

Corporate Credit Monthly Update

December 2023

Europe

In Europe, inflation continues to slow by more than economists were expecting. It fell to 2.4% in November, having peaked at 10.6% last year. Core inflation in particular has dropped from 4.2% to 3.6%, after being doggedly high in recent months. Despite this welcome trend, the effects of inflation over the past two years have significantly reduced living standards, the decline of which hasn't been seen since the 1970s. European wages have yet to rise in line with prices, meaning the public have become poorer since the end of the COVID-19 pandemic. At a geopolitical level, conflict still dominates the news with Ukraine and Russia getting bogged down, and the Israeli military still conducting operations in the Gaza strip. On the business side, European large caps saw their profits fall in the third quarter.

Against this gloomy backdrop, credit markets performed very well in November, especially for High Yield. This was supported by a narrowing of spreads and drop in yields – more so the former in Europe. Spreads tightened by 58 bps, while the 10-year Bund yield was down 35 bps to 2.45%. The widening of spreads in October has been completely offset by November's squeeze, with a return to the levels of September. The decrease in yields greatly benefited higher duration bonds. Apart from real estate, no sector was down in Europe, and media saw the best performance. The European corporate index yield ended the month at 6.92%.

In the United States, inflation also continued to subside. The Federal Reserve's comments about the macroeconomy were balanced in November, in line with the tone adopted the previous month. While stressing that inflation is still well above target, the Fed acknowledged that negative pressure from its restrictive monetary policy was slowing the economy. US firms have already felt the higher interest rate burden. The default rate is increasing, suggesting that other difficulties lie ahead if monetary policy stays restrictive for too long. The markets are now putting the probability of a rate cut as early as March 2024 at more than 50%, the highest it has been for a year. The labour market remains robust, with unemployment down in November and annual wage growth offsetting inflation, unlike in Europe.

On bond markets, the US 10-year Treasury yield dropped 60 bps to 4.33% at the end of November. As in Europe, corporate bond markets had a very good month. The squeeze on spreads and drop in yields influenced this performance in relatively equal proportions. Spreads narrowed by 66 bps in the United States, with healthcare and technology particularly strong. The yield on the US corporate index was 7.76% at the end of the month.

United States

Emerging

Geopolitical conflict, and the election of new Argentinian president Javier Milei, dominated the news in emerging countries. Inheriting a country in disarray, Milei promised that he would take a chainsaw to government spending. China remains a concern with manufacturing production down again. This comes on top of a contraction in the services sector, the first in 12 months. China's central bank looks set to continue its economic stimulus in order to reach the target of 5% annual GDP growth, but is increasingly constrained by an insufficient interest rate differential compared with developed economies, which could weaken the yen and trigger capital flight.

Despite these mixed signals, emerging financial markets enjoyed a particularly strong month as investors returned to risky assets. The region is benefiting from the Fed's monetary policy pivot, which seems to be under way. On bond markets, the Investment Grade and High Yield segments delivered positive returns. The ever-increasing prospect of a soft landing for the economy meant that High Yield performed well despite its shorter duration. The yield on the emerging market corporate index closed the month at 10.39%.

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Adevinta (EU)

Adevinta, the Norwegian media company, has entered into an agreement with Permira and Blackstone for a full takeover. The successful closing of the transaction is subject to several conditions, the most important being the fulfilment of the 90% minimum acceptance threshold (the threshold for a squeeze-out in Norway, 72% have accepted so far). After the offer has closed, the bonds due in 2025 and 2027 will be redeemed and the company's senior facilities cancelled. The Change of Control Put is set at 101% (Permira is not a permitted holder). As funding appears to be provided via the private loan market, Adevinta may have no high yield bonds outstanding if the transaction is successful.

Primo Water Corporation (US)

In early November, Primo Water Corporation ("Primo") announced the sale of a significant portion of its international businesses for up to USD 575m to Culligan International Company. Primo will use part of the proceeds to repay its outstanding balance on the USD 350m revolving credit facility that expires in August 2025, while the remaining liquidity will provide the issuer with some flexibility to invest in its North America water business, which Moody's believes offers better opportunities. Additionally, it should help Primo to accelerate its leverage reduction toward its financial goal of below 2.5x net debt to EBITDA by 2024 (2.9x as of Q3 2023, based on the company's calculation).

