# Corporate Credit Monthly Update

## January 2024

## Europe

European inflation rose to 2.9% in December year-on-year, under the effect of energy prices. It nevertheless remained below the market consensus. The PMI indices continue to point to a significant slowdown in economic activity, but it seems to have bottomed out, and some indicators are showing tentative signs of improvement. Investors have been keeping their eye on the macroeconomic context for clues as to possible rate cuts by the Fed and ECB in 2024. Inflationary fears increased, however, when the world's shipping giants and major oil companies announced that they were suspending their operations in the Red Sea, due to the upsurge in attacks in the region.

European financial markets ended 2023 on a positive note. The prospect of a soft landing for the economy, and hence the return to an accommodative monetary policy, fuelled a strong rally. The 10-year Bund yield was down 43 bps to 2.02%. The 2- and 10-year yield curves are still inverted by around 40 basis points in Germany and the UK. On the credit markets, primary activity was moderate in December, with only EUR 5 billion in new issues, as most companies had already met their financing needs. In the European high yield market, spreads tightened significantly by 31 bps over the month. Positive flows into this segment continued, in both ETFs and funds. The European corporate index yield ended the month at 6.17%.

## United States

In the United States, after a year filled with challenges, the economy has proved resilient, even if it continues to slow. Inflation continues to trend downwards. The Fed has confirmed that it will be easing monetary policy this year, with three rate cuts forecast of 25 bps each. Business activity is expanding for the 11th consecutive month. It is underpinned by a labour market that is still solid, albeit with a slight loss of momentum in recent months. The unemployment rate held steady at 3.7%, which is up from its April 2023 low. The reporting season showed earnings growth ahead of expectations in most sectors – this confirms that the fundamentals remain solid in terms of asset quality, capital generation, liquidity and market access.

The Fed's talk of its monetary pivot and high real yields acted as a catalyst for the continued rise in bond markets during December. US 10-year Treasuries dropped 45 bps to 3.88% in late December, ending the year on the same yield as at the start of 2023. The 2- and 10-year yield curves remained inverted throughout the year, and closed down 37 basis points. The tightening of credit spreads illustrated investors' growing appetite for corporate bonds: -127 basis points in 2023 for high yield, compared with -35 basis points for investment grade. The yield on the US corporate index closed the month at 7.01%.

## Emerging

In emerging countries, the trend is also positive. Falling inflation in Latin America has enabled several central banks to continue or even accelerate their rate-cutting cycles. In Brazil, the approval of an essential tax reform prompted S&P to raise the country's long-term rating from BB- to BB. Mixed economic data from China, where disinflation was more pronounced than expected, led to various policy support measures. With the decline in government bond yields and a renewed appetite for risk, emerging country debt and currencies enjoyed a firm month, rounding off what was a positive year overall. A significant number of central banks in these countries are likely to ease their policies over the course of this coming year, with inflation moving ever closer to their targets.

December was another good month for emerging financial markets, following a strong November, and equities and bonds recovered sharply compared with the previous months of the year. It would appear that geopolitical worries are no longer a concern for the markets. Financial conditions continued to ease and spreads tightened, with the yield on the emerging market corporate index closing the month at 9.67%.

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# Companies in the Spotlight

