

Corporate Credit Monthly Update

October 2017

« October was a positive month for European credit »



Pierre Gai-Levra,
Chairman of Anaxis
Asset Management

October was a positive month for European credit, and volatility continued to hover near record lows. The ECB's big meeting this month came with no surprises despite the tapering announcement. Performance was relatively consistent from a ratings standpoint. Once again, duration performed strongly, with 7y+ bonds significantly outperforming the rest of the universe.

In the US newsflow marked time until the announcement of Trump's desired tax reform, notably set to cut the corporate tax rate from 35% to 20%. The announcement of Janet Yellen's successor to head up the Fed, Jerome Powell, was well received, as it was seen as a sign of continuity and moderation. Rising oil prices were another supportive factor for the market. On the downside, hurricane season took a toll on labour market momentum and corporate earnings for some companies.

EM High Yield credit posted a positive performance, on the back of persistently strong global growth momentum and generally supportive macro conditions. With flows into EM bond funds still solid and possibly a lighter primary market calendar through the end of the year, technical factors are likely to remain supportive.

Companies in the Spotlight

Wind Tre (Europe)

Wind Tre, the Italian telco operator formed through the merger of VimpelCom's Wind Telecomunicazioni and CK Hutchison's 3 Italia, has launched a EUR7.3Bn bond offering, along with a EUR3Bn term loan A to refinance its capital structure. This is Europe's biggest HY deal in 2017 and the package was split between EUR tranches (2023, 2024, 2025) and a USD tranche (2026).

Constellium (US)

Aluminium product manufacturer Constellium once again published solid earnings in Q3 2017. All of the Group's figures were on a good track, and Management reiterated its guidance of more banner performances to come in the next quarters. Constellium also informed the market of its intention to redeem senior unsecured notes by issuing two new EUR and USD unsecured notes due 2026, and announced a capital increase via the issue of €22m in new shares. Ratings agencies S&P and Moody's respectively revised and confirmed the stable outlook associated with the rating.

Suzano (Emerging Countries)

Brazilian pulp producer Suzano released strong 3Q17 results, with EBITDA beating the market consensus. Free cash flow generation remains strong and net leverage ended at 2.0x, the lowest among its Brazilian peers. During the quarter, the company finished its new tissue plant (120k ton tissue production capacity). Positive market momentum gave room for another price increase effective November. Retapping the 2026s and 2047s allowed the company to extend 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 HYEF indices)

Illiquid issuers are excluded (< USD 500 000 000).

2 163

Illiquid bonds are excluded (< USD 200 000 000).

2 081

Maturity of bonds is below or equal to 8 years

1 681

Duration of bonds is below or equal to 5 years.

1 142

Bonds are not distressed (price < 80).

1 042

Yield To Maturity is superior or equal to 3%.

916

Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
CMA CGM	5.250%	2024	€500M	B3
Europcar Drive	4.130%	2024	€600M	B3
Vallourec	6.630%	2022	€400M	B
Wind Tre	3.130%	2025	€1.75Bn	Ba3

US

Issuer	Coupon	Maturity	Amount	Rating
Harland Clarke	8.375%	2022	\$450M	B1
Hologic	4.375%	2025	\$350M	Ba3
Scientifi Games	5.000%	2025	\$350M	B1

EM

Issuer	Coupon	Maturity	Amount	Rating
GMR Hyderabad	4.250%	2027	\$350M	BB+

Rating Moves

ADLER Real Estate AG	S&P	↗	BB
Aviva PLC	Moody's	↗	A2
Bombardier Inc.	Moody's	↘	Caa1
CMA-CGM SA	S&P	↗	B+
Deutsche Bahn AG	Fitch	↗	AA
INEOS Group Holdings Ltd	S&P	↗	BB
Innogy SE	S&P	↗	BBB
Leonardo SpA	Fitch	↗	BBB-
QGOG Constellium SA	S&P	↘	B
Salini Impregilo SpA	Fitch	↗	BB+
Vale SA	Fitch	↗	BBB+
XPO Logistics Inc.	Moody's	↗	Ba3

