducing leverage further toward the low end of its long-term target (around 2.5x) in 2023, the market now expects more upgrades from rating agencies in the coming quarters. In fact, Fitch issued a first-time rating of investment grade to the company, with a BBB- rating for all senior unsecured bonds.

Axtel (EM)

Axtel, a Mexican IT company, reported mixed Q4 22 results driven by a solid performance of the services segment but weak activity in the infrastructure side. FY 2022 EBITDA came out short of management's guidance at MXN 3bn (vs MXN 3.3bn) and fell 21% yoy. However, full-year FCF of MXN 697m was in line with the projection given during last quarterly calls and liquidity remains solid with MXN 1.54bn vs MXN 168m of short-term debt. Moreover, Axtel provided a constructive guidance for 2023, with revenue expected to rise by 6% and EBITDA by 10%, and gave more details on how it plans to deal with upcoming maturities. The company recently announced a USD 100m 5-year term loan intended to refinance part of the 2024 notes and intends to repay the remainder using bank debt.

Rating moves

BUT	S&P	↗	B+
Coty	Moody's	↗	Ba3
Easyjet	S&P	↗	BBB
Europcar	S&P	↗	B+
Frenesius	S&P	↘	BBB-
Kraft Heinz	S&P	↗	BBB
Lottomatica	Moody's	↗	B1
Morrisons	Moody's	↘	B2
Nokia	Moody's	↗	Ba1
Renault	Fitch	↗	BB+

Significative Primary Issues

Europe

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
IM Group	8.00%	2028	€265M	B
Nokia OYJ	4.375%	2031	€500M	Ba1

United States

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Adient Global	7.00%	2028	$500M	BB+
Albertsons Cos	6.50%	2028	$750M	BB

Emerging

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

Edited: 10/03/2023

Paris 9 rue Scribe, 75009 Paris, France Tel: +33 (0)9 73 87 13 20
Geneva Rue du Mont-Blanc 19, 1201 Geneva, Switzerland Tel: +41 (0)22 716 18 20
www.anaxis-am.com
info@anaxis-am.com

Corporate Credit Monthly Update
March 2023

anaxis

Macro Economic Events

Europe

Eurozone: business activity was stronger than expected in February. Output growth in the area gathered pace and reached its highest level for nine months, boosted by supply chain improvements and strengthening demand. These factors should encourage the ECB to continue to hike interest rates.

ECB: the central bank hiked its interest rates by 50 basis points at its February meeting, taking them to their highest level since the end of 2008. It announced a further increase of the same magnitude for March and reiterated its ongoing commitment to combating inflation.

Germany: at 91.1 points in February, the business climate index stood at its highest level for eight months, after having been revised downwards to 90.1 in January. In terms of individual sectors, tourism and hospitality showed a sharp improvement, while the outlook for exports trended slightly downwards. However, it seems inevitable that the German economy will fall into recession.

France: the annual inflation rate rose for the second consecutive month, increasing from 6% in January to 6.2% in February. It was therefore higher than the market forecast of 6.1%. Inflation accelerated for food, services and manufactured products. On the other hand, energy inflation slowed. On a monthly basis, the French consumer price index (IPC) rose by 0.9%, after a 0.4% rise in January.

US & EM

United States: the economy grew at a lower rate than originally expected over the last quarter of 2022 following a downward revision to consumer spending, which accounts for around 70% of economic activity. The Chicago PMI for the manufacturing sector contracted for the sixth consecutive month in February.

China: the PMI index jumped to a record high of 56.4 in February, versus 52.9 the previous month. This strong increase was boosted by Beijing's decision, in December, to lift all COVID-19 related restrictions. Manufacturing activity grew at its fastest rate since April 2012, while the services sector grew at its fastest pace for 22 months.

Turkey: the central bank cut its key interest rate by 50 basis points to 8.5% at its February meeting. It therefore interrupted its rate-cut pause, as expected by markets, to further loosen financial conditions in response to the country's earthquake disaster. It is the first interest rate cut since November, which came on top of the previous easing cycle in 2021; the latter triggered a lira crisis, a surge in consumer prices and a strong current account imbalance.

Brazil: the consumer confidence index fell for the second consecutive month, to 84.5 in February, its lowest level since August 2022. In particular, the financial situation of households has worsened. In addition, the economic expectations index fell by 0.9 points to 95.8, because of lower purchase intentions and the weakening economic outlook.

