



Corporate Credit Monthly Update

November 2024

Europe

Economic growth in Europe remains subdued and is struggling to keep pace with that of the US. Eurozone GDP nonetheless grew by 0.4% in Q3 in comparison to the previous quarter, despite weak macroeconomic indicators. However, substantial differences remain from country to country. Germany in particular remains a laggard and is weighing down the Eurozone as a whole. Inflation rose to 2% in October, versus 1.7% in September (its lowest level since April 2021). This development highlights the persistence of inflationary pressures – even though they have eased significantly compared to the high levels of a few months ago. Both the ECB and the Bank of England decided to stick to their more accommodative monetary policies in order to support growth. The ECB reduced its key rate by 25 basis points in October, in line with market expectations.

On markets, European sovereign bond yields rose in October – although the move was less marked than in the US. The 7-10-year Bund yield ended the month up 28 basis points at 2.33%. At the same time, the European corporate debt market showed signs of resilience – particularly in the high yield segment, which rose 0.60%. It thus outperformed both its US counterpart and the European investment grade segment, which declined by 0.52%. The European corporate index yield ended the month at 5.54%.

In the US, the economy continues to grow at a sustained pace. Several macroeconomic figures again thwarted forecasts in October – in employment, inflation, consumer spending and GDP. At 4.1%, the unemployment rate remains close to its historic lows. Inflation is on track to meet the Fed's 2% target. Initial GDP estimates for Q3 indicate annualised growth of 2.8%, illustrating this strong momentum. In parallel, the oil price rose by 1.6% during the month as a result of ongoing tension in the Middle East and fears of a disruption in supplies. The US dollar appreciated by over 3% against major currencies, thus chalking up its best monthly performance in two years. This is down to the strength of the US economy in comparison to that of other countries, as well as to the re-election of President Trump, whose policies are considered likely to promote rising interest rates.

Performance in US markets was negative overall in October, both for equities and bonds, but remains in positive territory for 2024. Sovereign bonds were particularly hard hit, posting their biggest monthly loss in two years. Stronger-than-expected macroeconomic data fuelled worries about the pace of future rate cuts from the Fed. Expectations on the political front were also a burden for markets. The prospect of tax cuts and higher customs duties under a second Trump administration fuelled fears of inflation and helped push up rates. US Treasury yields thus recorded a substantial rise across the curve. The 7-10-year yield rose by 52 basis points to 4.26%. Credit spreads tightened both in the investment grade and high yield segments but were unable to offset the move in rates. Investment grade suffered more as a consequence (-2.34% versus -0.62% for high yield). The yield on the US corporate index stood at 7.03% at the end of the month.

United States

Emerging

Inflation is still a major worry in emerging countries. The move in bond markets in developed economies, particularly the US, has placed significant pressure on central banks in those countries, which find themselves forced to stabilise their currencies and restrict inflation whilst at the same time trying to support economic growth. Against this backdrop, some Latin America countries – such as Brazil and Chile – are performing well thanks to firm monetary policies. In contrast, several countries in Asia and Africa are still struggling to curb rising prices. In China, after an upturn in optimism following September's political announcements, October was marked by a wait-and-see attitude. Investors seem increasingly cautious in light of the uncertainty regarding the country's economic recovery.

On markets, October was marked by increased volatility. Geopolitical tensions in the Middle East, combined with expectations for US interest rates, resulted in investors reassessing their holdings, particularly in risk assets. In this jittery environment, performance in emerging market debt was negative and broke with the positive trend of preceding months. However, the overall improvement in macroeconomic prospects contributed to a tightening of credit spreads for corporate debt – particularly in the high yield segment, which partially offset the negative impact of fluctuations in US Treasury yields. The emerging high yield segment (-0.11%) consequently outperformed the investment grade segment (-1.92%), which is more sensitive to rate fluctuations. The yield on the emerging corporate index stood at 7.89% at the end of the month.

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Azelis (EU)

Azelis, a leading global distributor of food ingredients, reported reasonably good results for Q3 and 9M/24. For 9M, revenue of EUR 3.2 bn was up 0.6% yoy. Gross profit increased 3.1% yoy to EUR 783.7 m in 9M/24, implying a gross profit margin of 24.5%. Adjusted EBITA fell 1.6% to EUR 369.3m, with a 26-bp margin decline to 11.5%. This was due largely to lower benefits from cost-control measures compared to the prior year, along with margin dilution given higher contributions from Azelis' businesses in LatAm, as well as the Middle East and Africa. Leverage increased to 2.9x, up from 2.6x at end-September 2023 with liquidity of EUR 868.5m in both cash and unused RCF.

