

Corporate Credit Monthly Update

June 2024

Europe

The economic outlook continues to improve in Europe, with signs that growth is picking up. Inflation ticked up slightly in May, however, across the eurozone. The ECB left its interest rates unchanged over the month. It nevertheless reduced them by 25 basis points at the start of June, as expected. It is the first central bank to have eased its monetary policy since the start of the inflationary surge due to Covid-19, three years ago. However, this easing should be gradual and cautious. Accordingly, the labour market is continuing to hold up well, as demonstrated by the fall in the unemployment rate to an historically low 6.4%.

May was a good month for the European markets as a whole, with investors anticipating the ECB's interest rate cuts in early June. European sovereign bond yields rose over the month, however, chiefly due to the higher-than-expected inflation. The 7- to 10-year Bund yield closed the month at 2.61%. Corporate bond credit spreads tightened considerably, especially in the high yield segment, aided by the still positive balance between supply and demand. High yield bonds therefore outperformed investment grade bonds. They delivered performances of +0.99% and +0.31% respectively. The European corporate index yield ended the month at 6.03%.

In the US, the two key economic questions remain the slowdown of inflation and the hypothetical weakening of growth. Due to the resilience of economic activity stateside, the Fed did not make the interest rate cuts that were much anticipated at the start of the year. The data nonetheless showed that growth and inflation weakened somewhat in May, which dampened the market's fears. The economy is still robust in spite of everything. What we are seeing is a moderate normalisation rather than a collapse. The labour market is therefore still strong, despite the increase in unemployment insurance claims. The price of oil underwent a further -6% adjustment in May, as a result of geopolitical uncertainties and continuing concerns about demand in China. Lastly, the enthusiasm for the dollar ran out of steam in May, with a correction of more than -1% compared with the basket of major currencies.

Against this backdrop of less vigorous inflation and growth, US bond yields dipped in May: the yield for 7- to 10-year Treasury bonds ended the month at 4.50%. The inversion of the curve remains relatively unchanged (-38 basis points), as the yields for 2-year and 10-year maturities fell at the same time. The corporate credit segment saw a great deal of activity in the primary market in May, but which was easily absorbed by investors. In terms of performances, the market followed the Treasury bond trend over the month. Spreads stayed relatively stable for both investment grade bonds (-3 basis points) and high yield bonds (+5 points). Spreads in the investment grade segment returned to levels close to 80 basis points, whereas they are now at around 300 points for high yield bonds. The differential between securities rated BB and BBB is now less than 80 points, which is an indicator of the market's bullish momentum. The US corporate index yield stood at 7.61% at the end of the month.

United States

Emerging

In the emerging markets, inflation overall weakened more quickly than in the US. This allowed certain central banks to lower their interest rates before the FED. The divergences between inflation rates made the monetary policy outlook increasingly mixed in the emerging zone, however. Global economic growth should stay comfortably in positive territory, acting as a support factor. The activity data for China nevertheless highlight the continued struggles caused by imbalances between supply and demand for the world's second largest economy, creating doubts about the sustainability of the country's recovery.

Emerging market corporate bonds also posted positive performances in May, bolstered by the fall in US Treasury yields. The high yield segment also benefited from the tightening of spreads, whereas these remained stable in the investment grade segment. The performances were therefore +1.81% for high yield bonds and +1.68% for investment grade bonds. Corporate credit continues to offer historically attractive yields, particularly for short-term maturities, in an environment that remains generally positive. Emerging markets therefore saw net capital inflows of USD +5.5 billion over the month. Debt was widely embraced, as USD +11.5 billion flowed into this asset class, versus USD -6 billion of outflows from equities. The yield on the emerging market index closed the month at 8.72%.

Edited: 11/06/2024

Bite (EU)

Bite, the Lithuanian telecommunication operator, reported solid Q1 24 results with revenue rising 2.3% and the EBITDA margin improving from 32.8% to 35.7%. Cash flow generation was significantly stronger YoY thanks to higher EBITDA, better working capital trends and lower capex leading to positive FCF at EUR 8m. Bite reported net debt of EUR 751m, with EUR 58m of leases. The EUR 50m RCF remained undrawn. Net leverage stood at 3.5x, slightly down sequentially. Bite also took the opportunity to issue a EUR 920m bond transaction consisting of a seven-year fixed-rate at 6% yield and a floating-rate tranches at 3m Euribor + 350 bps to repay the existing notes and pay a EUR 200m dividend.

