

Corporate Credit Monthly Update

July 2021

In the eurozone, numerous countries have seen the number of COVID-19 infections fall, resulting in an easing of restrictions on social and economic activity. However, the Delta variant is gaining ground and its spread is worrying. The ECB remains accommodative, whilst the economic upturn and the vaccination campaign are lagging in comparison with the United States.

Business activity was intense in the primary market in June. Carry in European debt is attractive, backed up by the potential for tightening spreads, in particular for high-yield and subordinated investment grade bonds, and against the backdrop of a favourable economic outlook and a declining trend in default rates. Many companies are likely to see their ratings rise. Bond yields stabilised in June. The German 10-year yield closed the month at -0.20%. The European corporate index yield narrowed by 6 basis points, closing the month at 2.45%.

In the United States, inflation is the main cause for concern among investors, whilst the economy is reopening and stimulus measures remain in full force. In addition, the meeting of the FOMC proved more incisive than expected, with the timetable for rate rises from the Fed being brought forward. Two hikes are now likely in 2023. Market sentiment has therefore become more uncertain. Treasury bond yields initially rose on the back of these announcements, before a rapid trend reversal. The 10-year yield again fell below 1.50% and closed the month at 1.47%.

Despite the uncertainty, the bond market remained focused on risk taking. Investors continued to chase yield. They are wagering that inflation will prove temporary, and remain optimistic about fiscal and monetary support measures, the progress on the vaccine roll-out and economic growth. US corporate bond issuance totalled USD 173 billion in June. The US corporate index yield tightened by 25 basis points to 3.53%.

In emerging markets, major challenges connected to COVID-19 persist in many regions, reflecting the patchy progress on vaccination and economic recovery. Pressure on supply chains has increased, as the spread of COVID-19 has disrupted transportation and the manufacturing industry, particularly in countries where the vaccine roll-out has been slow. However, many emerging markets have started to tighten monetary policy, partly in response to the shift in direction by the Fed. Yield curves in these countries have generally flattened, and their currencies have recovered. Portfolio flows to emerging markets practically doubled during June versus the previous month, rising to a little over USD 28 billion. Bonds alone account for nearly USD 19 billion of this. In this context, the EM corporate index yield rose by 29 basis points to 6.19%.

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Companies in the Spotlight

Modulaire

Modulaire announced that its current shareholders, primarily TDR Capital, have reached an agreement to sell the company to Brookfield. The transaction is expected to close in 4Q21 and values the business at c. USD5bn or 10x LTM EBITDA. This transaction will probably lead to a refinancing of the capital structure. Although the bonds are portable if total net leverage is below 4.5x (vs. 4.8x at the end of March 2021), the new owners will have a strong incentive to refinance the existing bonds, as the bonds carry high coupons and are due in 2 years.

Victra

Victra issued a tap of its 7.75% senior unsecured notes maturing in 2026 to repay its term loan and finance a dividend payment (USD 115m) to its sponsor, Lone Star. Victra is the largest exclusive authorised retailer of Verizon in the US and an essential omni-channel service and distribution partner to Verizon Wireless. Across its 931 stores, it sells Verizon's wireless services, as well as a wide array of wireless devices, e.g. smart phones, voice phones, tablets, and related accessories and services. The relationship with Verizon is strong and longstanding and the company should benefit from the 5G adoption while its retail footprint was rationalised in 2020. In 2020, Victra posted revenues of USD 1.5bn for an adjusted EBITDA of USD 130m. We also value Victra's solid and recurring free-cash flow-generation, with net leverage maintained between 4x and 5x over the past five years.

Gol

Gol, the second largest Brazilian airline company, recently completed a tap of its senior secured programme for USD 300m and a BRL 423m capital increase. Those measures aim at bolstering GOL's liquidity and support the recovery process, while further underpinning the deleveraging trend. S&P revised its outlook to stable following these actions, and now forecasts domestic capacity to recover fully to pre-pandemic levels in 2022. International air traffic would likely remain muted at 80% below the 2019 level in 2021, and 30-35% lower in 2022. Taking these assumptions into consideration, we expect net leverage to drop below 5x by FY 2022.

Significative Primary Issues

EUR

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Inpost	2.25%	2027	EUR 490M	Ba2
Mobilux	4.25%	2028	EUR 500M	B3

US

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Cinemark	5.25%	2028	\$765M	B
Sirius XM Radio	4.00%	2028	\$2.00Bn	BB

EM

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Fortune Star (EUR)	3.95%	2026	EUR500M	BB
Light Servicos	4.375%	2026	\$600M	Ba3

Rating moves

Arcelik	Fitch	↗	BB+
Autostrade per l'Italia	S&P	↗	BB
Diocle (DOC Generici)	S&P	↗	B+
Ellaktor	Fitch	↘	B
Grupo Antolin	Moody's	↗	B2
INEOS	Moody's	↗	Ba3
Kantar	S&P	↘	B-
Löwen Play	Moody's	↘	Caa1
Paprec	S&P	↗	B+
Public Power Corp.	S&P	↗	B+
Q-Park	Moody's	↘	B1
Thyssenkrupp Elev.	S&P	↗	B

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Macro Economic Events

Eurozone: the eurozone PMI reached 59.2 in June 2021 – its highest level since June 2006 and slightly ahead of market expectations (58.8). This reading indicates a third consecutive month of accelerating growth in production, whilst the economy continues to benefit from the lifting of COVID-19 restrictions. The service sector recorded its strongest growth since July 2007, whilst manufacturing production continued to show strong growth momentum.

ECB: at its June meeting, the European Central Bank held its interest rates for the main refinancing operations, the marginal lending facility and the deposit facility unchanged at their lowest levels ever, and left the total level of its stimulus measures unchanged.

