

# Corporate Credit Monthly Update

## May 2024

### Europe

Economic conditions in Europe are becoming increasingly conducive to the gradual easing of monetary policy. Inflation figures have been in line with or below forecasts, including in the UK, while growth figures remain relatively low. However, growth in the eurozone was higher than expected in Q1 2024, driven by Germany, which is an encouraging development. The revival in economic activity follows a lacklustre 2023, a year in which the region saw only a single quarter of growth. This recovery is being driven by a confluence of factors: falling energy prices, a broader deceleration in inflation, rising real wages, and the prospect of lower interest rates.

European sovereign bond yields rose over the month, albeit less dramatically than in the US. The 7-10-year Bund yield closed the month at 2.43%. European high yield corporate bonds remained stable, while performance in investment grade bonds was negative (-1.02%). Higher-quality bonds were more sensitive to the increase in sovereign yields, and the slight tightening of spreads failed to counterbalance the impact of these rate movements. The ongoing strength of the global economy spurred an increase in new corporate bond issuance, particularly in the US, but Europe also saw a rise in issuance volumes in April. The European corporate index yield closed the month at 6.19%.

In the US, markets continue to be unnerved by the resilience of the economy and the recent run of higher-than-expected inflation figures, which have worked to push back expectations for the Fed's first interest rate cut to later in the year. US consumers are maintaining spending levels and businesses are still hiring and investing, which should continue to provide support for economic activity in the months ahead. The potential postponement of the first rate cuts and persistent geopolitical tensions in the Middle East have strengthened the US dollar further, given its status as a safe haven. Despite geopolitical uncertainties, the oil price corrected by more than 2% in April. And finally, the Q1 2024 earnings season has generally been positive, with most companies exceeding expectations, signalling good prospects for growth in business activity.

Performance on US financial markets was negative in April. The combination of persistent inflation, a resilient labour market and the Fed's less accommodative stance led to a sharp rise in US Treasury yields. The 5-year yield surged by 50 basis points in April, marking the largest movement on the curve, while yields in the 7-10-year range closed the month up significantly, at 4.50%. Corporate bonds fell in line with the rise in sovereign yields, which put pressure on prices. At the same time, credit spreads remained stable for both the investment grade and high yield segments, but investment grade suffered more (-2.54% versus -0.94% for high yield). The US corporate index yield stood at 7.90% at the end of the month.

### United States

### Emerging

In emerging markets, the main central banks look set to achieve a soft economic landing with no sign of recession or significant job losses, thanks to weakening overall inflation and minimal economic deterioration. These positive trends could prompt policymakers to shift from a wait-and-see monetary policy to aggressive interest rate cuts in 2024. The gold price rose for the third consecutive month, gaining 3% to reach a new all-time high, driven by strong demand from central banks in emerging markets, especially China, Russia, Turkey and India. Geopolitical uncertainties have burnished gold's historic reputation as a safe-haven asset.

April also saw a reversal of the trend that dominated emerging bond markets in Q1 of 2024. Corporate debt in the region declined, particularly due to the impact of rising US rates. Investment grade bonds faced the sharpest correction at -2.29%, while high yield issuers saw a more contained decline of -0.62%. As regards new issues, despite a rebound in the last week of April, primary market activity was relatively low compared with historical levels. The yield on the emerging market index closed the month at 8.98%.

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### Itelyum Group (EU)

Itelyum Group, the largest Italian player in the oil regeneration and waste solvent purification industries posted its FY 23 results. Despite the challenging macroeconomic conditions over the last two years, Itelyum has been able to increase waste volumes (+1% from FY 2021 levels), pro-forma revenues (+12%) and adjusted EBITDA (+11%). At FYE 2023, total liquidity stood at EUR 149m, which the company will likely use for M&A. Management foresees that these favourable macro conditions in 2024 and beyond will benefit Itelyum. The company is likely to pursue a bond refinancing in 2025.

### Adient (US)

Adient, a US auto seating supplier, has successfully executed its cost and restructuring activities in a challenging environment (UAW strike, supply chain issues), and reduced and extended debt meaningfully (asset sales, TLB extended from 2028 to 2031), while maintaining strong liquidity levels. Financial policy remains sound with target leverage of 1.5-2x. Adient is a steadily improving credit story that recently led to upgrades by both S&P (BBB) and Moody's (Ba2).