Pitney Bowes (US)

Pitney Bowes, a US integrated mail, logistics and document management systems, held a call to introduce their newly appointed interim CEO and discuss their recently announced strategic initiatives. In a nutshell, the company confirmed that the review of the Global Ecommerce segment should be concluded within 60 days. A disposal of this loss-making segment would be quite positive for the financial profile of the issuer. Also, it announced further cost saving initiatives (by USD60-100m in addition to the previously announced cuts) and their intention to optimise cash by repatriating international cash and prioritising the repayment of high-cost debt. In early May, Pitney Bowes reported strong Q1 2024 results with adjusted EBITDA up 33% YoY, although revenue was down 1%, and net leverage down 0.5x to 6.1x.

Pepco (EM)

Pepco, the Polish retailer, has published positive results for the first six months of its 2023/24 fiscal year. Net sales reached EUR 3.2bn, up 11.1% YoY at constant FX, and reported EBITDA was at EUR 487m, up EUR 133m YoY and reflecting an increase in margin of 280 bps to 15.2%. Profitability benefited from improved purchasing environment due to lower commodity prices and a fall in freight rates. Reported net leverage is now 0.9x (2.2x with adjusted figures), and the company expects further improvement as the reduction in new shop openings and favourable seasonality in H2 should accentuate this trend.

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Eramet	6.53%	2029	€500M	BB
Lottomatica	5.375%	2030	€500M	BB-

United States

Issuer	Yield	Maturity	Amount	Rating
Gray Television	10.50%	2029	\$1.25Bn	BB-
Service Prop. Trust	8.46%	2029	\$700M	BB

Emerging

Issuer	Yield	Maturity	Amount	Rating
Cencosud	6.02%	2031	\$650M	Baa3
Vestel Elektronik	9.80%	2029	\$450M	B3

Edited: 11/06/2024

Macro-Economic Events

Europe

Eurozone: inflation ticked up for the first time in five months, hitting 2.6% in May, from 2.4% in the previous two months and overshooting the forecast of 2.5%. Prices picked up again for energy and rose faster in services, while food, alcohol and tobacco prices fell. Underlying inflation also rose from 2.7% to 2.9%. Of the major economies, inflation increased more than expected in Spain (3.8%), Germany (2.8%) and France (2.7%).

Germany: the consumer sentiment indicator rose from -24.0 to -20.9, beating market forecasts of -22.5. This is its fourth improvement in a row and the highest level since April 2022. Household income expectations are at their highest level for two and a half years, and the economic outlook is improving.

US & EM

United States: the May manufacturing PMI fell unexpectedly to 48.7, from 49.2 the month before, lower than the forecast of 49.6, pointing to further business contraction on falling demand.

China: the government has announced major measures to stabilise its troubled property sector, including additional funding of 1trillion yuan and a relaxation of rules on mortgage lending. Chinese industrial output unexpectedly contracted in May after two months of expansion, while growth in the services sector slowed slightly.

Brazil: the central bank cut its key interest rate by 25 basis points to 10.5% at its meeting in May, in line with forecasts. This decision reflects a domestic environment characterised by solid economic indicators, a buoyant labour market, and slowing inflation. However, the committee emphasised the need for caution, taking into account inflation trends and a range of economic scenarios.

India: foreign exchange reserves held by the Reserve Bank of India hit a record high in May. This is due to the country's strong growth, the massive inflow of foreign currency into the Indian economy and the inclusion of Indian assets in international funds. In addition, the weakness of the yuan, yen and won has prompted the RBI to prioritise the competitiveness of Indian exports and consequently not to exchange its currencies in the reserve.

