

Corporate Credit Monthly Update

August 2024

Europe

Growth in the European economy was well below that of the United States, with worrying signs of a slowdown, particularly in Germany. This macroeconomic environment was exacerbated by political uncertainty in France and the United Kingdom. The outcome of elections in France was unexpected, with the left-wing alliance of the New Popular Front taking the highest number of seats, followed by the centrist (Ensemble) and far-right (National Rally) parties. There was no absolute majority. The political situation remains unclear and there is still no precise timetable for the formation of a government. In contrast, in the United Kingdom, the outcome of elections was much clearer, with a landslide victory for the Labour Party. In response to the slowdown in economic growth and progress made on reducing inflation, several European central banks, including the ECB and the Bank of England, have already initiated the cycle of monetary easing. However, the ECB maintained the status quo at its July meeting, in line with expectations. It emphasised that the potential for any new measures remained dependent on macroeconomic data.

Sovereign bond yields fell in July in Europe, benefiting the market overall. The 7-10-year Bund yield closed the month at 2.23%. At the same time, investment grade corporate bonds performed particularly well, as they also benefited from a tightening of credit spreads, which provided an additional boost. Spreads in the high yield segment remained relatively stable, with carry and duration, sensitive to interest rates, the main performance drivers. There have now been new issues of close to EUR 70 billion in the European primary market since the start of this year. The European corporate index yield ended the month at 5.86%.

In the United States, although slowing, economic growth remains robust, supported mainly by household consumption and higher corporate investment. The latter has risen over the last six quarters, indicating the potential for productivity improvements. Recent macroeconomic reports in conjunction with statements by Fed Chair Jerome Powell have strengthened expectations of a cut in rates in the coming months. This would come in response to the slowdown in inflation and weaker employment market data. However, the Fed chose to leave its interest rates unchanged in July, whilst leaving the door open to the potential for a first cut in September. The oil price fell by -4.5% in July, wiping out almost all the gains made in June. This fall is mainly attributable to disappointing economic data from China – the world’s leading consumer – and a political response from the authorities that was deemed inadequate. In the meantime, the US dollar depreciated by -1.7% against a basket of major currencies, reflecting the imminent easing of the Fed’s monetary policy.

US markets rose for the second consecutive month. The fall in Treasury yields was the driver for the rest of the bond market. The yield on 7-10-year Treasuries moved from 4.37% to 4.02% over the month in anticipation of the rate cut from the Fed in September. The 2/10-year yield curve flattened slightly to -20 basis points at month-end, the lowest level of inversion since January. In corporate debt, investment grade bonds outperformed lower quality securities. Spreads remained stable and at historically tight levels, particularly in high yield. After high new issue volumes during the first half, July was calmer due to the summer break. Since the start of the year, the gross new issue volume of high yield bonds in the United States has been around USD 170 billion. The yield on the US corporate index stood at 7.20% at the end of the month.

United States

Emerging

In emerging countries, the economic upturn in China continues at a dawdling pace, with the political response failing to convince markets. In the second quarter, the world’s second largest economy recorded its weakest growth in over a year, due to weakness in domestic and foreign demand. In addition, manufacturing activity contracted in July, whilst the construction and services sectors also showed signs of slowing. In response to this worrying situation, the People’s Bank of China took additional measures, unexpectedly reducing several of its interest rates. These measures underline the mounting urgency for the authorities to provide reassurance and support growth.

Corporate debt markets in emerging countries performed well in July. The investment grade and high yield segments both chalked up substantial gains, with performance of +1.75% and +1.67%, respectively. These results were broadly supported by the fall in yields on US Treasuries, whilst spreads widened slightly over the course of the month in these two segments. Despite ongoing economic and geopolitical uncertainty, these markets are proving resilient due to strong corporate fundamentals in particular. The yield on the emerging corporate index stood at 8.30% at the end of the month.

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PeopleCert (EU)

PeopleCert, a provider of certification and examination-based assessments, reported satisfying Q2/24 results in July. Sales fell 3.2% yoy to GBP 32m with the EBITDA margin compressing c. 280 bps to 58%. According to the company, the weaker sales development was due to a very tough June comparable, which represented 13% of the group's annual sales in FY 2023 instead of the typical 8%. FOCF decreased due to the EBITDA decline and increased working capital build-up but remained at a healthy level of GBP 13.5m. Net debt improved sequentially to GBP 164m from GBP 179m. Reported net leverage was 2.4x, down 0.2x. Liquidity remained strong and included GBP 90m of cash and GBP 60m of RCF. Management guided for sales and EBITDA improvement in FY 2024, with EBITDA margins expected to be over 60% (vs. 56% in LTM Q2/24). The company does not expect to pay any material dividends. PeopleCert continues to monitor M&A opportunities but has nothing material to disclose currently.

