

# Corporate Credit Monthly Update

## July 2024

### Europe

The European economy has once again shown encouraging signs, reflected in improved business and consumer confidence in June. The ECB cut its benchmark rate by 25 basis points, the first reduction since 2019. However, it has not signalled any further easing measures in view of rising wages and expectations that inflation will remain above target for most of 2025. Meanwhile, the Bank of England held its benchmark rate steady at 5.25%, still its highest level in 16 years. The financial markets are likely to be impacted by election-related uncertainties, both in Europe and abroad. The elections in France and the UK at the beginning of July testify to the general feeling of nervousness in Europe, and international political uncertainty is likely to intensify in the run-up to the US presidential election in November. This political anxiety in Europe has weighed on the euro, boosting other safe-haven currencies.

June was a good month overall for the European bond markets. The 7-10 year Bund yield was down on the previous month, ending the month at 2.43%. Political uncertainties in Europe resulted in a widening of credit spreads, but also lowered sovereign bond yields, which ultimately drove positive performance in the credit market across all asset classes. The European corporate index yield ended the month at 6.06%.

The resilience of the US economy continued to surprise. The labour market remains robust, and the latest GDP growth estimate for Q2 2024 stands at 3%, far exceeding recession forecasts from a few quarters ago. Inflation is easing moderately but remains high, prompting the Fed to hold interest rates steady in June while noting a slight improvement. Oil prices surged by 6% over the month, erasing May's losses; this was due to ongoing political tensions in the Middle East and a period of stronger demand driven by holiday travel. The dollar strengthened by 1% against a basket of major currencies following the Fed's remarks that it would need to see more signs of disinflation before it proceeds with any rate cuts.

Bond markets had a good month in June. Yields on 7-10 year Treasury bonds closed the month at 4.37%, down from May. The 2-10 year curve remains inverted, although the spread has narrowed to 35 basis points. On the corporate markets, High Yield bonds (+0.94%) outperformed Investment Grade bonds (+0.64%). The US high-yield market remains well-positioned despite stagnant inflation, the Fed's postponement of easing and more recent lacklustre economic data. Credit spreads in this rating segment ended the month almost unchanged, still near historic lows. With tight valuations on BB-rated securities, lower-rated securities outperformed as the market continued to seek yield and discounts. The continued strength of corporate fundamentals made this strategy possible. The US corporate index yield stood at 7.52% at the end of the month.

### United States

### Emerging

In emerging markets, central banks in key Latin American economies are gradually shifting towards less restrictive monetary policies, particularly in Brazil, Chile, Peru and Mexico. However, the "higher for longer" interest rate rhetoric in developed economies, especially the US, is prompting these central banks to temper their easing policies. Aware of the potential for imbalances, they are delaying the normalisation of their monetary policies in an effort to maintain relatively attractive interest rates and avoid capital outflows and the depreciation of local currencies. In China, the authorities continued their economic support in June. Retail sales improved slightly thanks to travel-related spending and online sales, but challenges such as a fragile property market, weak domestic demand and geopolitical tensions persist.

The emerging market corporate debt sector had a positive June, helped by falling US Treasury yields. The Investment Grade and High Yield segments posted similar performances. Despite ongoing economic uncertainty, these markets are proving resilient due to strong corporate fundamentals. The yield on the emerging market index closed the month at 8.60%.

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### David Lloyd Leisure (EU)

David Lloyd Leisure, a premium gym operator, reported its Q1/24 results, which showed solid growth in both revenues (+12.5%) and EBITDA (+26%), driven by an increase in members and solid cost management. Despite higher EBITDA, cash flow generation declined slightly as a result of a working-capital build-up and a modest cash-interest increase. Nevertheless, free cash flow remained in positive territory and reported net leverage improved 0.2x to 3.6x. Pro-forma interest coverage rose 0.1x to 4.1x. Liquidity also remained solid at GBP135m, including an undrawn GBP 125m RCF.

