

Corporate Credit Monthly Update

October 2024

Europe

Recent PMI data in Europe confirms modest growth momentum, but with differences among the major economies. Germany – Europe’s largest economy – is showing signs of weakness, whilst prospects remain positive in Spain. In September, business activity in Germany saw its sharpest contraction in seven months. At the same time, eurozone inflation slowed to 1.8% in September – its lowest level since April 2021 and below forecasts of 1.9%. The main reason for this slowdown can be found in the higher-than-expected fall in energy prices. Overall inflation is thus back below the 2% target set by the ECB, fuelling speculation of additional interest rate cuts by the end of the year; this follows the 25 basis points cut in September.

As was the case last month, bond markets recorded a solid performance in September and the quarter closed on a positive note. The 7-10-year Bund yield ended the month down 16 basis points at 2.05%. On the credit market, high yield bonds underperformed their US counterparts in September yet nonetheless managed a rise of +0.97%. This performance was mainly supported by the fall in rates, whilst spreads tightened by 9 basis points. The investment grade segment outperformed (+1.24%), showing a stronger reaction to this movement in rates despite stable spreads. The European corporate index yield ended the month at 5.57%.

In the US, economic indicators continue to highlight robust activity. At its September meeting, the Fed launched its cycle of interest rate cuts with a reduction of 50 basis points; this marked the first stage in its monetary policy easing. The Fed also indicated that a further reduction of 50 basis points could be on the cards before the end of 2024, thanks to the slowdown in inflation and the gradual normalisation of labour market data. Although still far from negligible, inflation did fall to 2.5% – its lowest level since February 2021. The oil price showed a marked fall of over 7% in September, offering additional support for economic growth and reducing inflationary pressure. Meanwhile, the dollar weakened by 1% versus a basket of major currencies.

September was characterised by significant movements on US financial markets. There were strong fluctuations in Treasuries over the course of the month, causing a fall in yields and a tightening of credit spreads. The fall was more substantial in the case of short maturities of less than three years. The 7-10-year yield, meanwhile, fell by 14 basis points to 3.74%. The yield curve is normalising, i.e. returning to a rising slope, after a long period of inversion. Despite worries related to domestic policy and international conflicts, the positive trend continued in corporate debt markets. Both investment grade and high yield corporate bonds benefited from the fall in sovereign yields and the tightening of spreads. Despite historically tight spreads, corporate debt still offers the prospect of attractive real yields, supported by strong fundamentals. September also saw a high volume of new issues given the more advantageous financial conditions. The yield on the US corporate index stood at 6.66% at the end of the month.

United States

Emerging

In emerging countries, the general cycle of interest rate cuts is spreading. The 50 basis points cut by the Fed opened the way to an easing of monetary policy in many emerging markets, with the notable exception of Brazil, which raised rates by 25 basis points. In Mexico, the adoption of judicial reform was a source of worry for market players and rating agencies remain divided on the issue. PMIs for the month indicated that China continues to struggle. There is an increasing risk that the world’s second largest economy will fail to meet its annual 5% growth target. In response, the authorities announced a vast fiscal, monetary and real-estate stimulus programme to promote demand, support the economy and stabilise asset prices.

Emerging debt markets proved resilient and risk appetite improved against the backdrop of stable corporate fundamentals and technical equilibrium. If the Fed achieves a soft landing for the US economy – which remains the base scenario – this would provide additional support and create a favourable environment for risk assets, including emerging market corporate debt. Bonds in the region chalked up another month of positive performance in September, also driven by generally sound economic indicators, declining inflation, accommodative central bank policies, a tightening of credit spreads and the fall in sovereign bond yields. The high yield sector outperformed investment grade with performance of 1.85% versus 1.29%. The yield on the emerging corporate index stood at 7.67% at the end of the month.

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Thom Europe (EU)

Thom Europe, the affordable-jewellery retailer in Europe, has released satisfactory Q3 23-24 results with revenues rising 6% YoY to EUR 253m while reported EBITDA was broadly flat YoY at EUR 63m. The margin narrowed 150 bps to 26.1%, mainly due to higher costs. In a soft market environment, the company's outperformance versus the market remains satisfactory due to Thom's focus on volumes and its selective price-hike strategy. Cash-flow performance was weaker YoY, owing to outflows for working capital and interest. Net leverage was 3.8x, up 0.6x. The company's robust cash-generation capabilities should continue to support deleveraging in the medium term even if earnings stagnate.