Germany: the Business Climate Index rose to 101.8 in June 2021, up 2.6% versus the previous month at its highest level since November 2018 and comfortably ahead of market expectations (100.6). Europe's largest economy is ramping up on the back of the easing of COVID-19 restrictions.

United States: the unemployment rate fell again to 5.7% in June 2021 – its lowest level since March 2020. However, it remains well above pre-pandemic levels. The recovery in the labour market continues to consolidate, supported by the broader reopening of the economy. This process is also fuelled by a steady fall in the daily number of COVID-19 cases and strong momentum in the vaccine roll-out, together with the government's ongoing support.

Brazil: the country saw a record USD 10.3 billion trade surplus in June 2021, close to market expectations of USD 10.7 billion. Exports were boosted by mining products and rose by 60.8% year-on-year to reach a record level of USD 28.1 billion.

India: the manufacturing index fell to 48.1 in June 2021 versus 50.8 a month earlier – the first contraction since July 2020. The strong resurgence of COVID-19 and stricter lockdown measures had a negative impact on demand, resulting in a contraction in production and new orders. New export orders fell for the first time in ten months.

Market Data Indices (end of June)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.58%	3.02%	3.51	2.48%
JOA0	High Yield United States	1.36%	3.59%	3.63	3.80%
H7PC	High Yield Europe BB/B Excluding Financials	0.57%	2.51%	3.44	2.45%
JC4N	High Yield United States BB/B Excluding Financials	1.29%	2.87%	3.74	3.53%
HYEF	High Yield Emerging Countries Excluding Financials	-0.12%	1.44%	3.38	6.19%
Investment Grade					
ER00	Investment Grade Europe	0.43%	-0.43%	5.36	0.32%
COA0	Investment Grade United States	1.66%	-1.06%	8.17	2.06%
EMIC	Investment Grade Emerging Countries	0.95%	-0.34%	6.03	2.27%
Governments					
G4D0	10-Year German Bond	0.47%	-2.17%		-0.21%
G402	10-Year US Bond	1.05%	-3.33%		1.47%

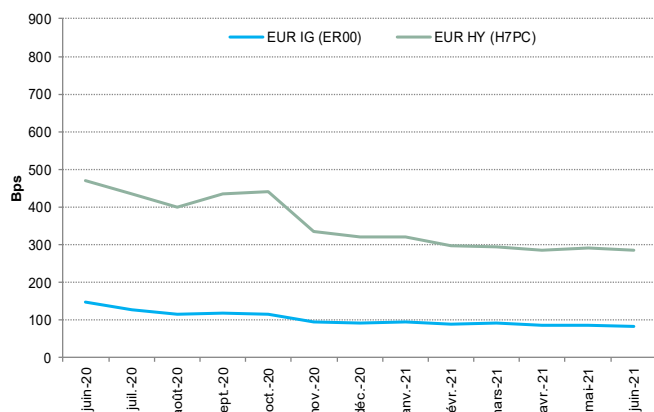
Inflation (end of June)		June	May	April	6M	12M
Expected inflation						
EURO INF	Expected inflation for 2021 in Europe	1.80%	1.70%	1.60%	0.30%	0.40%
US INF	Expected inflation for 2021 in the United States	3.50%	3.00%	2.60%	1.20%	0.80%
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	1.90%	2.00%	1.60%	-0.30%	0.30%
US CPI	Realized inflation in the United States (rolling 12-month)		5.00%	4.20%	1.40%	0.60%

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

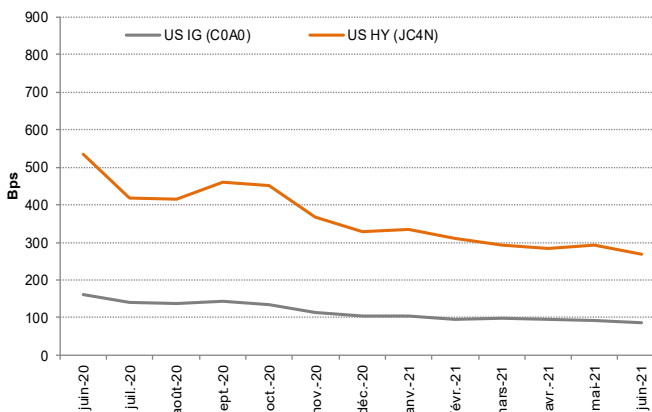
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		June	May	April	12 months
Europe					
ER00	Investment Grade Europe	83	86	84	146
HE00	High Yield Europe	306	312	311	524
H7PC	High Yield Europe BB/B Excluding Financials	294	297	294	471
ER30	Bonds rated A Europe	71	72	71	122
ER40	Bonds rated BBB Europe	97	100	98	182
HE10	Bonds rated BB Europe	240	245	241	400
HE20	Bonds rated B Europe	411	405	416	654
United States					
C0A0	Investment Grade United States	82	86	90	155
JOA0	High Yield United States	312	343	339	644
JC4N	High Yield United States BB/B Excluding Financials	284	310	303	541
C0A3	Bonds rated A United States	62	64	67	115
C0A4	Bonds rated BBB United States	104	109	113	201
JUC1	Bonds rated BB United States	233	255	252	471
JUC2	Bonds rated B United States	368	396	387	676
Emerging Countries					
EMIC	Investment Grade Emerging Countries	141	149	152	227
HYEF	High Yield Emerging Countries	561	538	545	775
EMAO	Bonds rated A Emerging Countries	102	107	108	174
EM2B	Bonds rated BBB Emerging Countries	185	198	202	289
EM3C	Bonds rated BB Emerging Countries	346	346	361	553
EM6B	Bonds rated B Emerging Countries	787	720	712	882

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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