

Corporate Credit Monthly Update

June 2017

«Nothing seemed able to slow the uptrend on the European High Yield market.»



Pierre Glai-Levra,
Chairman of Anaxis
Asset Management

June started off with the news of a drop in the inflation rate (from 1.9% to 1.4% over a rolling one-year period), causing short rates in several euro zone countries to slide and whetting investor appetite for credit risk. Nothing seemed able to slow the uptrend on the European High Yield market, which proved immune to Theresa May's failed electoral bid in the UK, the sharp drop in oil prices, and even the much-awaited rate hike decided by the Fed on 14 June. It was Mario Draghi who ended up putting on the brakes. Speaking from Sintra, Portugal on 27 June, the ECB President laid the groundwork for the potential normalisation of European monetary policy, including a gradual rise in key rates made possible by the long-term improvement in economic conditions. Just two days before that, Italy had officialised the liquidation of mutualist banks Banca Popolare di Vicenza and Veneto Banca, with the participation of Intesa Sanpaolo and government backing of up to EUR 17 billion.

In the US, the markets had a few themes to contend with, including surprise UK election results, the sharp decline in oil prices and a spike in volatility, particularly for rates, in the last week of the month following a chorus of hawkish central bank speeches. As largely expected, the Fed also raised rates by 25 bps, the third hike in three quarters.

EM credit performance was slightly negative, due to the sharp decline in oil prices and the rise in rates. With the exception of Latin America (+0.4%), all other regions reported negative performance, including Asia (-0.2%), Eastern Europe (-0.2%) and the Middle East (-0.7%).

Companies in the Spotlight

Manutencoop (Europe)

At the end of June, the Italian cleaning and building management company issued EUR360m in a new senior secured note (due 2022) to acquire the minority shareholder interests and refinance all of the existing notes (EUR300m due in 2020). The coupon rate increased from 8.5% (when the existing bonds were issued in 2013) to 9%, as the company is facing uncertainties, in particular due to legal proceedings in Italy. The corporate credit is rated B.

Tenet Healthcare (US)

US hospital chain Tenet Healthcare wrapped a three-tranche bond offering in June, with USD1.9Bn in secured first-lien notes (due 2024), along with USD1.4Bn in secured second-lien notes (due 2025) and USD500m in unsecured notes (due 2025). The deal was brought to market as a refinancing exercise including the redemption of the 2018 and 2020 bonds in which we were invested.

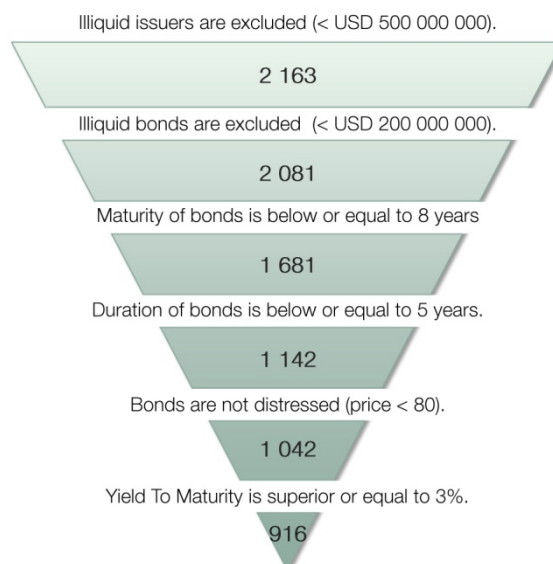
Japfa Comfeed (Emerging Countries)

In June, Japfa Comfeed, a leading Indonesian agri-livestock company, tapped another USD100m of its 2022 bond to repay existing working capital loans, and to finance small capex and working capital requirements. The repap is credit-positive news, as it allows the company to term out its debt maturity profile.