### Sizzling Platter (US)

Sizzling Platter is one of the largest quick service restaurants (QSR) franchise platform in the US, with over 738 restaurants in the US and Mexico, predominantly under the Little Caesars, Jamba and Wingstop chains. Post-Covid, Sizzling Platter has been able to rapidly deleverage thanks to its good positioning and strong control of margins. In 2023, revenues were up 21%, boosted by restaurant openings and growth in same-store sales. The decrease in food and beverage inflation also had a positive impact on margins, with EBITDA margins up 350bps y.o.y. to 14.4%. Finally, FCF was positive at 44m USD and net leverage dropped to 2.7x.

### Aeropuertos Dominicanos / Aerodom (EM)

In late June, Aeropuertos Dominicanos (Aerodom) issued a new 10-year Senior Secured Note, the proceeds of which as well as a new Senior Secured Credit Facility will be used to repay the existing 6.75% SSN due in 2029 at 103.375%, among other uses. Aerodom operates and develops six airports in the Dominican Republic, with an exclusive concession agreement recently extended until March 2060. Last year, the traffic at concession airports totalled 6.6m passengers, or 36% of the national air traffic. Aerodom has been wholly owned by VINCI Airport (A3/A-) since 2016. The issuer is rated Ba2 by Moody's (upgraded in January 24, and above the sovereign rating) and BB+ by Fitch (new rating).

## Significant Primary Issues

### Europe

Issuer	Yield	Maturity	Amount	Rating
Eircom	5.75%	2029	€300M	BB-
Schustermann / Best Secret	7.45%	2029	€550M	B+

### United States

Issuer	Yield	Maturity	Amount	Rating
Kronos Acquisition	8.25%	2031	\$550M	B2
MasterBrand Inc	7.00%	2032	\$700M	BB

### Emerging

Issuer	Yield	Maturity	Amount	Rating
Continuum Green Energy	7.50%	2033	\$650M	Ba2
MGM China	7.125%	2031	\$500M	B+

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Macro-Economic Events

Europe

**Eurozone:** inflation slowed to 2.5% in June, after having accelerated slightly to 2.6% in May. Prices rose at a slower pace for food, alcohol & tobacco, and energy, while inflation remained stable for non-energy industrial goods and services. Core inflation remained unchanged at 2.9%. Despite this, among the eurozone’s major economies, an increase in inflation was recorded in Italy and the Netherlands.

**France:** in June, President Macron announced the dissolution of the National Assembly and called for early parliamentary elections. This move came after the far-right National Rally (*Rassemblement National*, RN) won 32% of the French vote in the elections to the European Parliament. Credit agencies have warned that political instability and an RN victory could hamper France’s efforts to reduce its high public debt.

**Switzerland:** the Swiss National Bank cut its key rate by a further 25 basis points to 1.25% in June, following a similar decision at the previous meeting. This decision was in line with market expectations, against a backdrop of diminishing inflationary pressures and a strong Swiss franc. Switzerland therefore continues to diverge from its main developed peers in monetary terms, particularly from the Fed, which has not yet begun to ease its policy.

US & EM

**United States:** the manufacturing PMI unexpectedly fell to 48.5 in June, down from 48.7 in May, below the forecast of 49.1. This reflects a fall in manufacturing activity for the third consecutive month and is the weakest figure since February, against a backdrop of declining demand and output.

**China:** according to the unofficial PMI, China saw a significant improvement in manufacturing growth in June, reaching its highest level of expansion in over three years. However, official data showed a contraction in manufacturing activity. This divergence in PMI data reflects an uneven recovery across the sectors considered. At the same time, services continued to expand, although this expansion slowed to its lowest pace in six months.

**Brazil:** the consumer confidence index rose to 91.1 in June, up 1.9 points on the previous month. This figure nonetheless reflects the financial constraints weighing on households and persistently high interest rates. In particular, purchasing intentions for durable goods remain bearish, despite a slight improvement.

