

Corporate Credit Monthly Update

July 2017

« The market rebounded sharply in the second half of the month. »



Pierre Glai-Levra,
Chairman of Anaxis
Asset Management

Speaking from Sintra on 27 June, ECB President Mario Draghi opened the door to the gradual normalisation of European monetary policy. This change of heart, pointing to likely rate hikes, set the European credit market on a relatively moderate path. Prices ebbed in the first half of the month, particularly among long-dated, low-rated bonds. This effect was short-lived, however, with the market rebounding sharply in the second half of the month. Q2 earnings

were deemed satisfactory, beating the consensus. On the downside, the appreciation of the euro could hurt European company exports and chip away at their margins in H2.

US High Yield returned a positive performance driven by the rally in stocks, oil, and Treasuries. The Q2 earnings season has kicked in and so far, corporate earnings are strong from both a top-line and profitability stand-point. Lower-rated bonds outperformed on the back of renewed risk appetite. In line with the rally in rates, longer-dated bonds enjoyed a strong month, with 10+ year bonds returning more than 2% over the month. Also, low supply was supportive for the HY market, with high-yield bond issuance three times below normal seasonal averages during the month (USD25bn avg. for July).

In July, the environment for EM credit remained positive. Benign inflation trajectories, low credit and stock volatility, rising oil, a good Q2 earnings season and pressurized USD were the main growth drivers. With the exception of Capital Goods and Technology & Electronics, which were impacted by distressed situations, all sectors returned positive performance throughout the month. All regions performed well.

Companies in the Spotlight

CMA CGM (Europe)

French maritime transporter CMA CGM issued a 5-year bond at €650 million on 7 July. The issue was €150 million higher than previously announced, making it the largest High Yield issue in the sector. However, the group decided against issuing a 7-year bond, as recently stated. The new bond pays a coupon of 6.5% and is rated CCC+, as expected. The money will be used to repay a 2018 bond (€300m) and credit lines (RCF) used for the acquisition of NOL.

Valeant (US)

In July, Canadian pharmaceutical company Valeant announced that it plans to redeem the remaining USD500m of its 6.75% senior note (due 2018) using cash on hand. The company already tendered USD1.1Bn of the existing USD1.6Bn in March 17. The company also used the proceeds of the divestment of Dendreon to pay down USD811m of a senior secured term loan. After redeeming the bond, Valeant will have no significant debt maturities through 2019.

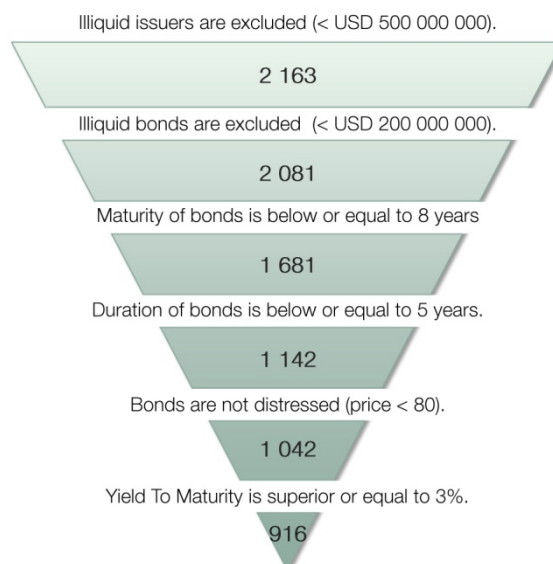
JBS (Emerging Countries)

JBS SA, the Brazilian-domiciled protein manufacturer currently involved in a corruption scandal, disclosed that it had entered into an agreement with a group of Brazilian bank lenders to extend the maturity of its R\$20.5bn local credit lines. This is a positive development for JBS bonds, as it should relieve the market's concerns over its short-term indebtedness and validate lender confidence.