Market Data Indices

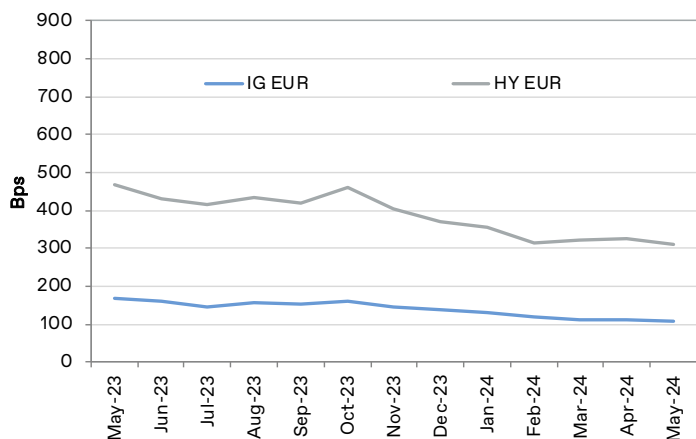
Indices (end of May)	Performance			
	MTD	YTD	Duration	Yield
High Yield				
Corporates High Yield Europe	0.99%	2.54%	3.14	6.51%
Corporates High Yield United States	1.10%	1.59%	3.64	7.99%
Corporates High Yield Europe Excluding Financials	0.88%	2.21%	3.13	6.03%
Corporates High Yield United States Excluding Financials	1.09%	1.46%	3.68	7.61%
High Yield Emerging Markets	1.81%	5.51%	3.76	8.72%
Investment Grade				
Corporates Investment Grade Europe	0.31%	-0.14%	4.59	4.03%
Corporates Investment Grade United States	1.86%	-0.86%	6.80	5.54%
Investment Grade Emerging Countries	1.68%	-0.08%	5.97	5.63%
Governments				
7-10 Year German Bond	-0.23%	-3.87%		2.61%
7-10 Year US Bond	1.80%	-2.71%		4.50%

Inflation (end of May)					
Realized inflation	May	April	March	6M	12M
Realized inflation in Europe (rolling 12-month)	2.60%	2.40%	2.40%	2.40%	6.10%
Realized inflation in the United States (rolling 12-month)		3.40%	3.50%	3.10%	4.00%

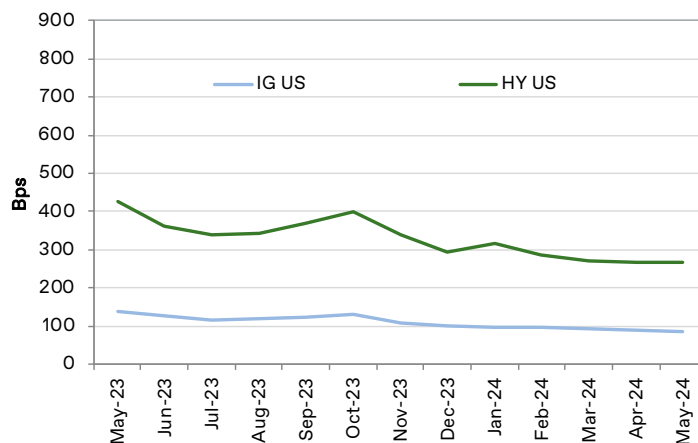
Month-to-date = MTD
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

	May	April	March	12 months
Europe				
Corporates Investment Grade Europe	107	111	113	166
Corporates High Yield Europe	334	356	349	462
Corporates High Yield Europe Excluding Financials	292	308	303	430
Corporate Bonds rated A Europe	94	97	99	144
Corporate Bonds rated BBB Europe	125	131	132	195
Corporate Bonds rated BB Europe	199	212	219	354
Corporate Bonds rated B Europe	414	431	430	543
United States				
Corporates Investment Grade United States	86	89	92	132
Corporates High Yield United States	310	305	305	428
Corporates High Yield United States Excluding Financials	272	270	273	388
Corporate Bonds rated A United States	73	75	78	111
Corporate Bonds rated BBB United States	107	110	113	163
Corporate Bonds rated BB United States	185	183	186	281
Corporate Bonds rated B United States	288	284	293	446
Emerging Countries				
Investment Grade Emerging Countries	101	104	110	143
High Yield Emerging Countries	403	417	423	691
Corporate Bonds rated A Emerging Countries	80	80	86	105
Corporate Bonds rated BBB Emerging Countries	135	139	146	194
Corporate Bonds rated BB Emerging Countries	252	260	265	398
Corporate Bonds rated B Emerging Countries	389	400	419	723

Source: Anaxis AM

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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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