Digi Communications (EM)

Digi Communications, the Romanian telecom provider, reported a good set of results for Q3 2023. Revenues were up by 11.5% yoy to EUR 429m, while adjusted EBITDA came to EUR 151m (+18.5% yoy), translating into a margin of 35.1% (200 bps higher yoy). As capex increased quite significantly this year, net leverage rose to 2.8x at the end of Q3 2023 (vs 2.3x at end-2022). Finally, the issuer announced plans to refinance its 2025 Eurobonds in the second half of 2024, as liquidity remains strong with nearly EUR 210m of cash on hand and circa EUR 100m available on the April 2026 RCF.

Rating moves

Atos	S&P	↓	BB-
Birkenstock	S&P	↑	BB-
Elis	S&P	↑	BBB-
Eutelstat	Fitch	↓	BB
Goodyear	S&P	↓	B+
Jaguar Land Rover	S&P	↑	BB
Renk AG	S&P	↑	B+
TAP	S&P	↑	BB-
VF Corp	Moody's	↓	Baa3
Wepa	Moody's	↑	Ba3

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
AMS-OSRAM AG	10.5%	2029	€625M	BB-
Teleperformance	5.89%	2031	€700M	BBB

United States

Issuer	Yield	Maturity	Amount	Rating
GFL Environmental	6.75%	2031	\$1Bn	BB-
Summit Materials	7.25%	2031	\$800M	BB

Emerging

Issuer	Yield	Maturity	Amount	Rating
Arcelik AS	8.50%	2028	\$500M	BB
Mersin Uluslararası	8.50%	2028	\$600M	B

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Macro-Economic Events

Europe

Eurozone: the eurozone economy contracted a little (-0.1%) in Q3 2023, in line with forecasts. The services sector continued to shrink in November, and the modest improvement in the activity index suggests a speedy recovery is unlikely.

France: GDP was 0.1% lower in the third quarter compared with the second, as households' purchasing power declined. However, the government is upholding its full-year growth forecasts of 1% in 2023 and 1.4% in 2024. Inflation slowed further, from 4% in October to 3.4% in November.

Netherlands: Geert Wilders' Eurosceptic freedom party won the Dutch general election with 23.5% of the vote. This followed a campaign based on uncontrolled immigration, reflecting a general trend across Europe.

US & EM

United States: to economists' surprise, the unemployment rate dropped from 3.9% in October to 3.7% in November, with 199,000 job starts. Demand for workers remains very high, and average hourly wages have risen by 4% over the last 12 months, outpacing inflation.

China: manufacturing activity contracted again in November, falling more quickly than it did the previous month, with the manufacturing PMI now at 49.4. Additional stimulus measures are expected from the central bank to shore up growth and restore confidence in the authorities' ability to support industry.

India: retail prices climbed at their fastest pace in three months due to the increase in food prices. This heightened expectations that the central bank will not be cutting interest rates any time soon. Annual retail price inflation reached 5.55% in November, compared with 4.87% the previous month.

Argentina: a newcomer, Javier Milei, won the presidential ballot with 55.7% of the vote, the highest percentage in an Argentinian election for 40 years. A radical, he has already promised unprecedented austerity to redress the country's catastrophic economic situation.

South Africa: the central bank decided to hold its key interest rate at 8.25% in November, in line with expectations. It said that inflation risks remain high, whereas medium-term risks to domestic growth seem moderate. The main objective is still to bring inflation under control.