### Total Play Telecom (EM)

Total Play Telecom, the Mexican fibre provider, achieved a large refinancing of its short-term maturities as well as solid earnings for Q1 2024. Specifically, the company executed a successful public exchange offer for most of the remaining principal outstanding under the 2025 bonds into new senior secured amortising 2028 notes. According to the management, the unencumbered fibre network is estimated at USD 2.6-3.5bn, leaving some room for further liquidity boosts, if needed. During Q1 2024, the company reported revenues up 13%, driven by both residential and commercial segments, while EBITDA increased by 12%. Finally, the company reiterated its previous guidance for 2024 with: 1) revenues of MXN 43-45bn, 2) an EBITDA margin of 44%-46%, and 3) MXN 12.5-13.5bn in capex.

## Significant Primary Issues

### Europe

Issuer	Yield	Maturity	Amount	Rating
IMA Industria	7.654%	2029	€900M	B
Mobilux	7.00%	2030	€250M	BB-

### United States

Issuer	Yield	Maturity	Amount	Rating
Mauser Packaging	7.84%	2029	\$2.69Bn	B
Vail Resorts	6.50%	2032	\$600M	BB

### Emerging

Issuer	Yield	Maturity	Amount	Rating
Ford Otomotiv	7.125%	2029	\$500M	BB-
Melco Resorts	7.625%	2032	\$750M	BB-

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Macro-Economic Events

Europe

**Eurozone:** the economy rebounded to achieve growth of 0.3% in Q1 2024, the highest growth rate since Q3 2022. This figure exceeds market expectations, which predicted a marginal expansion of 0.1%. This upturn has given the ECB additional room for manoeuvre in terms of monetary policy if inflationary pressures prove more stubborn than expected. Among the eurozone's largest economies, German and French GDP grew by 0.2%, while Italy's and Spain's grew by 0.3% and 0.7% respectively, all of which surpassed estimates.

**Germany:** the composite PMI rose to 50.6 in April from 47.7 the previous month, above market expectations of 48.6. This is the first month of expansion in German private sector activity after nine consecutive contractions. This figure gives hope that the eurozone's largest economy is finally making a recovery, after a moderate recession last year.

**France:** the consumer confidence indicator fell to 90 in April, down slightly from 91 in March and the market forecasts of 92. Consumers are more pessimistic regarding the outlook for standard of living and their financial situation. However, fears related to unemployment are decreasing and households anticipate future inflation to be lower.

US & EM

**United States:** the job market decelerated in April. 175,000 jobs were created, compared with 315,000 in March, and falling short of the market expectations of 243,000. The unemployment rate increased slightly to 3.9% compared with 3.8% the previous month, while forecasts expected the unemployment rate to be stable.

**China:** manufacturing and services remained in expansion territory in April. The Caixin manufacturing PMI notably rose to 51.4 in April from 51.1 the previous month, beating estimates of 51. This is the sixth consecutive month of growth in industrial activity and the fastest pace since February 2023.

**Israel:** S&P lowered its long-term sovereign credit rating from AA- to A+ in April and maintained its negative outlook. The recent heightened tension with Iran increases the already high geopolitical risks for Israel. The agency noted that the country's confrontations with Hamas as well as Hezbollah are expected to continue throughout 2024, which contrasts with its previous assumption that military activity would last no more than six months.

**Chile:** the central bank reduced its benchmark interest rate by 75 basis points to 6.5% in April, in line with market expectations. It noted the decline in overall inflation, while highlighting the risks associated with rising costs. The Fed's monetary policy, and in particular its decision to postpone the first US rate cuts, however, remains a major factor for the Chilean markets.