Flutter Entertainment (US)

Flutter Entertainment, the US gaming company, announced the acquisition of Snaitech S.p.A. in Italy and of a majority stake in NSX Group in Brazil. The Italian B2C sports betting and gaming business Snaitech will be acquired from Playtech for EUR 2.3bn, while the 56% stake in NSX, a Brazilian operator, will cost USD 350m. Fitch believes these deals will further diversify Flutter's business and increase leverage only temporarily, despite sizeable associated acquisition spending in 2025. Flutter's management reaffirmed its intention to stick to a medium-term leverage target of 2.0x-2.5x.

PPF Group (EM)

PPF Group received the green light from the European Commission to finalize the divestment of 50% plus one share in its ex-Czechia business (Bulgaria, Hungary, Serbia and Slovakia) to e&. Although the diversification of the business will suffer from this disposal, and despite no further guidance with regard to the ultimate capital structure of PPFTEL or CETIN (its infrastructure branch) being provided, from a bondholder perspective it is reassuring that management has reiterated previous comments about maintaining ratings and ensuring the least possible disruption to current fundings structures. On the operating front, 1H24 results from PPFTEL were reasonably solid, generally in line with prior periods.

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
AccorInvest Group	6.375%	2029	€750M	BB
APCOA Group	6.00%	2031	€300M	B

United States

Issuer	Yield	Maturity	Amount	Rating
Cimpres PLC	7.375%	2032	\$525M	B+
Victra Holding	8.75%	2029	\$450M	B+

Emerging

Issuer	Yield	Maturity	Amount	Rating
Meituan	4.52%	2028	\$1.20Bn	BBB+
Pegasus Hava	8.00%	2031	\$500M	B+

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Macro-Economic Events

Europe

Eurozone: 12-month rolling inflation slowed again in September to 1.8%, versus 2.2% in the previous month. This represents a milestone, as the first time since mid-2021 that inflation has fallen below the ECB's 2% target. The fall reflects a reduction in the inflationary pressures that have burdened the region over the last two years, offering respite to both households and companies.

Germany: the business climate indicator fell to 85.4 in September versus 86.6 in the previous month, which represents its lowest level since January. This was below forecasts of 86 and reveals the ongoing deterioration in business sentiment in the face of rising economic uncertainty. The prospects for a recovery in Europe's largest economy thus remain fragile.

France: President Emmanuel Macron named Michel Barnier as the new Prime Minister, who took up his position close to two months after early elections that resulted in political stalemate. We anticipate that Barnier's priorities will focus on dealing with urgent issues such as economic recovery, the competitiveness of French corporates and getting public finances under control.

Switzerland: the Swiss National Bank reduced its key interest rate by 25 basis points for the third consecutive time in September, and indicated that it is prepared to reduce borrowing costs further if necessary to uphold price stability and offset a strong Swiss franc. Inflation fell to 1.1% in August, which is its lowest level in five months and compares with 1.3% in the previous two months. It was also below market expectations of 1.2%.

US & EM

United States: job openings saw an unexpected rise in August after two consecutive months of decline, illustrating a certain degree of resilience in the job market. However, the rate of new hires remained modest, in line with the overall economic slowdown. This momentum could support the Federal Reserve's intention to continue with its accommodative monetary policy, with a new interest rate cut expected in November.

China: the official PMI exceeded expectations, showing a slight improvement in manufacturing activity in September versus the six-month low of the previous month. However, activity in the services sector weakened, reaching its lowest level since January 2023.

Brazil: rating agency Moody's raised the country's long-term issuer and senior unsecured bond ratings from Ba2 to Ba1, and maintained its positive outlook. This upgrade reflects a notable improvement in the country's creditworthiness and strengthens its ability to raise debt on international markets at more attractive interest rates.

