

Corporate Credit Monthly Update

May 2021

GDP fell in the eurozone in the first quarter of 2021, out of step with strong growth in the United States. Wide disparities in economic recovery have emerged between countries due to differences in policies and delays in vaccination rollout. However, the easing of restrictions points to an economic improvement in the second half of the year. The eurozone is well exposed to financials and cyclically sensitive sectors such as industrials, materials and energy. However, it has little exposure to technology. This balance may allow it to outperform in the post-vaccination recovery phase, when activity picks up.

EUR 80 billion in assets were purchased in April as part of the ECB's PEPP emergency stimulus plan. This is the first full month after the announcement in March of a higher rate of purchasing. The figure was EUR 60 billion in February. Corporate bond issuance has exceeded that of government bonds, and reflects developments focusing on possible fiscal support. Yields on European government bonds saw significant movements. The German 10-year yield rose from -0.33% to -0.21%, while the European corporate index yield narrowed by 11 basis points, closing the month at 2.47%.

In the United States, the Q1 results reporting season began. These results were positive, in a context of strong earnings growth, and often above market expectations. Vaccinations spurred a strong rebound in economic activity. However, the Federal Reserve considers this recovery, along with the effect of stimulus packages and rising inflationary pressures, to be temporary. The central bank is therefore maintaining its accommodative stance: a reduction in its asset purchases or a reshuffle of its interest rates are not on the agenda. Investors have welcomed the prospect of support.

The yield on the 10-year Treasury bill closed the month at 1.63%, below the highs reached in March, against a backdrop of bond market stabilisation. US corporate bond issues totalled almost USD 150 billion in April. The US corporate index yield remained relatively stable at 3.73%.

In emerging countries, the pandemic seems to be spiralling out of control, from India to Argentina. Major emerging economies are battling new waves of infections and face vaccine delays and shortages. As a result, the divergences between emerging and developed markets are widening.

Quite apart from the health risks, this situation raises fears of a slowdown in growth. Emerging market debt, however, is benefiting from a confluence of favourable factors, the main ones being the weakness of the US dollar and the accommodative monetary policy of many central banks. Nevertheless, emerging market bonds have faced several challenges. Investors currently feel that risks are tending to increase with the resurgence of COVID-19, while governments and companies in emerging countries borrowed on the foreign markets at a record pace at the start of the year. This increase in issuance was particularly strong among borrowers rated lower than investment grade. Portfolio flows into emerging markets still remain strong, standing at USD 45.5 billion in April, with USD 31.2 billion of this accounted for by debt instruments alone. In this context, the EM corporate index yield stood at 5.99%.

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Companies in the Spotlight

Ardagh

Ardagh, the packaging company, released robust results for Q1/21 driven by solid fundamentals in food & beverage consumption trends and for rigid packaging. Sales were up 9% and adjusted EBITDA up 10%. Both the Metal and Glass packaging businesses posted growth. Cash-flow generation was negative, in line with the usual seasonal pattern. Net leverage as of Q1/21 was flat at c. 5x. Liquidity remained strong at USD 1.6 bn.

Gamestop

Gamestop redeemed its Senior Unsecured 10% 2023 at the make-whole price of 108.228% in late April. The US-based video-game retailer repaid this bond with cash on hand, less than one year after issuing this high coupon debt. As a reminder, this bond was itself issued to repay the 2021 maturity, as the company was waiting for the next generation of consoles to boost its top line. With the new Playstation and X-Box now available, Gamestop is now generating large amounts of cash and will no longer have bonds available after this redemption.

lochpe-Maxion

lochpe-Maxion, based in Brazil, is a global leader in the production of automotive steel wheels for light vehicles as well as automotive structural components. lochpe holds the #1 position in the market, with a 17% market share for light vehicles and 15% for commercial vehicles worldwide. Its customer base is well diversified, with Daimler accounting for 12.2% of 2020 revenues, Ford for 11.6%, VW for 9.6%, Toyota for 7.4% and Stellantis for 6.9%. 2020 revenues amounted to BRL 8.76 bn while adjusted EBITDA reached BRL 544 m. In 2021, the company could benefit from a rebound in global auto production, with LMC Automotive forecasting the figure to increase by 12% in 2021 for light vehicles. Thanks to its high operating leverage, lochpe should generate positive free cash flow in 2021 and net leverage should rapidly decrease below 5.0x based on conservative forecasts. In April, the company issued a new Sustainability-Linked Note with the ambition to reduce greenhouse gas emissions by 30% by 2025 (vs 2019 baseline).

Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
HSE Finance	5.625%	2026	EUR 380M	B2
Oriflame	4.25%	2026	EUR 250M	B1

US

Issuer	Coupon	Maturity	Amount	Rating
Jazz Pharmaceut.	4.375%	2029	\$1.5Bn	BB-
United Airlines	4.625%	2029	\$2.0Bn	Ba1

EM

Issuer	Coupon	Maturity	Amount	Rating
lochpe-Maxion SLB	5.00%	2028	\$400M	BB-
Natura	4.125%	2028	\$1.0Bn	Ba2

Rating moves

Atalian	Moody's	↗	B3
Ellaktor	S&P	↘	CCC+
Europcar	Moody's	↗	B3
Evonik	Moody's	↘	Baa2
G4S	S&P	↘	B
Heidelberg Cement	Moody's	↗	Baa2
Douglas	S&P	↗	B-
Netflix	Moody's	↗	Ba1
Parts Europe	Moody's	↗	B3
RWE	Moody's	↗	Baa2
Sodexo	S&P	↘	BBB+

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Macro Economic Events

Eurozone: the consumer confidence indicator improved over the previous month, reaching its highest level since February 2020. This positive sentiment was supported by the gradual reopening of economies and an accelerated pace of vaccinations.

ECB: the central bank kept its monetary policy unchanged at its meeting in April. It has taken a wait-and-see approach, having made the decision last month to step up the pace of emergency bond purchases. Interest rates were held at historically low levels and the PEPP envelope was maintained at EUR 1.85 trillion. These purchases are to continue until at least March 2022. The ECB reaffirmed that it may not use the entire envelope if favourable financing conditions are maintained, or may recalibrate it if necessary to counter the negative impact of the pandemic on the direction of inflation.

Germany: GDP growth forecasts have been revised downward for 2021 to 3.7% from 4.7% previously. Prolonged periods of lockdown are slowing the country's recovery. This revision reflects a sluggish vaccination campaign and the need for the government to tighten health restrictions. However, the outlook for 2022 has been raised from 2.7% to 3.9%.

France: consumer sentiment was unchanged in April, slightly better than forecasts, but remains below pre-pandemic levels and the long-term average. Expectations regarding household finances have worsened, and the proportion of these households who consider that it is a good time to save has reached a new high.

United States: the consumer price index rose 0.6% in March over the previous month, and 2.6% over the same period a year ago. The year-on-year increase is the highest since August 2018, well above the 1.7% recorded in February.

Turkey: the manufacturing confidence index edged up in April 2021, reaching its highest level since April 2018. The employment outlook has improved and the gauge of fixed investment spending has increased. However, forecasts for production and export orders deteriorated.

Market Data Indices (end of April)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.66%	2.22%	3.52	2.54%
JOA0	High Yield United States	1.09%	1.91%	3.64	4.06%
H7PC	High Yield Europe BB/B Excluding Financials	0.56%	1.77%	3.44	2.47%
JC4N	High Yield United States BB/B Excluding Financials	1.05%	1.36%	3.76	3.73%
HYEF	High Yield Emerging Countries Excluding Financials	1.09%	0.64%	3.31	5.99%
Investment Grade					
ER00	Investment Grade Europe	0.00%	-0.71%	5.35	0.34%
COA0	Investment Grade United States	1.19%	-3.36%	8.00	2.20%
EMIC	Investment Grade Emerging Countries	0.15%	-1.72%	5.93	2.40%
Governments					
G4D0	10-Year German Bond	-0.74%	-2.52%		-0.20%
G402	10-Year US Bond	1.02%	-4.85%		1.63%

