

# Corporate Credit Monthly Update

## February 2018

### « Pressure on high-yield bond prices resurfaced »



Pierre Gial-Levra,  
Chairman of Anaxis  
Asset Management

February will be best remembered for when volatility finally returned to the markets after two years of very low volatility. Pressure on high-yield bond prices resurfaced amid rising inflation prospects and a sell-off for equities. Recent evidence of strengthening global growth and wage gains fostered concerns over inflation and future central bank policy tightening.

In the US, financial markets also faced a sudden and violent resurgence of volatility in the early days of February, following higher-than-expected payroll figures in the US. This led to a spike in Treasury rates, spreading into the equity market and, to a lesser extent, to credit. The US 10-year treasury was up 15bps (at 2.86%) over the month, and looking at currency markets, the dollar index was up 3.86%, with investors increasingly pricing in a fourth Fed interest rate hike in 2018.

Emerging corporates initially held up pretty well, but were ultimately hit in line with US High Yield, triggered by exposure to energy. As often in risk-off mode, Latam issuers suffered the most, especially compared to Asian issuers, while Russian credits outperformed in the wake of S&P's upgrade of the sovereign rating to IG in late February.

### Companies in the Spotlight

#### HSS (Europe)

UK-based equipment and tool company HSS Hire released solid FY 2017 results, reporting that the group is maintaining solid momentum. The company continued to deliver on its restructuring programme. HSS disclosed that its lenders have agreed to extend the maturity on the GBP 80m RCF from February 2019 to July 2019. The bonds will mature on 1 August 2019. The company said that it was confident it would be able to pursue a broader refinancing in 2018.

#### Frontier Communications (US)

Frontier Communications published decent Q4/2017 results and announced the suspension of the common stock dividend. These announcements, as well as the previously announced covenant relaxation agreed upon by bondholders, led to a rally in Frontier's bonds. Indeed, this should give the company some time to address the large maturity wall it is facing.

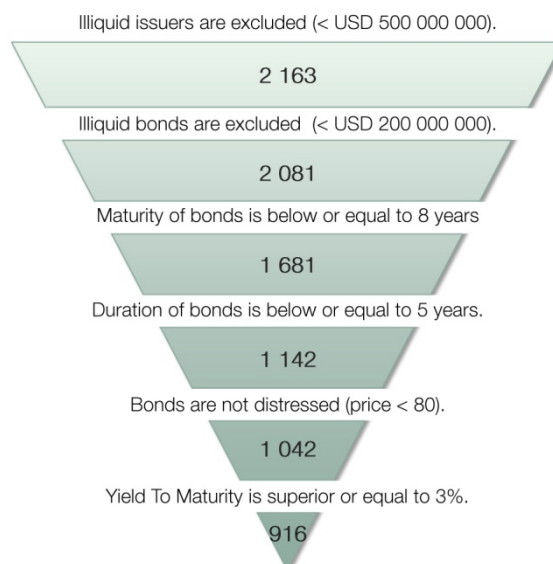
#### Embraer (Emerging Countries)

Embraer, the Brazilian state-owned commercial and defense aircraft manufacturer, engaged in discussions about a potential tie-up with Boeing. This move is widely seen as a response to Airbus' expansion into the regional jet market through its partnership with Bombardier. However, the Brazilian government benefits from a "golden share" and might veto a takeover for strategic and security reasons.

## 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)



## Significative Primary Issues

## EUR

Issuer	Coupon	Maturity	Amount	Rating
Elis	1.875%	2023	€650M	Ba2
Faurecia	2.625%	2025	€700M	Ba1

## US

Issuer	Coupon	Maturity	Amount	Rating
Scientific Games	5.000%	2025	\$1.25Bn	Ba3
Sprint Corp	7.625%	2026	\$1.5Bn	B3

## EM

Issuer	Coupon	Maturity	Amount	Rating
JBS	6.750%	2028	\$900M	B2
Pemex	5.350%	2028	\$2.25Bn	Baa3