Market Data Indices

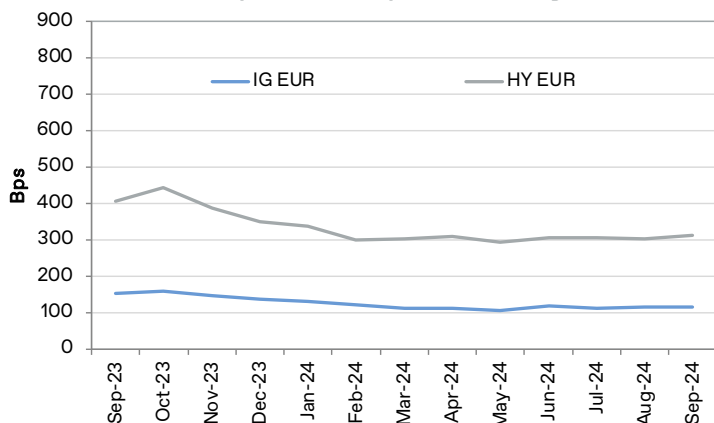
Indices (end of September)	Performance			
	MTD	YTD	Duration	Yield
High Yield				
Corporates High Yield Europe	0.97%	6.50%	3.01	5.85%
Corporates High Yield United States	1.62%	7.95%	3.14	6.97%
Corporates High Yield Europe Excluding Financials	0.77%	5.74%	2.97	5.57%
Corporates High Yield United States Excluding Financials	1.39%	7.43%	3.15	6.66%
High Yield Emerging Markets	1.85%	12.05%	3.75	7.67%
Investment Grade				
Corporates Investment Grade Europe	1.24%	3.99%	4.58	3.35%
Corporates Investment Grade United States	1.75%	5.54%	7.01	4.74%
Investment Grade Emerging Countries	1.29%	5.87%	6.23	4.83%
Governments				
7-10 Year German Bond	1.46%	1.31%		2.05%
7-10 Year US Bond	1.33%	4.16%		3.74%

Inflation (end of September)					
Realized inflation	September	August	July	6M	12M
Realized inflation in Europe (rolling 12-month)	1.80%	2.20%	2.60%	2.40%	4.30%
Realized inflation in the United States (rolling 12-month)		2.50%	2.90%	3.50%	3.70%

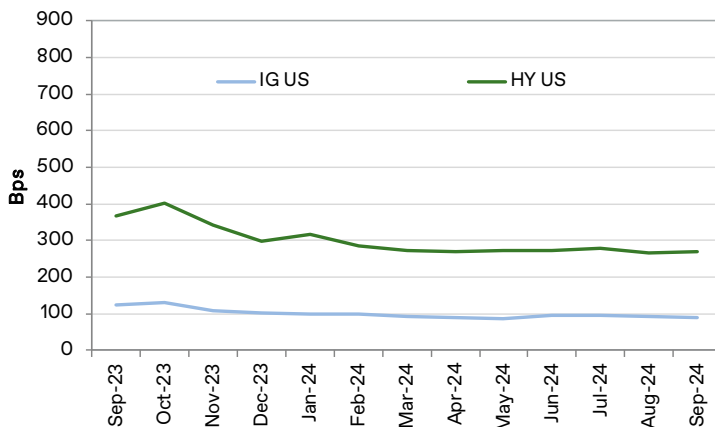
Month-to-date = MTD
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

	September	August	July	12 months
Europe				
Corporates Investment Grade Europe	116	115	110	152
Corporates High Yield Europe	342	351	358	437
Corporates High Yield Europe Excluding Financials	312	301	307	405
Corporate Bonds rated A Europe	104	104	98	132
Corporate Bonds rated BBB Europe	134	132	128	178
Corporate Bonds rated BB Europe	236	220	221	330
Corporate Bonds rated B Europe	383	383	414	494
United States				
Corporates Investment Grade United States	90	94	95	123
Corporates High Yield United States	300	307	318	396
Corporates High Yield United States Excluding Financials	268	267	278	367
Corporate Bonds rated A United States	74	80	82	106
Corporate Bonds rated BBB United States	113	116	117	149
Corporate Bonds rated BB United States	184	178	191	271
Corporate Bonds rated B United States	291	284	290	408
Emerging Countries				
Investment Grade Emerging Countries	108	108	113	137
High Yield Emerging Countries	389	398	409	575
Corporate Bonds rated A Emerging Countries	89	87	92	100
Corporate Bonds rated BBB Emerging Countries	143	143	149	190
Corporate Bonds rated BB Emerging Countries	252	256	267	316
Corporate Bonds rated B Emerging Countries	406	426	424	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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