

# Corporate Credit Monthly Update

## September 2024

### Europe

In Europe, economic activity is showing signs of a general slowdown. There is little momentum behind consumption, although the figures vary from country to country – Germany is lagging, whilst results in Spain are better. Leading indicators have fallen across all regions and sectors, with the notable exception of France, where services received a boost from the Olympic Games. Inflation is close to 2% across the region. However, services inflation has risen to 4.2% – its highest level in ten months. German inflation remained below the 2% target in August, for the first time since March 2021. On the politics front, France is in the process of naming its new government – a particularly complex process given the absence of a clear winner in recent elections. Meanwhile, Germany’s ruling coalition is looking increasingly fragile.

The Bank of Japan recently decided to raise its key rates – an unexpected move which had repercussions for global financial markets, putting an end to many carry trade strategies. Bond markets were particularly hit with an increase in Japanese government bond yields in response to this more restrictive monetary policy. However, investors rapidly refocused their attention on fundamentals. In Europe, the 7-10-year Bund yield closed the month relatively stable at 2.21%. On the credit market, high yield outperformed over the month, returning +1.17%, thanks in particular to a slight tightening of spreads. Spreads in the investment grade segment expanded slightly; performance was weaker at +0.31%, primarily on the back of political tension. The European corporate index yield ended the month at 5.66%.

The US continues to grow, albeit at a slower rate and with greater disparities across sectors. The Federal Reserve has started to reduce rates at its September meeting, a decision encouraged by new, favourable data on the subsidence of inflation. At the same time, the labour market has eased. Job creation was lower than expected and the unemployment rate has risen to levels not seen since October 2021. The oil price fell by over 4% in August, influenced by increased geopolitical tension in the Middle East and a deterioration in the outlook for China, which is the world’s major consumer of oil. The US dollar depreciated by -2.3% against a basket of major currencies, recording its worst performance of the year. Reported corporate earnings for the second quarter came in ahead of forecasts, illustrating the resilience of the economy despite the factors at play.

On markets, the fallout from movements in Japanese securities and fears of a harder landing for the US economy were the main features of August. Uncertainty related to elections also increased volatility, encouraging investors to turn to bonds, which are considered safer investments in periods of instability. Bond markets thus continued along their positive trajectory during the month, a trend likely to continue against the backdrop of rate cuts by the Fed. The US Treasury yield curve steepened, i.e. short-term yields – which are more sensitive to monetary policy – fell more than their longer-term counterparts. The 2-year yield fell 34 bps during the month and is now at the same level as the 10-year yield. This means that for the first time in over two years the yield curve is no longer inverted. On the corporate credit side, high yield bonds performed best (+1.62%). Spreads in this segment again contracted slightly and remain historically tight, although yields remain attractive. Investment grade spreads remained practically unchanged. The yield on the US corporate index stood at 6.92% at the end of the month.

### United States

### Emerging

As for emerging countries, the Chinese economy continues to show signs of weakness and in particular is being penalised by the prolonged crisis in the real estate sector. This lack of momentum is affecting both consumers and corporates, whilst recent efforts by the authorities to stimulate domestic demand have not yet yielded the anticipated results. The country remains dependent on the manufacturing sector and export demand to achieve its 5% growth target. Global trade tensions against the backdrop of rising protectionism are depressing exports and exacerbating production challenges. As for commodity markets, gold hit a new high in August on the back of the fall in US Treasury yields and dollar weakness. Always considered a safe-haven investment, the attraction of gold is increasing in this environment of falling interest rates.

Emerging markets bonds turned in another month of positive performance, also driven by the fall in bond yields across the world, dollar weakness and the slight tightening of spreads. The investment grade and high yield segments both chalked up substantial gains, with performance of +1.87% and +1.61%, respectively. Markets in Latin America, which traditionally have a high level of carry, underperformed as carry trades against Asian currencies were unwound and some countries in the region suffered from specific political situations. The yield on the emerging corporate index stood at 8.02% at the end of the month.

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### Almaviva (EU)

IT sector company Almaviva has released strong H1 24 results with revenues up 6.7% yoy to EUR 590m, driven by growth in IT Services (+9.5%) and DRM International (+6.1%). Adjusted EBITDA increased 17.4% yoy to EUR118m, while the margin widened c. 183 bps to 20.1%. Reported net leverage stood at 1.6x, largely driven by a EUR 115.4m working-capital build-up linked to the payment of trade payables in order to optimize third-party supplier relationships. Liquidity was at a comfortable level, with EUR 147m of cash and a fully available EUR 70m RCF. The company also announced the acquisition of Iteris, a US provider of smart mobility infrastructure management software and hardware solutions, for an EV c. USD300m. Finally, the company's FY 2024 outlook remains positive, with the strong IT backlog providing revenue visibility for the segment. Management is also expecting positive working capital for the year.