## Rating Moves

ArcelorMittal	S&P	↗	BBB-
Faurecia SA	Moody's	↗	Ba1
Fiat Chrysler Automobile	S&P	↗	BB+
Fortum Oyj	Moody's	↘	Baa2
Frigoglass SAIC	S&P	↗	B-
General Mills Inc.	Moody's	↘	Baa2
Hellenic telecom	Moody's	↗	B1
New Look	S&P	↘	CCC
Roche Holding AG	Moody's	↗	Aa3
Stora Enso	Moody's	↗	Ba1
Teva Pharmaceutical	S&P	↘	BB

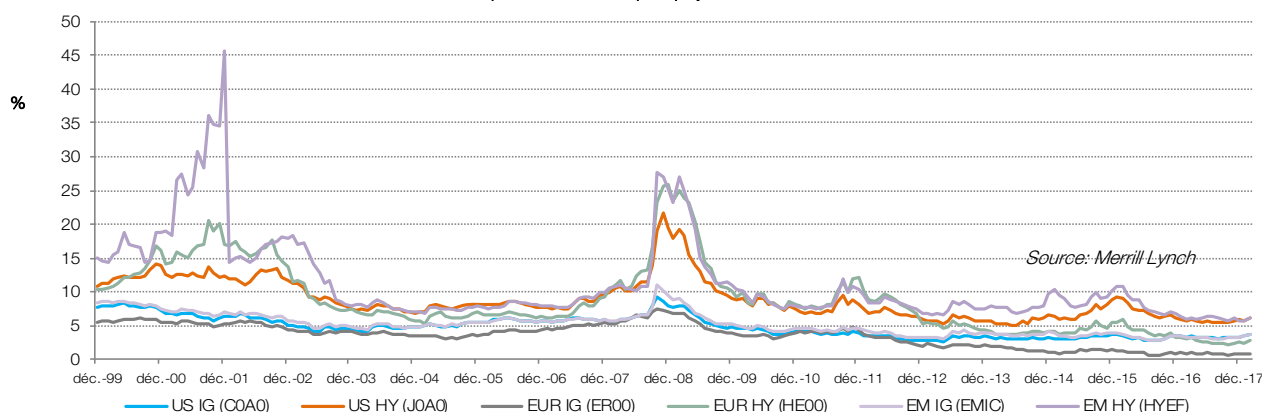
### Macro Economic Events

- **Euro zone:** Spanish Economy Minister L. de Guindos was nominated by the Euro Zone Finance Ministers to become the next Vice-President of the ECB. The European Commission raised its growth forecasts for 2018 and 2019, with the euro zone posting its strongest performance in the last 10 years. The EC now expects GDP to grow 2.3% this year and 2% next year. Corrected for seasonal variations, the unemployment rate held steady in December at its lowest rate since January 2009.
  - **United Kingdom:** inflation was stable in January compared to December. As expected, the BoE unanimously voted to keep the Bank Rate at 0.5% to give it time to assess the impact of the approaching Brexit on the economy.
  - **Belgium:** after Poland and France, Belgium issued its first green bond for a total of €4.5 billion, with a 15-year maturity (22 April 2033).
  - **Greece:** Fitch raised its rating from B- to B with a stable outlook, citing improving debt servicing costs supported by robust growth and decreased political risks.
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- **United States:** Trump unveiled the much-anticipated US infrastructure development plan, taking the opportunity to ask Congress to approve an infrastructure spending budget of \$200 billion over 10 years, paving the way for improvements worth an estimated \$1,500 billion. Not surprisingly, the Fed maintained its key rates in the 1.25% to 1.5% range, but its more optimistic stance on inflation cemented expectations for an upcoming rate hike in March.
  - **Russia:** S&P raised its rating from BB+ to BBB-, lifting the country out of the High Yield debt category where it had been stuck since 2015.
  - **Brazil:** Fitch lowered its rating from BB to BB- with a negative outlook, stressing its persistent budget deficit, the growing burden of public debt and the lack of legislative reforms that would improve public spending.
  - **South Africa:** C. Ramaphosa of the National African Congress (NAC) was elected President of South Africa after the resignation of J. Zuma, who was ousted by the NAC due to corruption allegations.

### Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
<b>High Yield</b>						
J0A0	US HY Cash Pay	-0.94%	-0.31%	4.05	6.12%	355
HE00	Euro HY	-0.71%	-0.30%	3.67	2.76%	290
JC4N	US HY BB/B Non-Fncl Constr.	-0.99%	-0.54%	4.17	5.53%	294
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	-0.69%	-0.36%	3.60	2.97%	295
HYEF	EM HY Ex. Subordinated Financial	-0.73%	-0.09%	3.66	6.06%	365
<b>Investment Grade</b>						
C0A0	US Corporates Master	-1.50%	-2.41%	7.06	3.74%	100
ER00	EMU Corporates	-0.01%	-0.27%	5.20	0.85%	79
EMIC	Emerging Markets Corporates	-0.92%	-1.32%	5.25	3.67%	131
<b>Governments</b>						
10Y US	10 Year US Benchmark	-1.34%	-3.93%		2.86%	
10Y GE	10 Year German Benchmark	0.42%	-2.22%		0.65%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

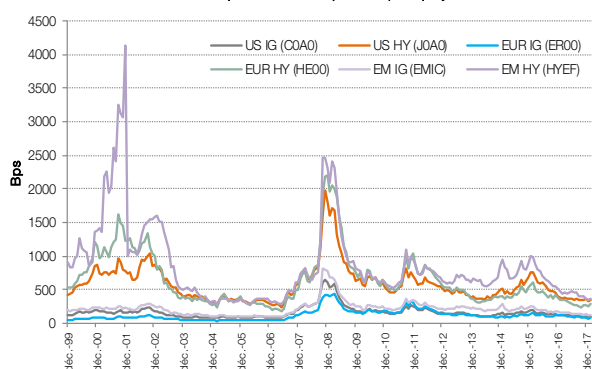
Exp. Inflation	Bloomberg's expected CPI 12M forward	February	January	December	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.30%	2.20%	2.12%	2.00%	2.40%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.50%	1.45%	1.50%	1.50%
Realized Inflation		February	January	December	6M	12M
US CPI	US CPI YoY		2.10%	2.10%	1.90%	2.70%
EUR CPI	Eurozone CPI YoY	1.20%	1.30%	1.40%	1.50%	2.00%

Source: Merrill Lynch

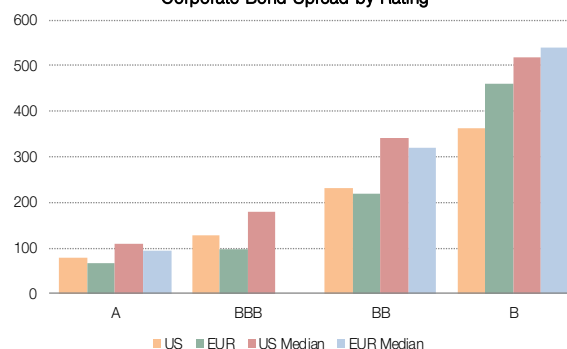
Corporate Bond Spreads

Corporate Bond Spreads (STW)		February	January	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	100	90	113	118	138
ER00	EMU Corporates	79	74	99	122	111
EMIC	Emerging Markets Corporates	131	120	148	154	494
JOA0	US HY Cash Pay	355	337	389	386	494
HE00	Euro HY	290	252	281	359	436
HYEF	EM HY Ex. Subordinated Financial	365	341	457	443	494
COA3	US A	80	70	89	95	108
ER30	EURO A	66	62	83	105	94
EMAQ	EM A	107	100	120	127	95
COA4	US BBB	127	115	145	151	181
ER40	EURO BBB	97	89	121	150	
EM2B	EM BBB	167	152	189	201	161
JUC1	US BB	231	208	249	267	340
HE10	EURO BB	218	186	229	274	319
EM3C	EM BB	249	230	281	290	341
JUC2	US B	361	349	399	391	516
HE20	EURO B	461	419	386	483	539
EM6B	EM B	409	385	482	488	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

