

Corporate Credit Monthly Update

January 2018

« High-yield bonds performed very well
in the initial stages of January »



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European high-yield bonds performed very well in the initial stages of January amid solid gains for stocks and oil, before a steady climb in sovereign yields to a multi-year high began to weigh on sentiment towards the end of the month. Rate-wise, with the exception of periphery countries, with Italian BTPs (+0.4%) and Spanish Bonds (+1.1%) ending the month on a positive total return, core markets delivered negative returns with Bunds at -1.0%, Treasuries -1.5% and Gilts -2.1%.

In the first half of the month, the US credit market was buoyed by solid macroeconomic results (ISM Manufacturing index at 59.7 in December, its highest level since 2004) and upward revisions of corporate earnings forecasts in the US. However, the solidity of recent macroeconomic releases, coupled with a less accommodative stance by some central banks, triggered renewed tension in sovereign yields, limiting gains towards the end of the month.

As in December, emerging countries HY bonds ended the month in positive territory. Emerging assets benefited in particular from strong macroeconomic data out of China and South America, the dollar's depreciation and climbing oil prices (WTI up by more than 7%).

Companies in the Spotlight

Boparan (Europe)

Boparan has announced the sale of its frozen pizza business to Nomad Foods (Iglo) for a cash consideration of GBP200m. The transaction includes the sale of brands such as Goodfella's and San Marco. Boparan plans to use the net proceeds to repay debt and invest in core group businesses. The transaction is expected to close in early 2018. This development is a clear positive, considering the recent inflationary headwinds and the West Bromwich plant incident. We believe the sale will lead to a slight recovery in credit stats and pave the way for a refinancing of the 2019 bond.

Rite Aid (US)

At the end of January, Rite Aid announced the sale of nearly one-third of its stores to Walgreens for a cash consideration of \$1.3 billion. The process should be completed in May and will give rise to a redemption offer on the shortest-dated bonds, as recently confirmed by Management. The 6.75% 2021 bond has gained close to 5 points since the low point in November. The call price on the 6.75% 2021 bond will be 101.688% of par as from 15 June 2018.

Arcor (Emerging Countries)

Arcor, based in Argentina, is one of the largest confectionary, cookie and food manufacturers in Latin America. The company has a leading position and solid credit metrics and benefits from strong sales visibility thanks to its exposure to the stable food business. Although it is largely exposed to the domestic market (Argentina makes up 70% of sales), the company has a good track record for consolidation and we see its recent move to diversify abroad as credit positive.

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 HYEY 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
Crown Holdings	2.875%	2026	€500M	Ba2
Selecta Group	5.875%	2024	€765M	B3

US

Issuer	Coupon	Maturity	Amount	Rating
T-Mobile	4.750%	2028	\$1.5Bn	Ba2
Western Digital	4.750%	2026	\$2.3Bn	Baa3

EM

Issuer	Coupon	Maturity	Amount	Rating
Petrobras	4.625%	2023	\$1.75Bn	B2
Puma Intl Finance	5.000%	2026	\$750M	Ba2

Rating Moves

Adif Alta Velocidad	Fitch	↗	A-
Algeco Scotsman Global	Moody's	↗	B2
Auris Luxembourg II SA	Moody's	↗	B3
Brisa Concessao Rodoviaria	Fitch	↗	BBB+
CORES	Fitch	↗	A-
Fosun International	Moody's	↗	Ba2
Iberdrola SA	Fitch	↗	A-
SEB AG	Moody's	↗	Aa3
Teva Pharmaceutical	Moody's	↘	Ba2
Thomas Cook Group PLC	S&P	↗	B+