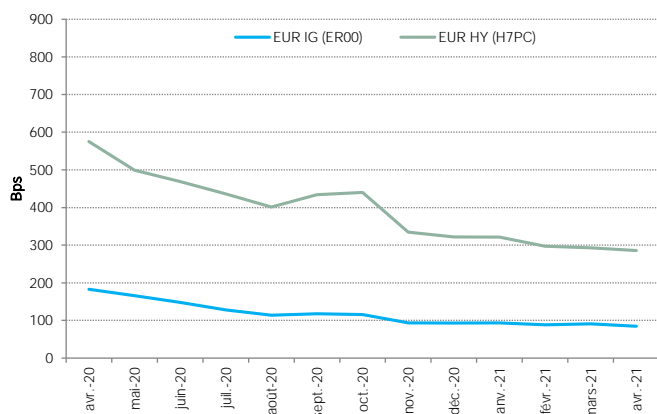
Inflation (end of April)						
Expected inflation		April	March	February	6M	12M
EURO INF	Expected inflation for 2021 in Europe	1.60%	1.50%	1.30%	0.30%	0.50%
US INF	Expected inflation for 2021 in the United States	2.60%	2.45%	2.20%	1.20%	1.00%
Realized inflation		April	March	February	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	1.60%	1.30%	0.90%	-0.30%	0.30%
US CPI	Realized inflation in the United States (rolling 12-month)		2.60%	1.70%	1.20%	0.30%

*MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst

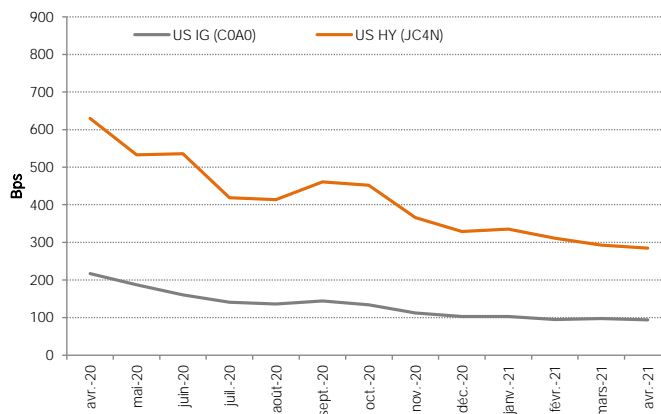
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



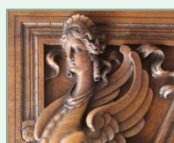
Corporate Bond Spreads		April	March	February	12 months
Europe					
ER00	Investment Grade Europe	84	90	88	183
HE00	High Yield Europe	311	322	331	638
H7PC	High Yield Europe BB/B Excluding Financials	294	301	304	577
ER30	Bonds rated A Europe	71	76	74	154
ER40	Bonds rated BBB Europe	98	106	106	223
HE10	Bonds rated BB Europe	241	250	254	476
HE20	Bonds rated B Europe	416	422	430	816
United States					
COA0	Investment Grade United States	90	91	89	213
JOA0	High Yield United States	339	347	368	757
JC4N	High Yield United States BB/B Excluding Financials	303	311	329	633
COA3	Bonds rated A United States	67	69	66	162
COA4	Bonds rated BBB United States	113	114	113	278
JUC1	Bonds rated BB United States	252	260	272	537
JUC2	Bonds rated B United States	387	394	419	811
Emerging Countries					
EMIC	Investment Grade Emerging Countries	152	141	139	295
HYEF	High Yield Emerging Countries	545	560	539	1000
EMAO	Bonds rated A Emerging Countries	108	105	105	217
EM2B	Bonds rated BBB Emerging Countries	202	183	181	382
EM3C	Bonds rated BB Emerging Countries	361	361	348	700
EM6B	Bonds rated B Emerging Countries	712	748	672	1173

Source : Merrill Lynch

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Anaxis Asset Management

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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