Market Data Indices

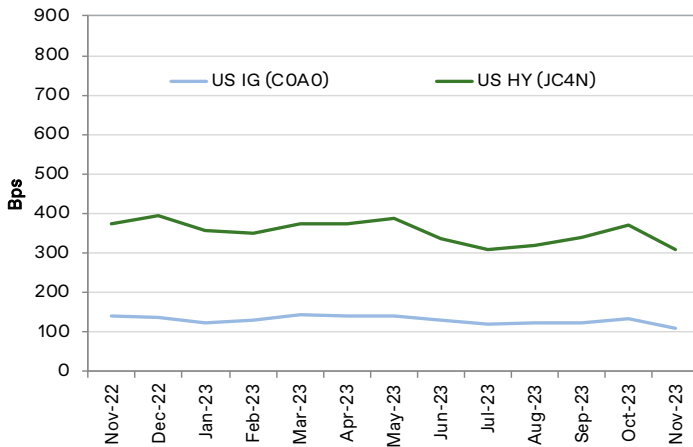
Indices (end of November)		Performance		Duration	Yield
		MTD	YTD	DTW	YTW
High Yield					
HE00	High Yield Europe	2.86%	8.85%	3.00	7.06%
JOA0	High Yield United States	4.56%	9.36%	3.73	8.45%
H7PC	High Yield Europe BB/B Excluding Financials	2.96%	9.60%	2.89	6.92%
JC4N	High Yield United States BB/B Excluding Financials	4.53%	8.71%	3.81	7.76%
HYEF	High Yield Emerging Countries Excluding Financials	3.68%	4.95%	3.46	10.39%
Investment Grade					
ER00	Investment Grade Europe	2.30%	5.12%	4.43	4.06%
COA0	Investment Grade United States	5.64%	4.18%	6.66	5.68%
EMIC	Investment Grade Emerging Countries	3.72%	3.82%	5.15	5.83%
Governments					
G4D0	10-Year German Bond	2.71%	2.99%		2.45%
G4O2	10-Year US Bond	4.44%	-0.47%		4.33%

Inflation (end of November)						
Realized inflation		November	October	September	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.40%	2.90%	4.30%	6.10%	10.10%
US CPI	Realized inflation in the United States (rolling 12-month)		3.20%	3.70%	4.00%	7.10%

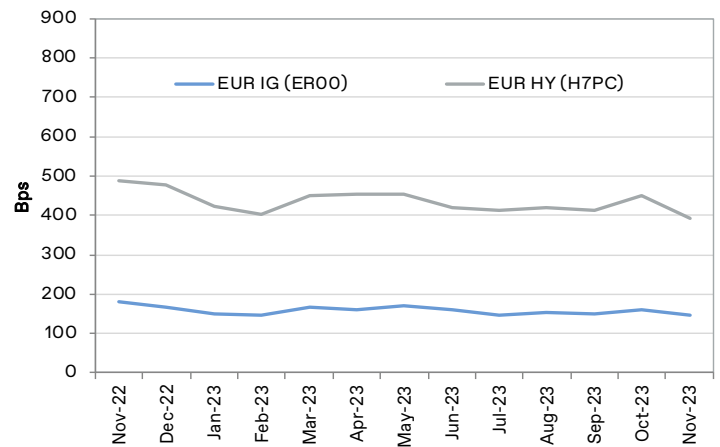
Month-to-date = MTD Duration-to-worst = DTW
Year-to-date = YTD Yield-to-worst = YTW

Source: Merrill Lynch
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US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

		November	October	September	12 months
Europe					
ER00	Investment Grade Europe	148	161	154	180
HE00	High Yield Europe	438	488	453	519
H7PC	High Yield Europe BB/B Excluding Financials	407	459	421	495
ER30	Bonds rated A Europe	130	142	135	152
ER40	Bonds rated BBB Europe	173	188	179	216
HE10	Bonds rated BB Europe	333	378	353	400
HE20	Bonds rated B Europe	495	556	504	628
United States					
COA0	Investment Grade United States	113	134	127	146
JOA0	High Yield United States	397	446	411	461
JC4N	High Yield United States BB/B Excluding Financials	329	381	353	390
COA3	Bonds rated A United States	95	117	110	121
COA4	Bonds rated BBB United States	142	164	155	181
JUC1	Bonds rated BB United States	254	305	290	315
JUC2	Bonds rated B United States	418	480	434	492
Emerging Countries					
EMIC	Investment Grade Emerging Countries	139	153	149	192
HYEF	High Yield Emerging Countries	598	642	597	760
EMAQ	Bonds rated A Emerging Countries	105	110	108	138
EM2B	Bonds rated BBB Emerging Countries	197	220	214	267
EM3C	Bonds rated BB Emerging Countries	373	410	362	479
EM6B	Bonds rated B Emerging Countries	659	694	675	828

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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