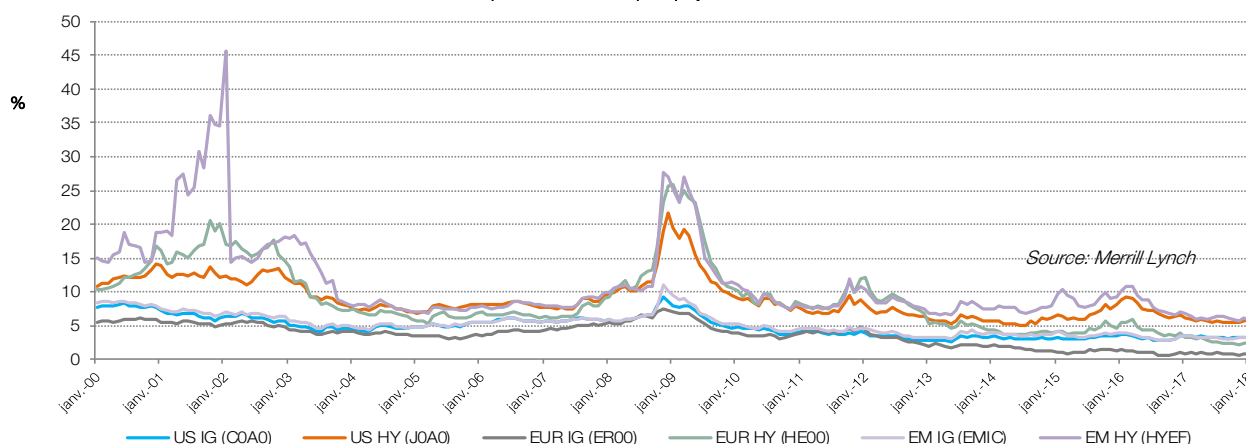
Macro Economic Events

- **Euro zone:** the annual inflation rate slowed to 1.4% in December versus 1.5% in November. The ECB announced that it held €131.90 billion in corporate bonds on its balance sheet at 5 January 2018. Since the launch of the bond buying programme in June 2016, the weekly volume of purchases has averaged €1.628 billion.
 - **Germany:** according to preliminary estimates, GDP growth is expected to hit 2.2% in 2017, lower than expected (2.4%) but still the highest level in six years.
 - **France:** Fitch confirmed its AA rating with a stable outlook, underscoring the ambitious structural reform programme undertaken by the government, coupled with the economic recovery. Initial estimates put economic growth up 0.6% QoQ in Q4 2017.
 - **Spain:** Fitch raised its rating from BBB+ to A- with a stable outlook, stating that the country has reduced its macroeconomic imbalances and is benefiting from the global economic recovery.
 - **Greece:** S&P raised its rating from B- to B, pointing to the country's improved fiscal and growth projections.
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- **World:** the IMF upgraded its forecasts for the global economy in light of the accelerated growth momentum at work since mid-2016, plus the positive short-term impact expected from the US tax reform. The Fund has predicted global growth of 3.9% in 2018 and 2019.
 - **United States:** Q4 growth came out at 2.6%, versus 2.9% for the consensus and 3.2% in Q3.
 - **Brazil:** S&P downgraded its rating by one notch from BB to BB- with a stable outlook, stressing that despite the progress achieved on the political front, the country has been slower than expected to implement meaningful legislation to correct structural fiscal slippage and rising debt levels.
 - **North Korea/South Korea:** the two countries plan to conduct bilateral talks for the first time in two years. Pyongyang agreed to Seoul's proposal in early January.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
High Yield						
JOA0	US HY Cash Pay	0.64%	0.64%	3.88	5.77%	337
HE00	Euro HY	0.42%	0.42%	3.64	2.41%	252
JC4N	US HY BB/B Non-Fncl Constr.	0.45%	0.45%	3.97	5.17%	276
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	0.34%	0.34%	3.56	2.62%	257
HYEF	EM HY Ex. Subordinated Financial	0.64%	0.64%	3.65	5.64%	341
Investment Grade						
COA0	US Corporates Master	-0.92%	-0.92%	7.16	3.49%	90
ER00	EMU Corporates	-0.26%	-0.26%	5.19	0.83%	74
EMIC	Emerging Markets Corporates	-0.41%	-0.41%	5.32	3.45%	120
Governments						
10Y US	10 Year US Benchmark	-2.57%	-2.57%		2.71%	
10Y GE	10 Year German Benchmark	-2.63%	-2.63%		0.70%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

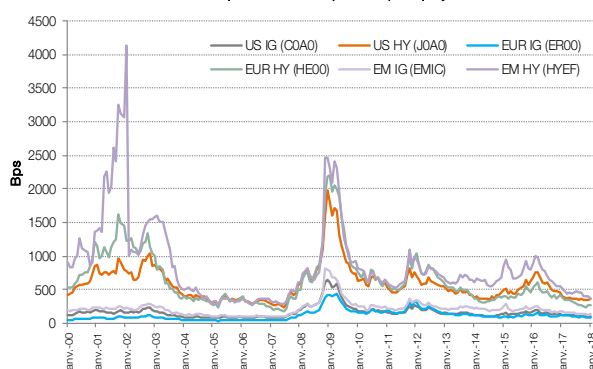
Exp. Inflation	Bloomberg's expected CPI 12M forward	January	December	November	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.20%	2.12%	2.10%	2.10%	2.40%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.45%	1.50%	1.50%	1.40%
Realized Inflation		January	December	November	6M	12M
US CPI	US CPI YoY		2.10%	2.20%	1.70%	2.50%
EUR CPI	Eurozone CPI YoY	1.30%	1.40%	1.50%	1.30%	1.80%

Source: Merrill Lynch

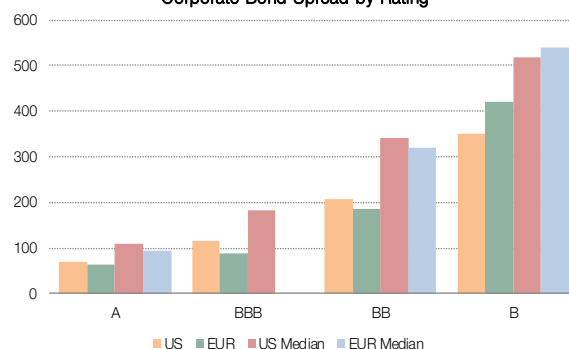
Corporate Bond Spreads

Corporate Bond Spreads (STW)		January	December	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	90	97	105	124	138
ER00	EMU Corporates	74	85	92	117	111
EMIC	Emerging Markets Corporates	120	133	144	166	494
JOA0	US HY Cash Pay	337	369	366	410	494
HE00	Euro HY	252	277	280	354	439
HYEF	EM HY Ex. Subordinated Financial	341	369	465	476	494
COA3	US A	70	74	83	100	108
ER30	EURO A	62	73	78	99	94
EMAQ	EM A	100	107	118	135	95
COA4	US BBB	115	126	136	157	181
ER40	EURO BBB	89	103	112	144	
EM2B	EM BBB	152	169	184	217	161
JUC1	US BB	208	228	234	280	341
HE10	EURO BB	186	208	216	269	320
EM3C	EM BB	230	255	287	307	341
JUC2	US B	349	381	374	414	517
HE20	EURO B	419	451	396	457	540
EM6B	EM B	385	404	481	468	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.

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