### Alain Afflelou (EU)

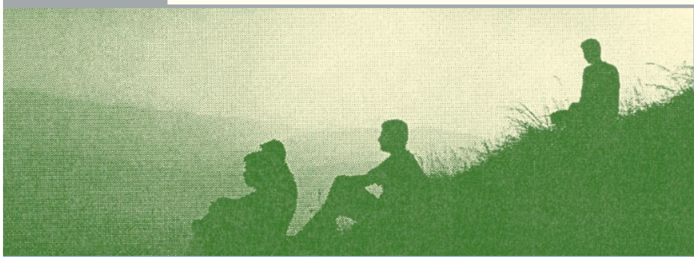
Alain Afflelou, the French optician, has released decent Q1 23/24 results, with revenues up 4.7% yoy at EUR 97m and adjusted EBITDA rising 4.3% to EUR 27m. Free cash flow was unchanged yoy to EUR 14m, as higher EBITDA was offset by an increase in cash taxes and interest, and a smaller inflow from working capital. Reported net debt fell to EUR 537m, with cash on balance sheet growing to EUR 91m. Net leverage was 4.7x, inching down from 4.8x at FYE 2022/23. Management confirmed its strategic priorities during the earnings call, with the group expecting to close another 10 discount stores by FYE 2023-24. The company will also expand its hearing-aid offerings, building on synergies with the optical business. Headwinds from the 100% Santé regulation are expected to ease, which should support performance in France. The company plans to address its debt maturity in H2. Considering the current interest-rate environment, AA does not expect to use excess cash to repurchase bonds. It is mulling over M&A opportunities and could also consider upstreaming funds to shareholders.

### Clarios (US)

Clarios (formerly Power Solutions), one of the largest distributors of low-voltage and advanced automotive battery technologies, had its Corporate Family Ratings (CFR) upgraded by one-notch to B1 at Moody's following an improvement in the company's credit metrics and leverage. The rating of the EUR and USD First Lien Notes were subsequently raised to Ba3, one notch above S&P and Fitch. For the full year 2022-2023, ending 30 September, Clarios reported revenues of USD 10.03bn, up 8.3% yoy, with strong organic growth partly offset by lead prices and FX headwinds. Gross profit rose by 23.9% on the back of the increased pricing, positive product mix and higher volumes, which helped to offset cost inflation and raised operating costs. Supported by the strong gross profit, adjusted EBITDA rose by 7.3% to USD 1.9bn, while net leverage ended the year at 4.4x, down 0.5x qoq.

### Auna SA (EM)

Auna SA, the Peruvian healthcare provider, managed to improve its maturity schedule by exchanging most of its senior unsecured notes due in 2025 for new secured notes due in 2029. At the same time, Auna has entered into a new senior secured syndicated dual-currency (MXN/USD) term loan maturing in 2028. The net proceeds of which will be used to repay the senior secured private bonds due 2028. Finally, Auna has published stronger Q3/23 numbers, mainly thanks to the consolidation of the Mexican assets as well as Colombian operations acquired last year. FCF improved, and net leverage was down 0.5x qoq at 4.4x. The company targets a net leverage of around 4.0x by the end of the year.



## Rating moves

| | | | |
|---|---|---|---|
| Adient | S&P | ↗ | BB |
| Biogroup | S&P | ↘ | B- |
| Carnival | S&P | ↗ | BB- |
| Clarios | Moody's | ↗ | B1 |
| Electrolux | S&P | ↘ | BBB |
| IM Group | Moody's | ↘ | B3 |
| Lufthansa | S&P | ↗ | BBB- |
| Netflix | Moody's | ↗ | Baa2 |
| Rolls-Royce | S&P | ↗ | BB+ |
| Stellantis | S&P | ↗ | BBB+ |

## Significative Primary Issues

### Europe

| *Issuer* | *Yield* | *Maturity* | *Amount* | *Rating* |
|---|---|---|---|---|
| Synlab | 7.875% | 2031 | €450M | B+ |

### United States

| *Issuer* | *Yield* | *Maturity* | *Amount* | *Rating* |
|---|---|---|---|---|
| Univision Comm. | 8.00% | 2028 | $1.2Bn | B+ |
| XPO Inc | 7.125% | 2032 | $585M | BB- |

### Emerging

| *Issuer* | *Yield* | *Maturity* | *Amount* | *Rating* |
|---|---|---|---|---|
| Auna SA | 10.00% | 2029 | $253M | BB- |
| WE SODA | 9.50% | 2028 | $980M | BB- |

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# Macro-Economic Events

## Europe

**Eurozone:** inflation rebounded to 2.9% in December, from 2.4% in November (the lowest rate in over two years). However, this rebound was slightly below market expectations of 3%. According to the PMI indices, private sector activity contracted for the seventh consecutive month in December, albeit by slightly less than initial estimates.