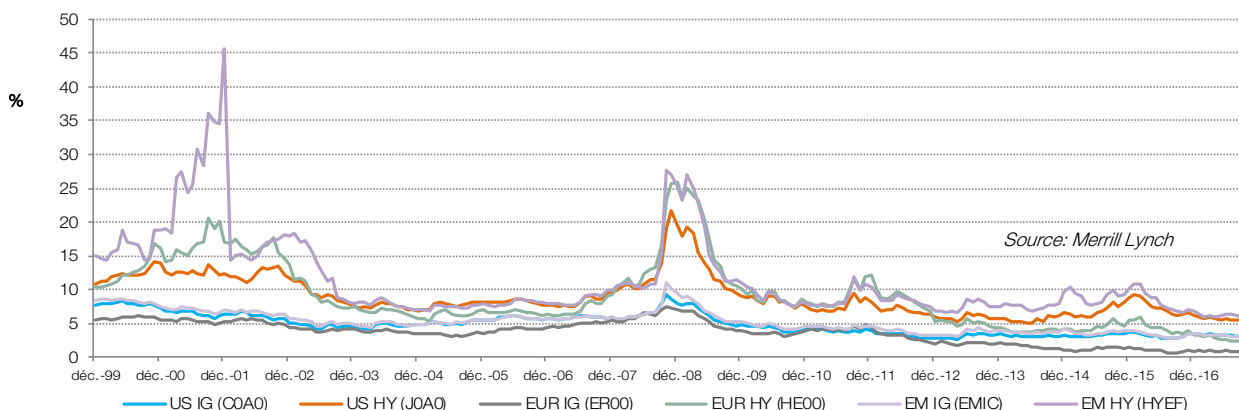
Macro Economic Events

- **Euro zone:** the ECB is planning to cut its monthly CSPP purchases in half to €30bn per month for a 9-month period (until end-September 2018), in line with the economist consensus. Inflation hit 1.5% yoy in September, i.e. the same rate as in August.
 - **Germany:** the government officially raised its growth forecast for 2017 from 1.5% to 2%.
 - **France:** growth stood at 0.5% in Q3 2017 and is expected to climb to 1.7% in 2017 and 2018 before dropping to 1.6% in 2019.
 - **Italy:** S&P raised its rating for the first time in 30 years, from BBB- to BBB with a stable outlook, based on the country's solid economic recovery, constant job market growth and measures taken to consolidate the banking sector.
 - **Spain:** the Catalan Parliament voted to proclaim the independence of Catalonia. The Spanish Senate reacted by imposing direct rule of Catalonia, voting by a strong majority to apply Article 155. Even with the euro zone doing better than it has for the last 7 years, the Spanish government lowered its growth outlook for 2018 from 2.6% to 2.3%, largely as a reflection of the political crisis.
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- **World:** the IMF raised its growth forecasts for 2017 and 2018, though expressing concern that the global economic recovery is incomplete in many ways and complaining that inflation is too low. Growth should come out at 3.6% in 2017 versus 3.5% forecast in July, and should gain another 0.1 point in 2018 to 3.7%.
 - **United States:** oil stocks increased by 856,000 barrels to 457.34 million, while the consensus had expected a decrease of 2.6 million barrels. Jerome Power was appointed to replace Janet Yellen as Fed Chairman.
 - **Japan:** the outcome of the early legislative elections saw the Shinzo Abe administration keep its 2/3 majority in the lower House of Parliament.
 - **Russia:** the country will raise its annual oil production from 3.5 to 4 million metric tons in 2018 if the production cap agreement concluded by OPEC and non-OPEC countries is not extended.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
High Yield						
JOA0	US HY Cash Pay	0.38%	7.47%	3.63	5.48%	359
HE00	Euro HY	1.13%	7.16%	3.38	2.06%	246
JC4N	US HY BB/B Non-Fncl Constr.	0.44%	6.84%	3.65	4.76%	287
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	1.09%	6.45%	3.31	2.21%	245
HYEF	EM HY Ex. Subordinated Financial	0.69%	8.36%	3.57	5.74%	398
Investment Grade						
COA0	US Corporates Master	0.40%	5.72%	7.13	3.19%	98
ER00	EMU Corporates	1.05%	2.86%	5.21	0.64%	87
EMIC	Emerging Markets Corporates	0.30%	5.61%	5.21	3.16%	135
Governments						
10Y US	10 Year US Benchmark	-0.40%	0.71%		2.38%	
10Y GE	10 Year German Benchmark	0.99%	-1.55%		0.36%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

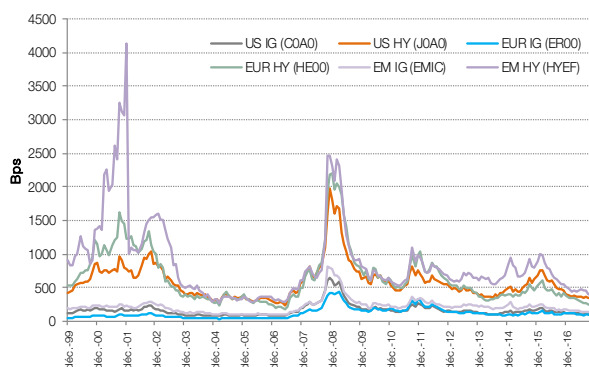
Exp. Inflation	Bloomberg's expected CPI 12M forward	October	September	August	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.10%	2.00%	2.00%	2.50%	2.20%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.50%	1.50%	1.60%	1.30%
Realized Inflation		October	September	August	6M	12M
US CPI	US CPI YoY	2.00%	2.20%	1.90%	2.20%	1.60%
EUR CPI	Eurozone CPI YoY	1.40%	1.50%	1.50%	1.90%	0.50%

Source: Merrill Lynch

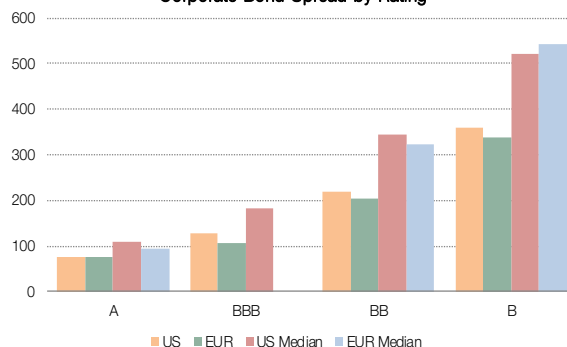
Corporate Bond Spreads

Corporate Bond Spreads (STW)		October	September	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	98	104	120	134	139
ER00	EMU Corporates	87	96	111	106	114
EMIC	Emerging Markets Corporates	135	138	157	167	499
JOA0	US HY Cash Pay	359	362	387	494	499
HE00	Euro HY	246	271	329	379	441
HYEF	EM HY Ex. Subordinated Financial	398	416	449	547	499
COA3	US A	76	81	97	106	109
ER30	EURO A	75	82	96	89	94
EMAQ	EM A	106	111	132	135	95
COA4	US BBB	128	134	152	173	182
ER40	EURO BBB	105	116	135	134	
EM2B	EM BBB	174	175	199	222	161
JUC1	US BB	220	223	253	330	344
HE10	EURO BB	203	223	253	279	323
EM3C	EM BB	255	262	283	351	341
JUC2	US B	358	372	392	512	520
HE20	EURO B	338	357	405	513	541
EM6B	EM B	397	432	468	547	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