IQVIA (US)

IQVIA, operating in Health & Technology, published satisfactory 2Q24 results as both of its business segments grew nicely. Revenues at Technology & analytics solutions (TAS) grew 2.3% yoy (or 3.5% at constant exchange rate (CER)), and by 2.4% yoy (3.3% yoy at CER) for the Research & development solutions (RDS) business. Adjusted EBITDA reached USD 887m, up 2.7% yoy, representing a 23.3% margin, while net leveraged decreased to reach 3.25x. Management narrowed its guidance for full year 2024, with revenue guided at USD 15.425bn to USD 15.525bn and adjusted EBITDA between USD 3.705bn and USD 3.765bn.

TAV Airports (EM)

TAV Airports, the Turkish operator of 15 airports across 8 countries, reported good 2Q24 earnings, with revenue up 33% yoy to EUR 411m and EBITDA higher by 26% yoy to EUR 129m at 31% margin (-189bps yoy). Reported net leverage improved 0.4x qoq to 3.8x, within the full-year guidance of 3.5x – 4.5x and the company reiterated full-year FY24e revenue (EUR 1,535m at mid-point), EBITDA (EUR 460m) and net leverage guidance but revised capex guidance higher by 12% to EUR 280m on account of the Almaty investment. Management also noted that both Antalya terminal and Ankara runway constructions are on track (84% and 58% completed respectively) to be opened in 1Q25e and end of FY25e respectively. TAV also bid for the operations and maintenance contract for Kuwait International Airport, which requires no investment.

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Afflelou	6.00%	2029	€560M	B+
Rossini Recordati	6.75%	2029	€1Bn	B

United States

Issuer	Yield	Maturity	Amount	Rating
Cinemark	7.00%	2032	\$500M	BB-
Wilsonart LLC	11.00%	2032	\$500M	B-

Emerging

Issuer	Yield	Maturity	Amount	Rating
Georgia Global Utilities	8.875%	2029	\$300M	BB-
Zhongsheng Group	6.03%	2028	\$600M	BBB

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Macro-Economic Events

Europe

Eurozone: the economy grew by 0.3% in the second quarter of 2024, slightly exceeding forecasts. However, mixed economic indicators paint a gloomier picture for the rest of the year. While France and Spain returned good results, the competitiveness of the eurozone remains an issue. The German economy was an outlier, with an unexpected contraction of 0.1% over the same period.

Germany: the business climate index fell for the third consecutive month to 87 in July – its lowest level since February – after 88.6 in June and versus the forecast of 88.9. Sentiment has deteriorated considerably for German companies in the manufacturing, services, retail and construction sectors.

United Kingdom: the Bank of England cut its benchmark rate by 25 basis points to 5% at its meeting at the beginning of August. While the reduction was in line with market expectations, the central bank stressed that it would continue to proceed cautiously to ensure inflation remains in check.

US & EM

United States: weak employment data caused turbulence and added to fears of an economic slowdown. The unemployment rate hit 4.3% in July, with just 114,000 jobs created versus 179,000 in the previous month and well below expectations of 175,000. Wage growth also slowed more than forecast. This confirms a series of signals that the economy is yielding to the Fed's restrictive interest rates, with also a stronger-than-expected contraction in the manufacturing sector.

China: the Caixin manufacturing PMI fell from 51.8 in June to 49.8 in July, thus underperforming market forecasts of 51.5. This represents the first contraction in industrial activity (below the threshold of 50) since last October. New orders fell on the back of weak demand, after increasing for the previous 11 months.

India: manufacturing PMI reached 58.5 in July versus 58.3 in the previous month, highlighting a significant improvement in activity. This represents the fastest expansion of the industrial sector in India since April in a favourable economic environment, thanks in particular to accelerating growth in production.

South Korea: exports rose by 13.4% year-on-year to reach USD 57.4 billion in July, below expectations of an 18.4% rise. This nonetheless represents the tenth consecutive month of growth and the sharpest increase since January, supported by robust demand for semiconductors.