Market Data Indices

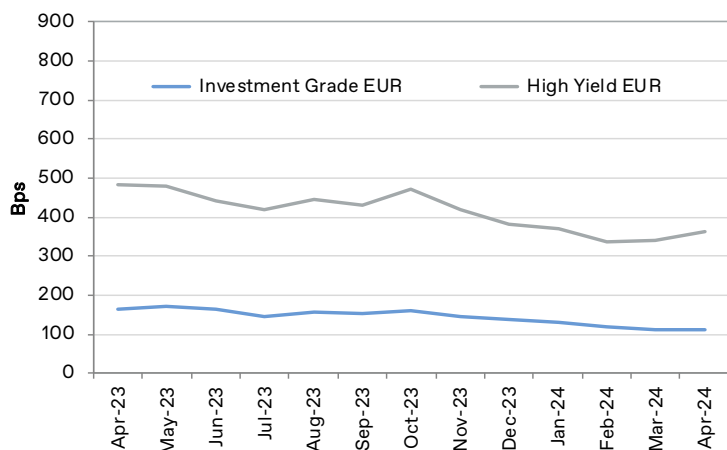
Indices (end of April)	Performance			
	MTD	YTD	Duration	Yield
<b>High Yield</b>				
Corporates High Yield Europe	-0.08%	1.46%	3.10	6.72%
Corporates High Yield United States	-0.94%	0.52%	3.68	7.85%
Corporates High Yield Europe Excluding Financials	-0.15%	0.78%	3.14	6.19%
Corporates High Yield United States Excluding Financials	-0.98%	0.44%	3.68	7.90%
High Yield Emerging Markets	-0.62%	3.06%	4.25	8.98%
<b>Investment Grade</b>				
Corporates Investment Grade Europe	-1.02%	-0.47%	4.87	4.05%
Corporates Investment Grade United States	-2.54%	-2.93%	7.17	5.52%
Investment Grade Emerging Countries	-2.29%	-2.58%	6.90	5.72%
<b>Governments</b>				
7-10 Year German Bond	-2.12%	-3.65%		2.43%
7-10 Year US Bond	-3.15%	-4.54%		4.50%

Inflation (end of April)					
Realized inflation	April	March	February	6M	12M
Realized inflation in Europe (rolling 12-month)	2.40%	2.40%	2.60%	2.90%	7.00%
Realized inflation in the United States (rolling 12-month)		3.50%	3.20%	3.20%	4.90%

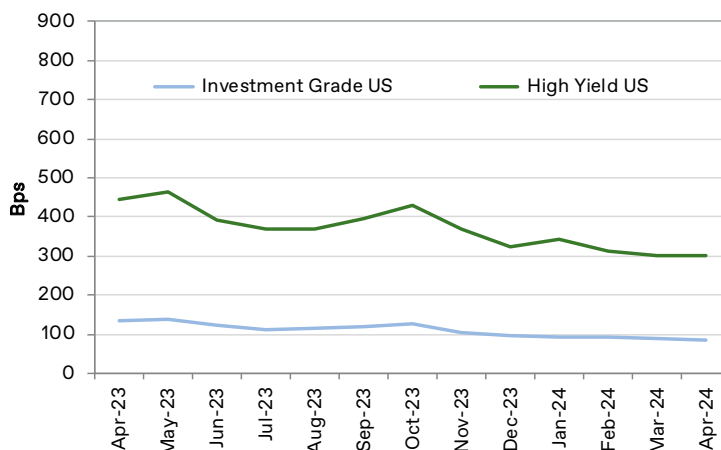
Month-to-date = MTD  
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

	April	March	February	12 months
<b>Europe</b>				
Corporates Investment Grade Europe	111	113	120	163
Corporates High Yield Europe	362	340	335	482
Corporates High Yield Europe Excluding Financials	328	303	301	451
Corporate Bonds rated A Europe	96	97	104	136
Corporate Bonds rated BBB Europe	131	134	141	193
Corporate Bonds rated BB Europe	205	206	227	358
Corporate Bonds rated B Europe	430	411	404	547
<b>United States</b>				
Corporates Investment Grade United States	86	89	95	135
Corporates High Yield United States	300	303	314	447
Corporates High Yield United States Excluding Financials	305	307	317	442
Corporate Bonds rated A United States	73	76	82	116
Corporate Bonds rated BBB United States	106	110	117	164
Corporate Bonds rated BB United States	179	184	195	282
Corporate Bonds rated B United States	267	276	287	462
<b>Emerging Countries</b>				
Investment Grade Emerging Countries	101	106	109	141
High Yield Emerging Countries	426	422	445	695
Corporate Bonds rated A Emerging Countries	79	82	85	106
Corporate Bonds rated BBB Emerging Countries	132	138	142	184
Corporate Bonds rated BB Emerging Countries	231	235	239	394
Corporate Bonds rated B Emerging Countries	387	392	405	695

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**Anaxis Asset Management**  
9 rue Scribe  
75009 Paris

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

