

Corporate Credit Monthly Update

December 2017

«The High Yield segment ended the month slightly down»



Pierre Gial-Levra,
Chairman of Anaxis
Asset Management

The European High Yield segment ended the month of December slightly down. The ECB's last meeting of 2017 resulted in no policy change and the statement re-iterated the long-standing stance that the ECB is prepared to continue with further QE if it feels that it is warranted. In the meantime, economic figures continued to trend favourably, while concerns over Catalan elections returning a pro-independence Parliament did not affect credit markets.

In US market, the Fed raised the fed funds rate for the third time this year mid-December. With the unemployment rate at a 17-year low (4.1%) and the growth forecast raised to 2.5% for 2018, all indicators were for the Fed to keep its momentum going. The biggest question mark is inflation, however, set to remain under the Fed's target (1.7% yoy, excluding food and energy prices, vs. a target of 2%). Meanwhile, the Trump administration finalised its sweeping tax reform including a tax cut for pass-through businesses from 35% to 21%. Taxpayers will also get a break, but to a lesser extent and on a temporary basis.

Emerging market HY corporate bonds ended the year on a positive note, benefiting from higher-than-expected economic data in China and the easing of North Korean geopolitical tensions. Primary market activity was particularly robust this month and was easily absorbed by the market, in the ongoing environment of globally accommodative monetary policies.

Companies in the Spotlight

Picard (Europe)

French frozen food retailer Picard successfully issued EUR1.5bn dual-tranche notes to refinance existing senior notes and PIK notes, and to return EUR110m to shareholders. EUR1.19bn in senior secured 2023 FRNs were priced at E+300bps, and EUR310m in senior unsecured 2024 bonds were priced at 5.5%. Post-transaction, pro forma net secured leverage will rise by 2.4x to 5.7x from 1H18 levels, while total net leverage will rise by 2.8x to 7.2x. Subsequently, S&P downgraded Picard's outlook from Stable to Negative, citing the more aggressive financial policy and less headroom to accommodate operational underperformance.

Mattel Inc. (US)

Mattel, the maker of Barbie dolls and Hot Wheels cars, sold \$1bn in bonds due 2025 with a yield of 6.75%, as investors demanded a premium from the struggling toymaker to refinance short-term debt. This refinancing operation comes at a difficult time for the industry, following the bankruptcy of retailer Toys'R'Us, and the cut in full-year sales and guidance made by Mattel and other competitors.

Energopro (Emerging Countries)

Energopro is an independent hydro power producer and electricity distributor in the Black Sea region, operating 35 power plants in Bulgaria, Georgia and Turkey, with a total installed capacity of 854MW. Financial metrics improved over the past year and the company came to the market with an inaugural 5-year Euro Senior Unsecured Note. The proceeds will be used to repay existing group debt and to make a one-time dividend payout to its shareholder.

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
Inter Media Com.	4.875%	2022	€300M	BB-
Pro-Gest	3.250%	2024	€250M	B2

US

Issuer	Coupon	Maturity	Amount	Rating
Navient Corp.	6.500%	2022	\$1Bn	BB-
Valeant Pharma	9.000%	2025	\$1.5Bn	CCC+

EM

Issuer	Coupon	Maturity	Amount	Rating
Anton Oilfield	9.750%	2020	\$300M	B
YPF Sociedad An.	6.950%	2027	\$1Bn	B

Rating Moves

ArcelorMittal	Moody's	↗	Ba1
Campofrio Food Group SA	S&P	↗	BBB-
ENEL SpA	S&P	↗	BBB+
Fiat Chrysler Automobile	Fitch	↗	BB
Galapagos Holding SA	Moody's	↘	Caa1
General Electric Co	S&P	↘	A
IREN SpA	Fitch	↗	BBB
Moby SpA	Moody's	↘	B2-
Pernod Ricard	Fitch	↗	BBB
Steinhoff	Moody's	↘	Caa1