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
CMA-CGM	6.500%	2022	€650M	B3
CMF SpA	9.000%	2022	€360M	B2
Kedrion SPA	3.000%	2022	€350M	-
LHC Three PLC	4.130%	2024	€575M	Ba2
Zodiac Media SA	4.000%	2022	€365M	B1

US

Issuer	Coupon	Maturity	Amount	Rating
AMC Networks	4.750%	2025	\$800M	Ba3
Lithia Motors	5.250%	2025	\$300M	Ba2

EM

Issuer	Coupon	Maturity	Amount	Rating
ABM Investama TBK	7.125%	2022	€300M	Ba3
Melco Resorts	4.875%	2025	\$1Bn	Ba3

Rating Moves

AstraZeneca PLC	S&P	↘	BBB+
Algeco Scotsman Global Sarl	S&P	↘	CCC
AREVA SA	S&P	↗	B+
Heckler & Koch GmbH	Moody's	↗	B3
Hema BV	S&P	↗	B-
Peugeot SA	Moody's	↗	Ba1
Volvo AB	Moody's	↗	Baa1

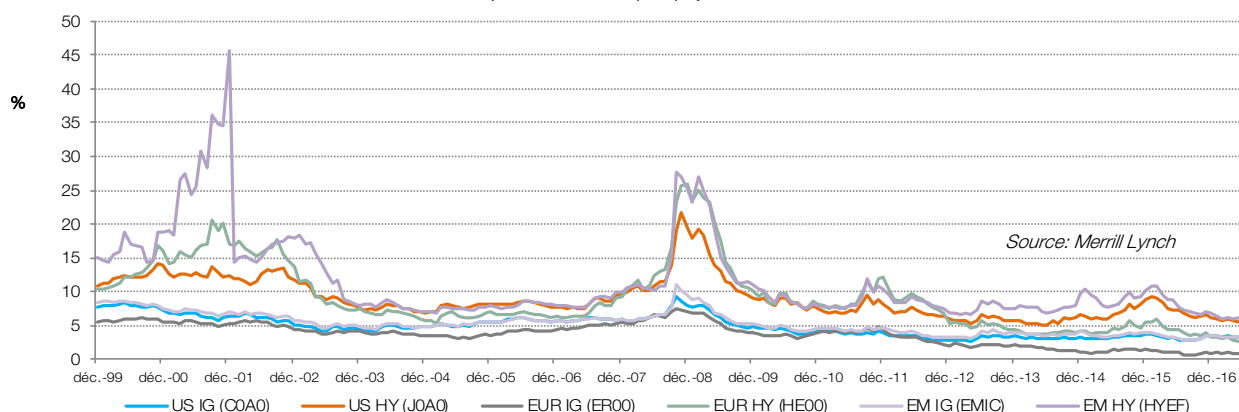
Macro Economic Events

- **European Union:** not surprisingly, the ECB kept its monetary policy unchanged and refrained from giving any hints on when it might change its bond buying programme. Furthermore, according to the EU's chief negotiator M. Barnier, the prospect of starting negotiations between the UK and the EU on the future of their relations in October is growing dim, given the lack of progress made during their talks thus far.
- **France:** Fitch confirmed its AA rating with a stable outlook, in light of the country's strong financial flexibility.
- **Spain:** growth picked up the pace in Q2, driven by exports and household consumption. GDP improved 0.9% qoq. Fitch raised the outlook on its rating (still at BBB+) to positive, thanks in large part to the improved fiscal outlook.
- **Greece:** after a 3-year absence, the country returned to the bond market with the placement of a 5-year €3 billion bond paying 4.625%.
- **Ireland:** according to the Finance Minister, Ireland's economic growth forecast is maintained at 4.3% for 2017 and 3.7% for 2018.
- **World:** the IMF reiterated its forecast of accelerated global economic growth at 3.5% this year, i.e. +0.3 point versus 2016, with the reduced forecast for the US offset by greater momentum in the euro zone and China.
- **United States:** growth accelerated in Q2 on the back of stronger household consumption and business investment, reaching 2.6% yoy over the April-June period. The Fed unanimously decided to keep the fed funds rate within the 1% to 1.25% range.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
High Yield		MTD	YTD	DTW	YTW	STW
JOA0	US HY Cash Pay	1.15%	6.14%	3.61	5.38%	366
HE00	Euro HY	0.96%	5.08%	3.25	2.44%	280
JC4N	US HY BB/B Non-Fncl Constr.	1.08%	5.49%	3.64	4.72%	300
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	0.69%	4.48%	3.22	2.48%	272
HYEF	EM HY Ex. Subordinated Financial	0.90%	5.38%	3.59	6.25%	465
Investment Grade						
COA0	US Corporates Master	0.75%	4.65%	7.08	3.15%	105
ER00	EMU Corporates	0.76%	1.41%	5.28	0.82%	92
EMIC	Emerging Markets Corporates	0.70%	4.44%	5.18	3.12%	144
Governments						
10Y US	10 Year US Benchmark	0.08%	1.34%		2.29%	
10Y GE	10 Year German Benchmark	-0.73%	-3.31%		0.54%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