**ECB:** unsurprisingly, the European Central Bank, like the Fed, kept its interest rates unchanged. However, the Fed adopted a more conciliatory stance, suggesting that rate cuts may be on the cards in the coming months.

**Germany:** the PMI index fell to 46.7 in December from 47.8 in November. Below the threshold of 50, this index signals a more marked deterioration in private sector operating conditions. Production, new orders and employment all saw further declines. It is worth noting that the figure for Germany once again fell below the average for the eurozone.

## US & EM

**United States:** employment data showed a notable increase of 216,000 in non-farm payroll jobs in December, beating the market consensus of 170,000. The unemployment rate remained stable at 3.7%, while wage growth strengthened to 4.1%, against a forecast of 3.9%.

**China:** the Caixin manufacturing PMI, which follows small and medium-sized enterprises, rose slightly to 50.8 in December. Production grew at its fastest rate for seven months, while new orders rose at the quickest pace since February 2023. This figure contrasts with the official PMI (which covers large collective and state-owned companies), which unexpectedly fell to 49 in December, from 49.4 the previous month.

**Argentina:** at the end of the last BRICS summit in August, the bloc of emerging countries announced its expansion by inviting six countries to join from 1 January 2024, among them Argentina. In a letter to the leaders of Brazil, Russia, India, China and South Africa, Argentina's new president Javier Milei closed the door on Argentina joining, stating that the decisions taken by the previous government had been reconsidered.

# Market Data Indices

| Indices (end of December) | | Performance | | Duration | Yield |
|---|---|---|---|---|---|
| **High Yield** | | **MTD** | **YTD** | **DTW** | **YTW** |
| HE00 | High Yield Europe | 2.90% | 12.01% | 2.98 | 6.30% |
| J0A0 | High Yield United States | 3.69% | 13.40% | 3.65 | 7.65% |
| H7PC | High Yield Europe BB/B Excluding Financials | 2.81% | 12.67% | 2.86 | 6.17% |
| JC4N | High Yield United States BB/B Excluding Financials | 3.38% | 12.39% | 3.73 | 7.01% |
| HYEF | High Yield Emerging Countries Excluding Financials | 2.90% | 7.99% | 3.50 | 9.67% |
| **Investment Grade** | | | | | |
| ER00 | Investment Grade Europe | 2.76% | 8.02% | 4.44 | 3.54% |
| C0A0 | Investment Grade United States | 4.04% | 8.40% | 6.82 | 5.15% |
| EMIC | Investment Grade Emerging Countries | 3.15% | 7.09% | 5.29 | 5.33% |
| **Governments** | | | | | |
| G4D0 | 10-Year German Bond | 3.51% | 6.60% | | 2.02% |
| G402 | 10-Year US Bond | 3.85% | 3.36% | | 3.88% |

| Inflation (end of December) | | | | | | |
|---|---|---|---|---|---|---|
| Realized inflation | | December | November | October | 6M | 12M |
| EUR CPI | Realized inflation in Europe (rolling 12-month) | 2.90% | 2.40% | 2.90% | 5.50% | 9.20% |
| US CPI | Realized inflation in the United States (rolling 12-month) | | 3.10% | 3.20% | 3.00% | 6.50% |