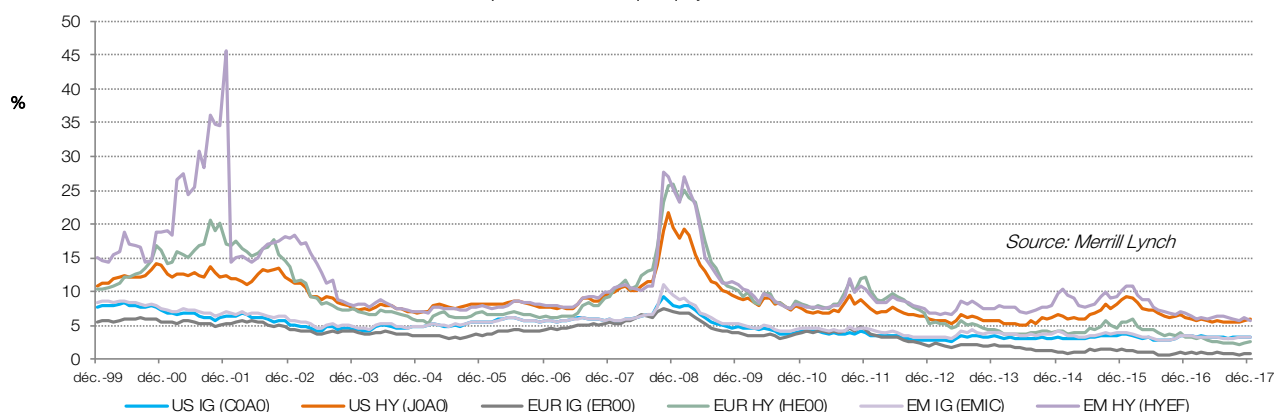
Macro Economic Events

- **Euro zone:** the annual inflation rate came out at 1.5% in November versus 1.4% in October. The ECB confirmed the status quo for its monetary policy and left its key rates unchanged, but stated it would be lowering its bond-buying programme to €30b per month from January 2018.
 - **Germany:** the Bundesbank raised its growth forecasts, pegging GDP growth at 2.5% for 2018.
 - **France:** growth held steady at +0.6% in Q3, in line with the two previous quarters. Furthermore, net salaried job creations were recorded for the 12th straight quarter in a row.
 - **United Kingdom:** excluded from the Brexit referendum in June 2016 and from the government's talks with Brussels on its implementation, Parliament took the matter back in hand by adopting an amendment to the Repeal Bill, allowing it to veto the Brexit agreement.
 - **Spain:** organised elections saw the coalition of separatist parties hold on to the absolute majority in the Catalan Regional Parliament, landing a major symbolic blow to Madrid's efforts to prevent Catalonia from declaring independence.
 - **Portugal:** Fitch raised its rating from BB+ to BBB with a stable outlook, opening the door for the country to rejoin the major flagship indices.
 - **Ireland:** Fitch raised its rating from A to A+, acknowledging the turnaround of the Irish banking sector but stressing that Brexit was still a threat to the country's economy.
 - **Greece:** Parliament approved the 2018 budget which, according to the government, will be the last to include the austerity measures prevailing over the country for the last eight years. The budget includes GDP growth of 2.5% in 2018.
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- **United States:** GDP climbed 3.2% yoy in Q3 2017, its best performance since Q1 2015. Under the tax reform recently made public, the tax rate on pass-through businesses will be cut from 35% to 21% from 1 January 2018.
 - **Brazil:** the central bank cut its key rate by 50 bp to a record-low of 7.00% as it prepares to bring an end to a powerful monetary easing cycle.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
High Yield						
JOA0	US HY Cash Pay	0.29%	7.48%	3.85	5.81%	369
HE00	Euro HY	-0.07%	6.75%	3.63	2.50%	277
JC4N	US HY BB/B Non-Fncl Constr.	0.22%	6.76%	3.93	5.13%	302
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	-0.01%	6.01%	3.57	2.67%	280
HYEF	EM HY Ex. Subordinated Financial	0.37%	8.37%	3.62	5.64%	369
Investment Grade						
COA0	US Corporates Master	0.85%	6.47%	7.19	3.28%	97
ER00	EMU Corporates	-0.29%	2.42%	5.18	0.76%	85
EMIC	Emerging Markets Corporates	0.11%	5.66%	5.33	3.30%	133
Governments						
10Y US	10 Year US Benchmark	0.05%	0.50%		2.41%	
10Y GE	10 Year German Benchmark	-0.54%	-2.31%		0.42%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

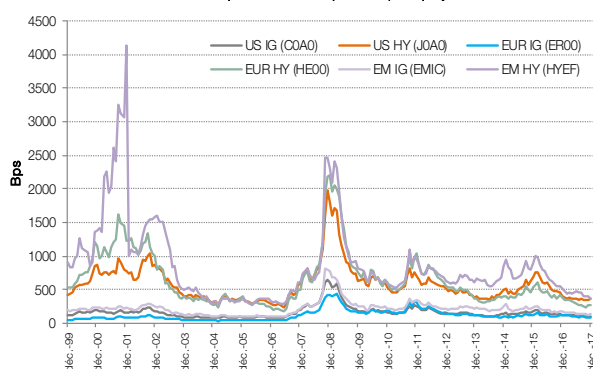
Exp. Inflation	Bloomberg's expected CPI 12M forward	December	November	October	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.12%	2.10%	2.10%	2.20%	2.30%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.45%	1.50%	1.50%	1.60%	1.30%
Realized Inflation		December	November	October	6M	12M
US CPI	US CPI YoY		2.20%	2.00%	1.60%	2.10%
EUR CPI	Eurozone CPI YoY	1.40%	1.50%	1.40%	1.30%	1.10%

Source: Merrill Lynch

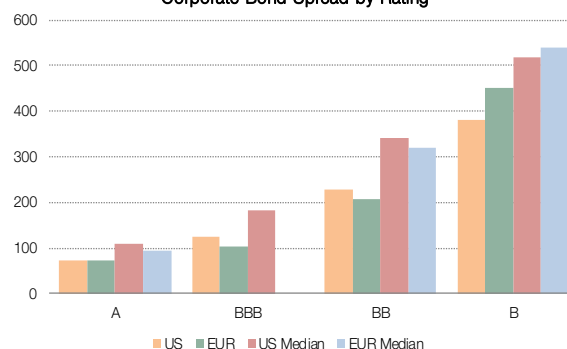
Corporate Bond Spreads

Corporate Bond Spreads (STW)		December	November	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	97	100	112	126	139
ER00	EMU Corporates	85	87	101	120	112
EMIC	Emerging Markets Corporates	133	131	149	173	495
JOA0	US HY Cash Pay	369	369	381	430	495
HE00	Euro HY	277	271	297	378	440
HYEF	EM HY Ex. Subordinated Financial	369	411	474	519	495
COA3	US A	74	78	89	101	109
ER30	EURO A	73	74	85	102	94
EMAQ	EM A	107	107	122	141	95
COA4	US BBB	126	130	143	161	181
ER40	EURO BBB	103	105	123	148	
EM2B	EM BBB	169	167	190	225	161
JUC1	US BB	228	220	246	286	342
HE10	EURO BB	208	207	229	292	321
EM3C	EM BB	255	255	296	333	341
JUC2	US B	381	381	396	432	518
HE20	EURO B	451	440	388	466	541
EM6B	EM B	404	401	494	524	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