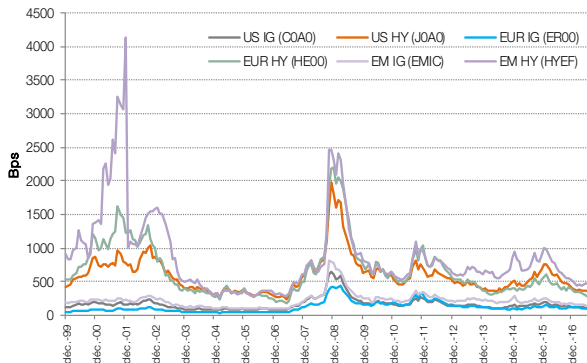
Exp. Inflation	Bloomberg's expected CPI 12M forward	July	June	May	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.10%	2.20%	2.40%	2.40%	2.20%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.60%	1.60%	1.40%	1.30%
Realized Inflation		July	June	May	6M	12M
US CPI	US CPI YoY		1.60%	1.90%	2.50%	0.80%
EUR CPI	Eurozone CPI YoY	1.30%	1.30%	1.40%	1.80%	0.20%

Source: Merrill Lynch

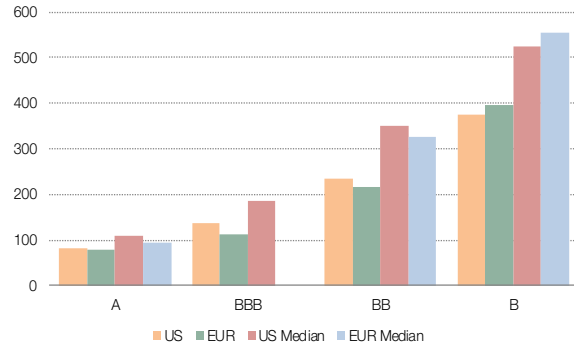
Corporate Bond Spreads

Corporate Bond Spreads (STW)		July	June	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	105	112	124	146	140
ER00	EMU Corporates	92	101	117	111	116
EMIC	Emerging Markets Corporates	144	149	166	190	501
JOA0	US HY Cash Pay	366	381	410	573	501
HE00	Euro HY	280	297	354	431	444
HYEF	EM HY Ex. Subordinated Financial	465	474	476	644	501
COA3	US A	83	89	100	114	110
ER30	EURO A	78	85	99	93	95
EMAQ	EM A	329	122	135	153	95
COA4	US BBB	136	143	157	192	185
ER40	EURO BBB	112	123	144	140	
EM2B	EM BBB	184	190	217	249	161
JUC1	US BB	234	246	280	373	352
HE10	EURO BB	216	229	269	302	327
EM3C	EM BB	287	296	307	387	341
JUC2	US B	374	396	414	584	525
HE20	EURO B	396	388	457	588	554
EM6B	EM B	481	494	468	649	566

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.

Anaxis Asset Management

9 rue Scribe
75009 Paris

+33 (0)9 73 87 13 20
info@anaxiscapital.com

www.anaxiscapital.com