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

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

*Source: Merrill Lynch*
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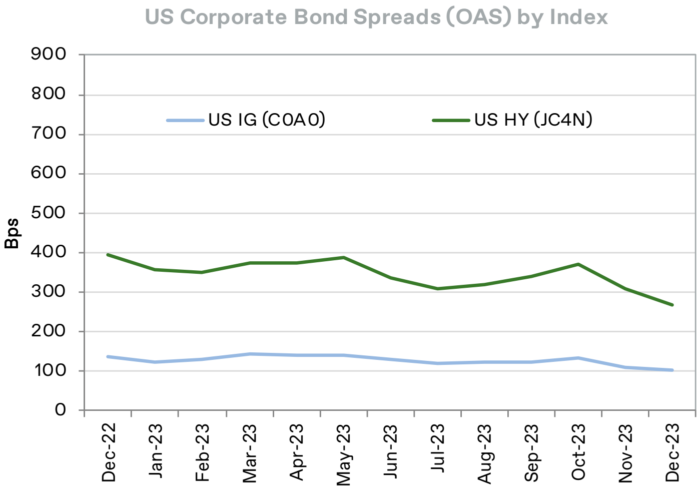


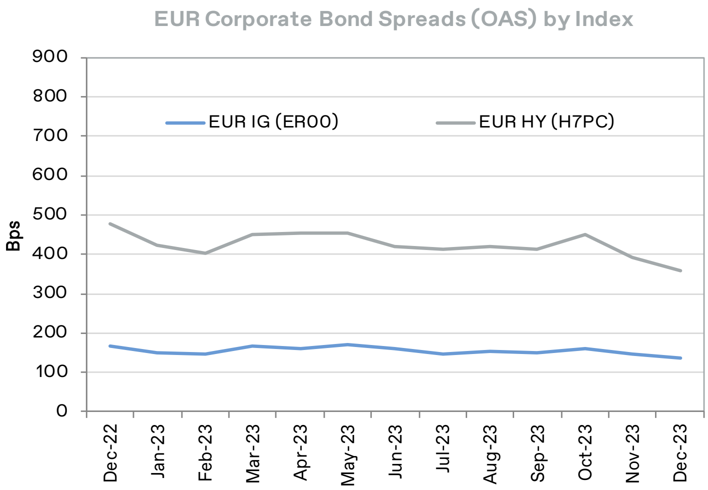


## Corporate Bond Spreads

| | | December | November | October | 12 months |
|---|---|---|---|---|---|
| **Europe** | | | | | |
| ER00 | Investment Grade Europe | 139 | 148 | 161 | 167 |
| HE00 | High Yield Europe | 406 | 438 | 488 | 512 |
| H7PC | High Yield Europe BB/B Excluding Financials | 376 | 407 | 459 | 484 |
| ER30 | Bonds rated A Europe | 123 | 130 | 142 | 137 |
| ER40 | Bonds rated BBB Europe | 163 | 173 | 188 | 205 |
| HE10 | Bonds rated BB Europe | 306 | 333 | 378 | 389 |
| HE20 | Bonds rated B Europe | 465 | 495 | 556 | 609 |
| **United States** | | | | | |
| C0A0 | Investment Grade United States | 106 | 113 | 134 | 141 |
| J0A0 | High Yield United States | 358 | 397 | 446 | 485 |
| JC4N | High Yield United States BB/B Excluding Financials | 295 | 329 | 381 | 408 |
| C0A3 | Bonds rated A United States | 90 | 95 | 117 | 117 |
| C0A4 | Bonds rated BBB United States | 132 | 142 | 164 | 174 |
| JUC1 | Bonds rated BB United States | 234 | 254 | 305 | 322 |
| JUC2 | Bonds rated B United States | 369 | 418 | 480 | 523 |
| **Emerging Countries** | | | | | |
| EMIC | Investment Grade Emerging Countries | 135 | 139 | 153 | 168 |
| HYEF | High Yield Emerging Countries | 571 | 598 | 642 | 708 |
| EMAQ | Bonds rated A Emerging Countries | 104 | 105 | 110 | 121 |
| EM2B | Bonds rated BBB Emerging Countries | 188 | 197 | 220 | 236 |
| EM3C | Bonds rated BB Emerging Countries | 371 | 373 | 410 | 414 |
| EM6B | Bonds rated B Emerging Countries | 577 | 659 | 694 | 755 |

*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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