### Nordstrom (US)

Nordstrom, a US department store, received an offer from the founding family as well as the Mexican department store El Puerto de Liverpool, to acquire the rest of the shares they do not own, for \$23/share. The Nordstrom family currently holds c. 33.4% of the shares, while Liverpool owns c. 9.6%. If the offer is successful, the post deal ownership would land at 50.1%/49.9% and the Nordstrom family would finance the acquisition with cash, while Liverpool might use both cash on hand and non-recourse financing. Despite unfavourable inventory moves, Nordstrom posted satisfactory earnings for the 2nd quarter of 2024, with net sales up +3.4%, and a +23% YoY increase in adjusted EBITDA.

### Rede D'Or (EM)

S&P has upgraded the issuer credit and issue-level ratings on Rede D'Or, a leading Brazilian hospital chain, to BB+ from BB, while maintaining the stable outlook. The upgrade reflects the continued improvement in the company's hospital operations, as well as a successful integration of the Sul America operations. Indeed, Rede D'Or has consistently increased the average ticket and reduced costs thanks to size-related synergies. The company also adopted a prudent capital allocation that should help it generate positive cash flow going forward.

## Significant Primary Issues

### Europe

Issuer	Yield	Maturity	Amount	Rating
Accor	4.875%	Perp.	€500M	BB

### United States

Issuer	Yield	Maturity	Amount	Rating
Davita Inc	6.875%	2032	\$1.00Bn	BB-
Prime Healthcare	9.375%	2029	\$1.50Bn	B-

### Emerging

Issuer	Yield	Maturity	Amount	Rating
Celestial Dynasty	6.42%	2028	\$400M	B-

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Macro-Economic Events

Europe

**Eurozone:** Inflation fell to 2.2% in August compared with 2.6% the previous month, in line with market expectations. This is the smallest increase in consumer prices since July 2021. It marks progress towards the BCE's goal of 2%, contrasting previous months in which inflation remained above 2.5%. The slowdown is driven by a sharp fall in energy prices.

**Germany:** In August, the unemployment rate sat at its highest level in over three years, at 6%. It remains unchanged compared to the previous month and is in line with market expectations. The effects of economic stagnation continue to take their toll on the job market.

**United Kingdom:** Wage growth slowed, reaching its lowest rate in nearly two years and easing the Bank of England's worries regarding inflation. Meanwhile the unemployment rate unexpectedly fell to 4.2%. These two factors remain a key part of future Bank of England decisions concerning the interest rate.

US & EM

**United States:** GDP growth in the second quarter has been revised upwards to an annualised rate of 3%, compared to 2.8% in previous estimates. This figure reflects stronger-than-expected economic activity.

**China:** The Caixin Manufacturing PMI went from 49.8 in July to 50.4 in August. New orders gained positive momentum, leading to accelerated production against a backdrop of rising domestic demand. However, foreign demand fell slightly for the first time year-on-year.

**Israel:** Fitch has lowered the country's credit rating from A+ to A. The rating agency referred to heightened geopolitical risks due to the ongoing conflict in Gaza. It also warned of potential further downgrades. It anticipates a permanent increase in Israeli military expenditure of nearly 1.5% of GDP compared to pre-war levels, as the country strengthens its border defences. The budget deficit is 7.8% of GDP in 2024.

**Brazil:** The manufacturing PMI fell to 50.4 in August, compared to 54.0 in July. It marks the year's lowest level and reflects a significant slowdown in growth momentum. Growing pressures on costs, which have reached their highest levels since March 2022, and weakening demand have led businesses to reduce their production for the first time in 2024. New orders grew at their slowest pace in eight months.