Pitney Bowes (US)

Pitney Bowes, a US specialist in logistics, office mailing, and presort services, reported a good set of results for Q3 and 9M 2024. Year to date, revenue was down 3% lfl (Q324 -1% yoy), in line with management expectations, while adjusted EBITDA was up 17%, boosted by cost-cutting measures across the legacy business. As a reminder, the company exited its loss-making Global E-Commerce activity at the beginning of 2024 and management is confident the exit will be completed by the end of 2024. Despite significant restructuring costs year-to-date, FCF turned positive (+45m\$), an improvement versus the -14m\$ reported for the 9M2023. Management confirmed its guidance for a "low single-digit" revenue decline for FY 2024 but upgraded EBIT and is now targeting 355m\$ to 360m\$ (vs 340-355m previously).

Aragvi (Trans-Oil) (EM)

Aragvi (Trans-Oil), a vertically integrated agro-industrial business based in Moldova, announced a new senior secured (SSN) 5Y to refinance its 8.45% notes due April 2026. On the back of its announced refinancing exercise, S&P put its 'B' rating under positive watch, a few months after Fitch upgraded the SSN to B+. For its FY 2024 (ended June 2024), the issuer reported revenues up +8% to USD 2.31bn, on the back of a better business mix (higher mix of crushing & refining). EBITDA also improved, by +14.4%, and reached USD 212m, with a margin of 9.2%. Although FCF generation suffered in FY24 from greater use of working capital as well as higher interest costs, the company managed to reduce its net leverage (adjusted by Readily-Marketable Inventories) to 1.56x, from 1.64x in FY23.

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Almaviva	5.00%	2030	€725M	BB+
Techem	5.35%	2029	€750M	B+

United States

Issuer	Yield	Maturity	Amount	Rating
Cleveland-Cliffs	6.875%	2029	\$900M	Ba3
Ford Motor Credit	6.054%	2031	\$1.00Bn	BBB-

Emerging

Issuer	Yield	Maturity	Amount	Rating
Grupo Aeromexico	8.625%	2031	\$610M	BB-
Zorlu Enerji	11.00%	2030	\$1.00Bn	B3

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Macro-Economic Events

Europe

Eurozone: 12-month rolling inflation edged up to 2% in October after undershooting the ECB's 2% target in September – the first time it has done so in three years. This uptick is mainly due to the base effect in energy prices and did not stop the ECB from lowering key interest rates by the expected 25 basis points cut in October following similar moves in June and September.

Germany: The country is preparing for its second consecutive year of recession for the first time since the start of the 2000s, with the government forecasting a contraction of 0.2% in GDP for 2024, after a fall of 0.3% in 2023. High interest rates, inflation, geopolitical uncertainty and political instability have had an impact on consumer demand and corporate investment. The government forecasts a return to growth from 2025.

France: Moody's affirmed its credit rating for France at Aa2, but with a negative outlook, reflecting the agency's worries about fiscal policy and the deterioration in the public finances. The S&P rating is AA- with a stable outlook.

Spain: The Valencia region was hit by a severe cold drop at the end of the month, causing extremely high rainfall and flooding as well as resulting in a heavy human toll and substantial damage to property. Global warming has been cited as the reason for this tragedy, raising fears that we are likely to see such episodes occurring with increasing frequency.

US & EM

United States: The manufacturing PMI came in lower than expectations, highlighting a new period of substantial contraction. The US economy created just 12,000 jobs in October, well below forecasts of 113,000, although figures took a hit from strikes at Boeing and hurricanes. Unemployment nevertheless remains at historic lows.

China: The economy grew by 4.6% year-on-year in the third quarter. This is the lowest year-on-year growth rate since the first quarter of 2023, and comes against the backdrop of persistent troubles in the real estate sector, shaky domestic demand, the risk of deflation, and trade tensions with Western countries.

Brazil: The unemployment rate was 6.4% in the third quarter of 2024 – its lowest level since the record 6.2% seen in Q4 2013. This data confirms the increased pressure in the labour market, which may result in a less accommodative monetary policy on the part of the central bank.