Market Data Indices

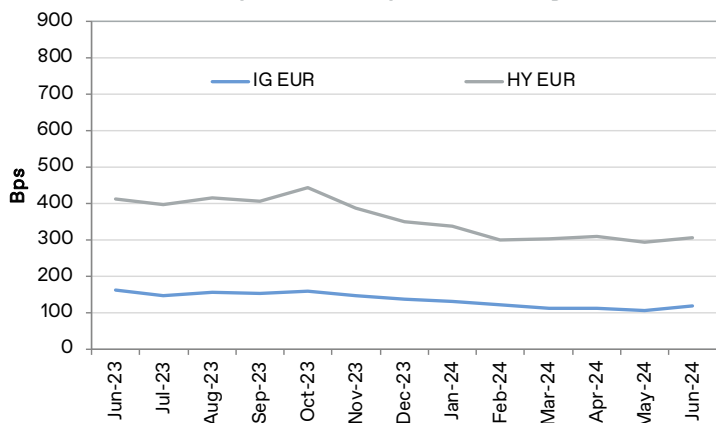
Indices (end of June)	Performance			
	MTD	YTD	Duration	Yield
<b>High Yield</b>				
Corporates High Yield Europe	0.43%	2.98%	3.04	6.60%
Corporates High Yield United States	0.94%	2.54%	3.34	7.90%
Corporates High Yield Europe Excluding Financials	0.42%	2.64%	3.01	6.06%
Corporates High Yield United States Excluding Financials	0.98%	2.45%	3.36	7.52%
High Yield Emerging Markets	0.93%	6.49%	3.80	8.60%
<b>Investment Grade</b>				
Corporates Investment Grade Europe	0.77%	0.62%	4.58	3.93%
Corporates Investment Grade United States	0.64%	-0.22%	6.80	5.50%
Investment Grade Emerging Countries	0.92%	0.84%	5.99	5.54%
<b>Governments</b>				
7-10 Year German Bond	1.56%	-2.36%		2.43%
7-10 Year US Bond	1.27%	-1.48%		4.37%

Inflation (end of June)					
Realized inflation	June	May	April	6M	12M
Realized inflation in Europe (rolling 12-month)	2.50%	2.60%	2.40%	2.90%	5.50%
Realized inflation in the United States (rolling 12-month)		3.30%	3.40%	3.40%	3.00%

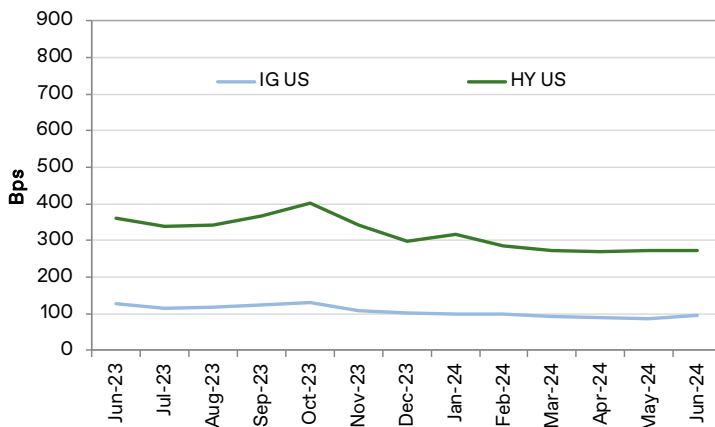
Month-to-date = MTD  
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

	June	May	April	12 months
<b>Europe</b>				
Corporates Investment Grade Europe	118	107	111	154
Corporates High Yield Europe	355	334	356	434
Corporates High Yield Europe Excluding Financials	306	292	308	402
Corporate Bonds rated A Europe	105	94	97	134
Corporate Bonds rated BBB Europe	137	125	131	181
Corporate Bonds rated BB Europe	225	199	212	326
Corporate Bonds rated B Europe	435	414	431	522
<b>United States</b>				
Corporates Investment Grade United States	95	86	89	121
Corporates High Yield United States	314	310	305	384
Corporates High Yield United States Excluding Financials	274	272	270	351
Corporate Bonds rated A United States	81	73	75	102
Corporate Bonds rated BBB United States	116	107	110	149
Corporate Bonds rated BB United States	180	185	183	251
Corporate Bonds rated B United States	290	288	284	398
<b>Emerging Countries</b>				
Investment Grade Emerging Countries	104	101	104	133
High Yield Emerging Countries	406	403	417	633
Corporate Bonds rated A Emerging Countries	83	80	80	101
Corporate Bonds rated BBB Emerging Countries	140	135	139	179
Corporate Bonds rated BB Emerging Countries	260	252	260	355
Corporate Bonds rated B Emerging Countries	408	389	400	604

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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