Anaxis AM Universe

The universe studied by Anaxis AM for the management of its portfolios and the publication of this document is as follows :

On 2 786 European, US and EM corporate bonds (ex-Financials)
(H7PC, JC4N and HYEY indices)



Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
Intrum Justitia AB	3.125%	2024	€900M	Ba2
Mytilneos Holdings	3.100%	2022	€300M	-
Zodiac Media SA	4.000%	2022	€365M	B1

US

Issuer	Coupon	Maturity	Amount	Rating
J2 Cloud	6.000%	2022	\$650M	Ba3
Stillwater	7.125%	2025	\$550M	Ba2

EM

Issuer	Coupon	Maturity	Amount	Rating
Arcor	6.000%	2023	€500M	B1
Grupo Cementos	5.250%	2024	\$260M	BB

Rating Moves

Bouygues Sa	S&P	↗	BBB+
CGG	Moody's	↘	C
CNH Industrial NV	S&P	↗	BBB-
FTE Verwaltungs GmbH	Moody's	↗	B1
General Motors	Fitch	↗	BBB
Mapfre SA	Fitch	↗	BBB+
Metro AG	Moody's	↘	Ba1
New Look retail Group	Moody's	↘	B-
Stena AB	S&P	↘	B+
Suedzucker AG	S&P	↗	BBB

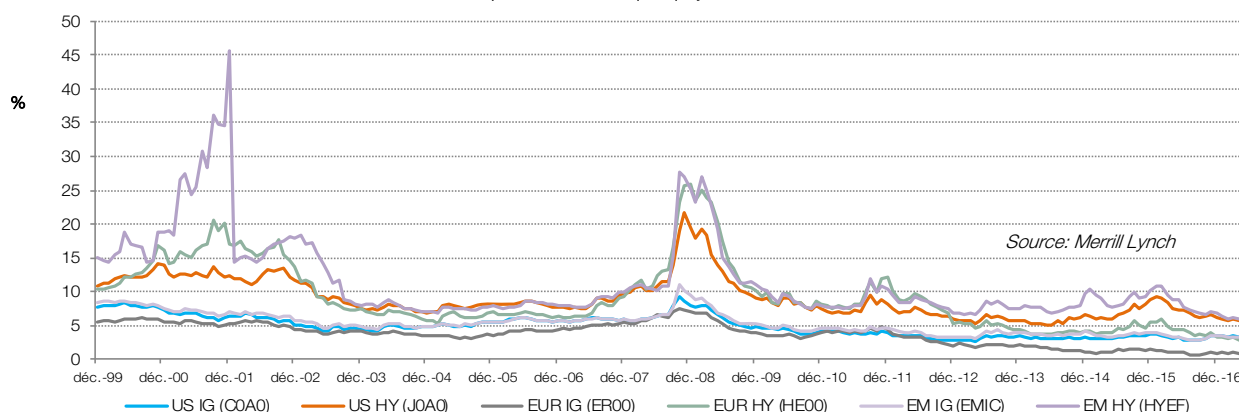
Macro Economic Events

- **Eurozone:** inflation slowed to 1.4% yoy in May. Prices contracted 0.1% month-on-month. The EU and the UK have launched formal Brexit negotiations.
- **United Kingdom:** T. May gained parliamentary approval with a 323-309 victory after forming a coalition government with the Northern Irish extremists in the DUP. Scottish Prime Minister N. Sturgeon said she would wait for Brexit conditions to be clarified before holding a second Scottish independence referendum.
- **France:** the economy grew 0.5% in Q1 2017 vs. Q4 2016. GDP growth is pegged at 1.6% for 2017, compared with 1.1% in 2016. E. Macron won a substantial majority in the legislative elections, paving the way for his reforms. The government will have to find a way to save €4-5 billion to keep the public deficit below 3% of GDP this year.
- **Spain:** public debt inched past 100% of GDP in Q1, coming out at 100.4%. The government reiterated its debt target of 98.8% of GDP by the end of the year.
- **Portugal:** the central bank raised its growth forecast for 2017 from 1.8% to 2.5%, on the back of strong exports and investment. Fitch confirmed its BB+ rating and upgraded its outlook from stable to positive.
- **Greece:** Moody's raised its rating by one notch to Caa2 with a positive outlook. The unemployment rate dipped to 23.3% in Q1. After the Eurogroup meeting, the ESM could shell out €8.5 billion as part of the third aid package (€86 billion) granted in 2015, with €36 billion having already been disbursed.
- **United States:** the Fed raised the fed funds rate by 25 bp to 1%-1.25%. The IMF announced the reduction of its growth forecasts to 2.1% for 2017 and 2018. S&P confirmed its AA+ rating with a stable outlook.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
High Yield						
JOA0	US HY Cash Pay	0.10%	4.92%	3.75	5.59%	381
HE00	Euro HY	0.38%	4.09%	3.29	2.68%	297
JC4N	US HY BB/B Non-Fncl Constr.	0.06%	4.37%	3.78	4.96%	318
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	0.13%	3.76%	3.29	2.58%	277
HYEF	EM HY Ex. Subordinated Financial	-0.33%	4.44%	3.59	6.38%	474
Investment Grade						
COA0	US Corporates Master	0.25%	3.88%	7.09	3.23%	112
ER00	EMU Corporates	-0.53%	0.65%	5.29	0.95%	101
EMIC	Emerging Markets Corporates	0.16%	3.72%	5.19	3.20%	149
Governments						
10Y US	10 Year US Benchmark	-0.89%	1.25%		2.31%	
10Y GE	10 Year German Benchmark	-1.53%	-2.47%		0.47%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