Market Data Indices

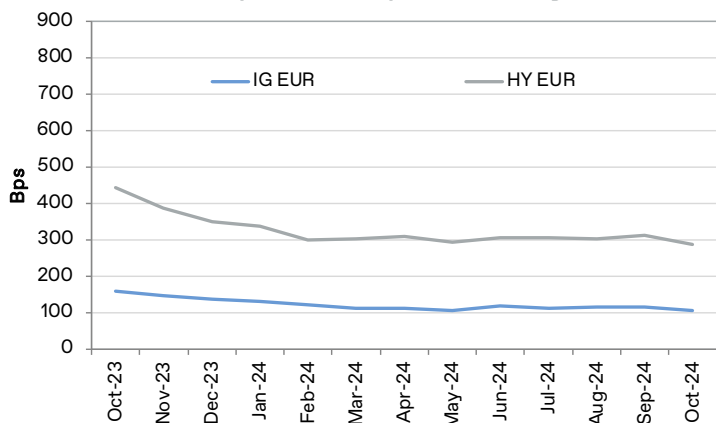
Indices (end of October)	Performance			
	MTD	YTD	Duration	Yield
High Yield				
Corporates High Yield Europe	0.61%	7.14%	3.04	5.84%
Corporates High Yield United States	-0.55%	7.36%	3.25	7.32%
Corporates High Yield Europe Excluding Financials	0.60%	6.38%	3.00	5.54%
Corporates High Yield United States Excluding Financials	-0.62%	6.77%	3.28	7.03%
High Yield Emerging Markets	-0.11%	11.92%	3.78	7.89%
Investment Grade				
Corporates Investment Grade Europe	-0.52%	3.45%	4.52	3.49%
Corporates Investment Grade United States	-2.34%	3.07%	6.82	5.17%
Investment Grade Emerging Countries	-1.92%	3.84%	6.08	5.22%
Governments				
7-10 Year German Bond	-1.95%	-0.67%		2.33%
7-10 Year US Bond	-3.33%	0.69%		4.26%

Inflation (end of October)	Performance				
	October	September	August	6M	12M
Realized inflation					
Realized inflation in Europe (rolling 12-month)	2.00%	1.70%	2.20%	2.40%	2.90%
Realized inflation in the United States (rolling 12-month)		2.40%	2.50%	3.40%	3.20%

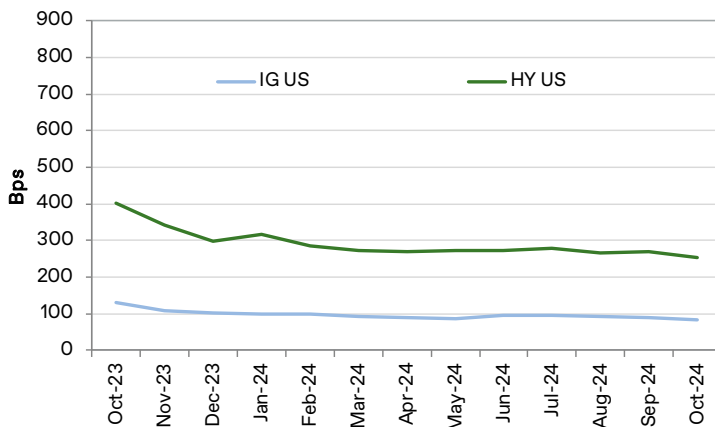
Month-to-date = MTD
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

	October	September	August	12 months
Europe				
Corporates Investment Grade Europe	104	116	115	160
Corporates High Yield Europe	317	342	351	477
Corporates High Yield Europe Excluding Financials	287	312	301	443
Corporate Bonds rated A Europe	94	104	104	138
Corporate Bonds rated BBB Europe	120	134	132	188
Corporate Bonds rated BB Europe	205	236	220	358
Corporate Bonds rated B Europe	360	383	383	553
United States				
Corporates Investment Grade United States	85	90	94	130
Corporates High Yield United States	284	300	307	434
Corporates High Yield United States Excluding Financials	254	268	267	401
Corporate Bonds rated A United States	70	74	80	113
Corporate Bonds rated BBB United States	105	113	116	159
Corporate Bonds rated BB United States	176	184	178	287
Corporate Bonds rated B United States	279	291	284	457
Emerging Countries				
Investment Grade Emerging Countries	99	108	108	143
High Yield Emerging Countries	361	389	398	610
Corporate Bonds rated A Emerging Countries	79	89	87	105
Corporate Bonds rated BBB Emerging Countries	133	143	143	198
Corporate Bonds rated BB Emerging Countries	238	252	256	345
Corporate Bonds rated B Emerging Countries	380	406	426	623

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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