Market Data Indices

Indices (end of February)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	-0.17%	3.03%	3.19	7.26%
J0A0	High Yield United States	-1.31%	2.52%	4.15	8.60%
H7PC	High Yield Europe BB/B Excluding Financials	-0.06%	3.06%	3.08	7.09%
JC4N	High Yield United States BB/B Excluding Financials	-1.48%	2.02%	4.24	7.93%
HYEF	High Yield Emerging Countries Excluding Financials	-2.34%	1.67%	3.55	10.97%
Investment Grade					
ER00	Investment Grade Europe	-1.44%	0.54%	4.57	4.32%
C0A0	Investment Grade United States	-2.91%	0.86%	6.85	5.58%
EMIC	Investment Grade Emerging Countries	-1.57%	0.83%	5.22	5.78%
Governments					
G4D0	10-Year German Bond	-2.72%	-0.63%		2.65%
G402	10-Year US Bond	-3.19%	-0.12%		3.92%

Inflation (end of February)						
Realized inflation		February	January	December	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	8.50%	8.60%	9.20%	9.10%	5.90%
US CPI	Realized inflation in the United States (rolling 12-month)		6.40%	6.50%	8.30%	7.90%

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

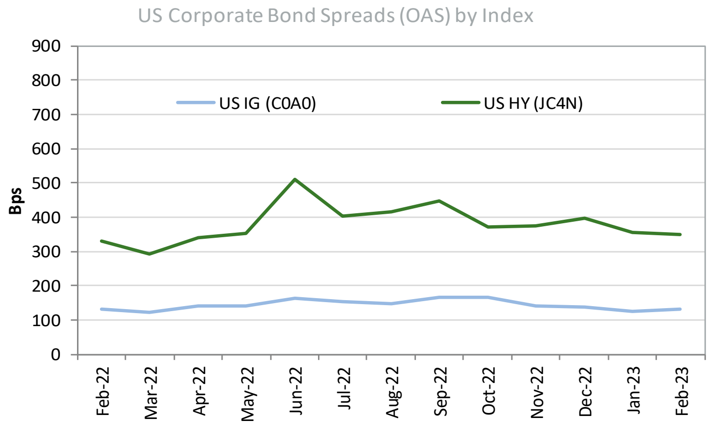
Duration-to-worst = DTW
Yield-to-worst = YTW

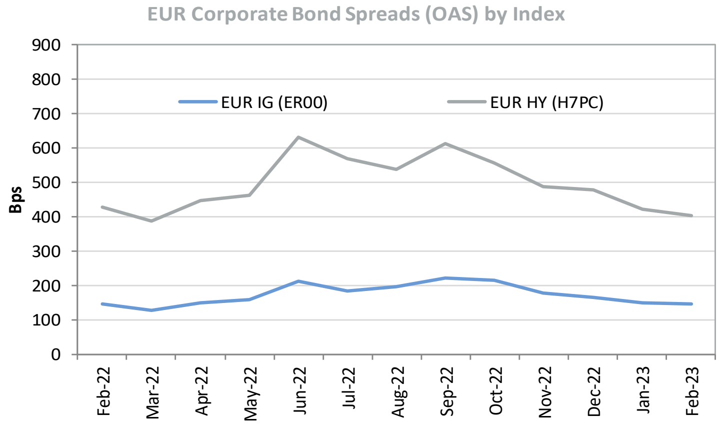
Source: Merrill Lynch
Edited: 10/03/2023

Paris 9 rue Scribe, 75009 Paris, France Tel: +33 (0)9 73 87 13 20
Geneva Rue du Mont-Blanc 19, 1201 Geneva, Switzerland Tel: +41 (0)22 716 18 20
www.anaxis-am.com
info@anaxis-am.com

Corporate Credit Monthly Update
March 2023

anaxis





Corporate Bond Spreads

		February	January	December	12 months
Europe					
ER00	Investment Grade Europe	148	153	167	146
HE00	High Yield Europe	436	455	512	450
H7PC	High Yield Europe BB/B Excluding Financials	412	431	484	431
ER30	Bonds rated A Europe	128	129	137	123
ER40	Bonds rated BBB Europe	175	182	205	170
HE10	Bonds rated BB Europe	331	340	389	358
HE20	Bonds rated B Europe	507	537	609	586
United States					
C0A0	Investment Grade United States	132	127	141	128
J0A0	High Yield United States	430	436	485	389
JC4N	High Yield United States BB/B Excluding Financials	365	371	408	353
C0A3	Bonds rated A United States	109	104	117	100
C0A4	Bonds rated BBB United States	164	158	174	160
JUC1	Bonds rated BB United States	296	295	322	298
JUC2	Bonds rated B United States	451	468	523	436
Emerging Countries					
EMIC	Investment Grade Emerging Countries	151	161	168	206
HYEF	High Yield Emerging Countries	662	636	708	863
EMAQ	Bonds rated A Emerging Countries	111	119	121	118
EM2B	Bonds rated BBB Emerging Countries	211	219	236	308
EM3C	Bonds rated BB Emerging Countries	388	373	414	497
EM6B	Bonds rated B Emerging Countries	616	645	755	1218

Source: Merrill Lynch

ANAXIS AM

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.

Anaxis Asset Management
9 rue Scribe
75009 Paris

+33 (0)9 73 87 13 20
info@anaxis-am.com
www.anaxis-am.com