Market Data Indices

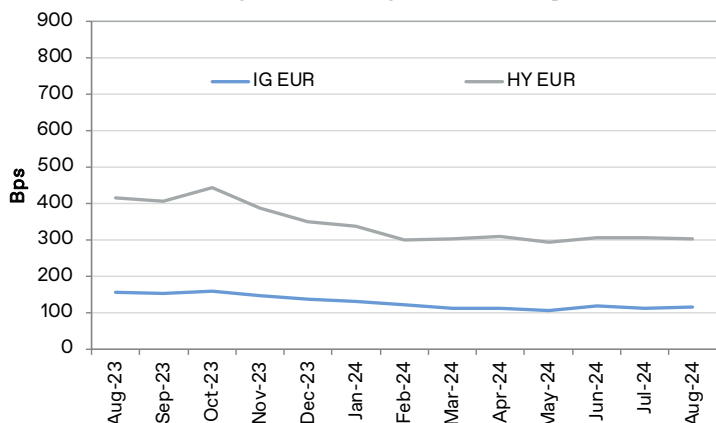
Indices (end of August)	Performance			
	MTD	YTD	Duration	Yield
<b>High Yield</b>				
Corporates High Yield Europe	1.17%	5.47%	3.00	6.14%
Corporates High Yield United States	1.62%	6.24%	3.16	7.29%
Corporates High Yield Europe Excluding Financials	1.08%	4.93%	2.95	5.66%
Corporates High Yield United States Excluding Financials	1.58%	5.96%	3.18	6.92%
High Yield Emerging Markets	1.61%	10.01%	3.75	8.02%
<b>Investment Grade</b>				
Corporates Investment Grade Europe	0.31%	2.71%	4.54	3.57%
Corporates Investment Grade United States	1.55%	3.73%	6.93	4.95%
Investment Grade Emerging Countries	1.87%	4.52%	6.14	5.01%
<b>Governments</b>				
7-10 Year German Bond	0.45%	-0.15%		2.21%
7-10 Year US Bond	1.40%	2.79%		3.88%

Inflation (end of August)					
Realized inflation	August	July	June	6M	12M
Realized inflation in Europe (rolling 12-month)	2.20%	2.60%	2.50%	2.60%	5.20%
Realized inflation in the United States (rolling 12-month)		2.90%	3.00%	3.20%	3.70%

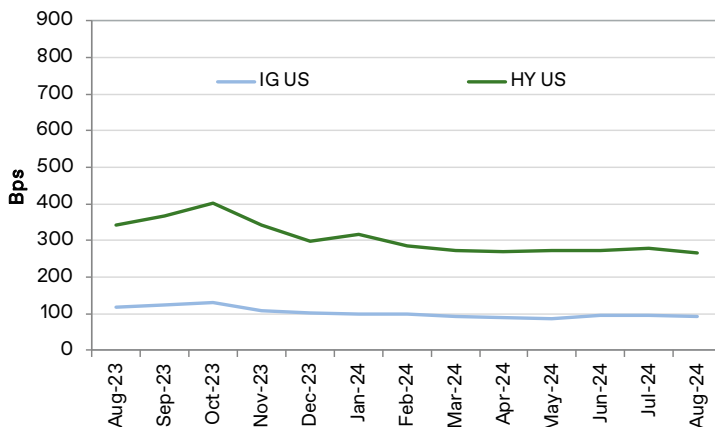
Month-to-date = MTD  
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

	August	July	June	12 months
<b>Europe</b>				
Corporates Investment Grade Europe	115	110	118	155
Corporates High Yield Europe	351	358	355	448
Corporates High Yield Europe Excluding Financials	301	307	306	414
Corporate Bonds rated A Europe	104	98	105	134
Corporate Bonds rated BBB Europe	132	128	137	182
Corporate Bonds rated BB Europe	220	221	225	336
Corporate Bonds rated B Europe	383	414	435	510
<b>United States</b>				
Corporates Investment Grade United States	94	95	95	119
Corporates High Yield United States	307	318	314	375
Corporates High Yield United States Excluding Financials	267	278	274	343
Corporate Bonds rated A United States	80	82	81	102
Corporate Bonds rated BBB United States	116	117	116	147
Corporate Bonds rated BB United States	178	191	180	251
Corporate Bonds rated B United States	284	290	290	384
<b>Emerging Countries</b>				
Investment Grade Emerging Countries	108	113	104	141
High Yield Emerging Countries	398	409	406	598
Corporate Bonds rated A Emerging Countries	87	92	83	104
Corporate Bonds rated BBB Emerging Countries	143	149	140	192
Corporate Bonds rated BB Emerging Countries	256	267	260	329
Corporate Bonds rated B Emerging Countries	426	424	408	629

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.

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

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