Market Data Indices

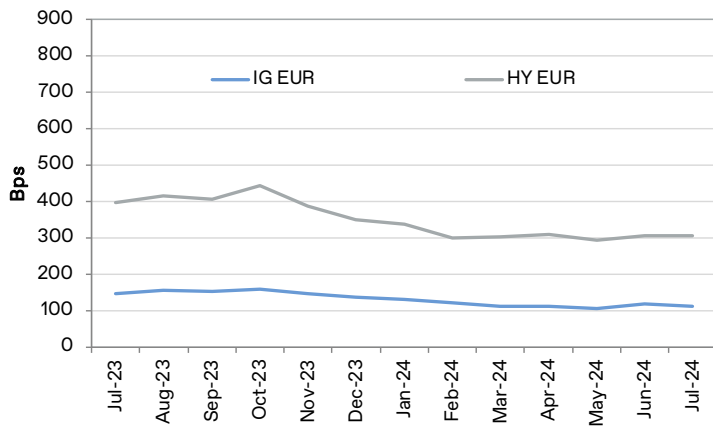
Indices (end of July)	Performance			
	MTD	YTD	Duration	Yield
High Yield				
Corporates High Yield Europe	1.24%	4.25%	3.05	6.42%
Corporates High Yield United States	1.95%	4.54%	3.26	7.58%
Corporates High Yield Europe Excluding Financials	1.14%	3.81%	3.00	5.86%
Corporates High Yield United States Excluding Financials	1.81%	4.30%	3.27	7.20%
High Yield Emerging Markets	1.67%	8.27%	3.81	8.30%
Investment Grade				
Corporates Investment Grade Europe	1.77%	2.40%	4.60	3.60%
Corporates Investment Grade United States	2.37%	2.14%	6.87	5.15%
Investment Grade Emerging Countries	1.75%	2.61%	6.09	5.27%
Governments				
7-10 Year German Bond	1.81%	-0.59%		2.23%
7-10 Year US Bond	2.89%	1.37%		4.02%

Inflation (end of July)					
Realized inflation	July	June	May	6M	12M
Realized inflation in Europe (rolling 12-month)	2.60%	2.50%	2.60%	2.80%	5.30%
Realized inflation in the United States (rolling 12-month)		3.00%	3.30%	3.10%	3.20%

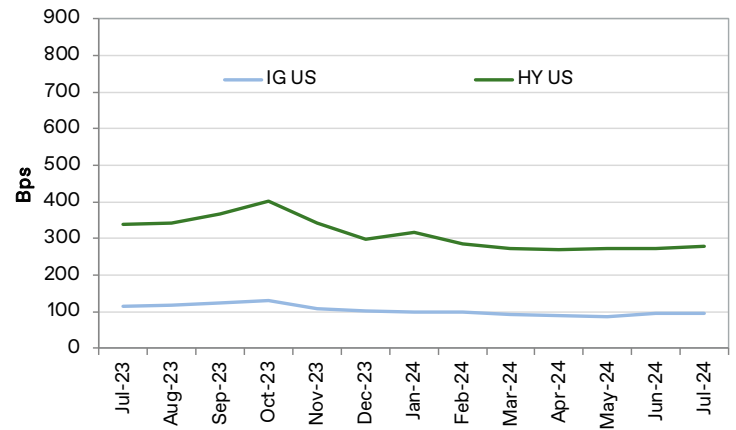
Month-to-date = MTD
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

	July	June	May	12 months
Europe				
Corporates Investment Grade Europe	110	118	107	147
Corporates High Yield Europe	358	355	334	430
Corporates High Yield Europe Excluding Financials	307	306	292	398
Corporate Bonds rated A Europe	98	105	94	128
Corporate Bonds rated BBB Europe	128	137	125	173
Corporate Bonds rated BB Europe	221	225	199	319
Corporate Bonds rated B Europe	414	435	414	519
United States				
Corporates Investment Grade United States	95	95	86	115
Corporates High Yield United States	318	314	310	371
Corporates High Yield United States Excluding Financials	278	274	272	338
Corporate Bonds rated A United States	82	81	73	97
Corporate Bonds rated BBB United States	117	116	107	142
Corporate Bonds rated BB United States	191	180	185	242
Corporate Bonds rated B United States	290	290	288	384
Emerging Countries				
Investment Grade Emerging Countries	113	104	101	129
High Yield Emerging Countries	409	406	403	605
Corporate Bonds rated A Emerging Countries	92	83	80	99
Corporate Bonds rated BBB Emerging Countries	149	140	135	174
Corporate Bonds rated BB Emerging Countries	267	260	252	345
Corporate Bonds rated B Emerging Countries	424	408	389	584

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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