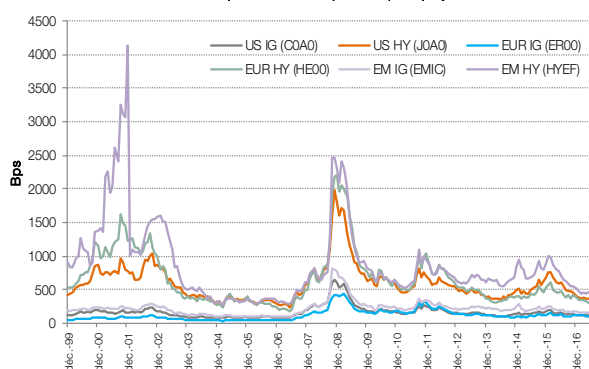
Exp. Inflation	Bloomberg's expected CPI 12M forward	June	May	April	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.20%	2.40%	2.50%	2.30%	2.30%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.60%	1.60%	1.60%	1.30%	1.30%
Realized Inflation		June	May	April	6M	12M
US CPI	US CPI YoY		1.90%	2.20%	2.10%	1.00%
EUR CPI	Eurozone CPI YoY	1.30%	1.40%	1.90%	1.10%	0.10%

Source: Merrill Lynch

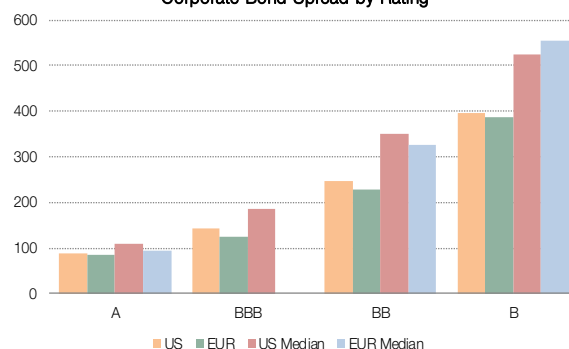
Corporate Bond Spreads

Corporate Bond Spreads (STW)		June	May	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	112	116	126	158	140
ER00	EMU Corporates	101	107	120	133	116
EMIC	Emerging Markets Corporates	149	155	173	204	501
JOA0	US HY Cash Pay	381	381	430	622	501
HE00	Euro HY	297	309	378	481	444
HYEF	EM HY Ex. Subordinated Financial	474	471	519	696	501
COA3	US A	89	93	101	124	110
ER30	EURO A	85	92	102	112	95
EMAQ	EM A	122	126	141	167	95
COA4	US BBB	143	147	161	208	185
ER40	EURO BBB	123	131	148	168	
EM2B	EM BBB	190	197	225	269	151
JUC1	US BB	246	251	286	410	352
HE10	EURO BB	229	241	292	346	327
EM3C	EM BB	296	294	333	411	327
JUC2	US B	396	388	432	637	525
HE20	EURO B	388	367	466	659	554
EM6B	EM B	494	469	524	725	554

Corporate Bond Spreads (OAS) by Index



Corporate Bond Spread by Rating



Source: Merrill Lynch

Anaxis Asset Management

Anaxis Asset Management is the Anaxis group's asset management firm specialized in corporate bonds. For more than 10 years Anaxis Group has provided high performance and resilient investment solutions to European investors. Anaxis benefits from a team of experienced and recognized investment professionals. The team adopts a fundamental approach to credit, based on thorough financial analysis and a rigorous control of risks.

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