

Corporate Credit Monthly Update

June 2021

The Eurozone inflation outlook is still lagging significantly behind that of the US. However, a leap in production prices did push them up in May. Rising vaccination rates increase hopes of the bloc's economies reopening.

Bond yields surged at the beginning of May due to the brighter economic outlook, which prompted speculation about the possibility of the ECB easing its Pandemic Emergency Purchase Programme. However, comments from ECB president Christine Lagarde and politicians, suggesting that it is too early to be withdrawing this support, brought yields back down, ending the monthly almost unchanged. The German Bund is now one of the only 10-year government bonds with a negative yield in the Eurozone, after Dutch yields climbed into positive territory. Germany's 10-year yield rose slightly, from -0.21% to -0.18%, while the yield on the European corporate index yield rose by 4 basis points, closing the month at 2.51%.

In the United States, President Biden continues to put forward increasingly large stimulus packages, the last one worth \$6 trillion. Supply shortages remain widespread in the country. Inflation has therefore moved to the forefront of investors' concerns. The main question is whether it will be transitory, or will mark the start of a new trend. The Federal Reserve has confirmed the temporary nature of the current inflation spike. However, labour market weakness is key in determining whether this inflation will become more persistent, with employment levels still more than 8 million below pre-pandemic levels.

Credit spreads were virtually unchanged over the month. The benchmark 10-year Treasury yield continued to flatline in May, hovering around 1.60% before closing at 1.59%. US corporate bond issuance totalled \$175 billion in May. The US corporate index yield rose by 5 basis points to 3.78%.

In emerging countries, the spread of Covid-19 and the mortality rate continued to worsen. This was particularly true of India, where daily cases set a new world record. Some parts of the country have been locked down, and medical shortages have become a national problem. Other parts of Southern Asia have seen the number of cases rise, and have taken precautionary measures. Singapore and Taiwan, which had previously had low case numbers, experienced a sharp increase due to slow vaccination rollout.

Emerging market debt was again the month's strongest performer, up 1.32%, driven by strong demand for yields. Emerging market borrowers are flocking to primary bond markets at a time when more and more participants are expecting the US Federal Reserve to start scaling back its monetary stimulus. However, portfolio flows to emerging markets were quite gentle in May, amounting to just under \$14 billion. Bond weighting here was nearly \$10 billion. In this context, the EM corporate index yield tightened by 9 basis points to 5.90%.

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Companies in the Spotlight

Nouryon

Specialty chemicals producer Nouryon published a detailed update on its corporate profile pro forma the spin-off of Nobian, which comprises the bulk of its base chemicals business. Part of Nouryon's debt will be transferred to Nobian, with the spin-off expected to be leverage-neutral overall. This spin-off combined with rumours that the sponsor Carlyle is preparing for an IPO of Nouryon, potentially in H2/21, translate to a high probability of the bond being tendered at its first call date in October 2021.

Meredith

Meredith, a leading US television broadcasting and magazine advertising business, announced the sale of its local media business for USD 2.7bn. The transaction is expected to close in 4Q21 and Gray Television, the acquirer, has already secured financing. Cash proceeds from the sale, along with cash on hand at close and new debt will be put towards repaying MDP's outstanding debt. Pro forma, Meredith's net leverage should drop to 2.0x.

Yestar

Yestar, a Chinese supplier of In Vitro Diagnosis (IVD) consumables for the healthcare sector, saw its bond rise by 50% in May. The senior bond maturing in September 2021 still trades at a deep discount, but its price was supported over the past month by significant purchases made by the company itself on the secondary market. We now expect the company to announce a comprehensive refinancing of its debt in the near future.

Significative Primary Issues

EUR				
Issuer	Coupon	Maturity	Amount	Rating
Lutech	5.00%	2027	EUR 275M	B2
Premier Foods	3.50%	2026	GBP 330M	B1
US				
Issuer	Coupon	Maturity	Amount	Rating
Bausch Health	4.875%	2028	\$1.6Bn	BB
Univision Comm.	4.50%	2029	\$1.05Bn	B+
EM				
Issuer	Coupon	Maturity	Amount	Rating
China Water (green bond)	4.85%	2026	\$200M	BB+
Fortune Star (Fosun)	5.00%	2026	\$500M	BB

Rating moves

Abbott	Moody's	↗	A2
Afflelou	S&P	↗	B
Bayer	Moody's	↘	Baa2
Bilfinger	S&P	↗	BB
ContourGlobal	S&P	↘	BB-
EnBW	Moody's	↘	Baa1
Grupo Antolin	S&P	↗	B
Loxam	S&P	↗	B+
OTE	S&P	↗	BBB
Outokumpu	Moody's	↗	B2
Synlab	S&P	↗	BB-
Upfield	S&P	↘	B

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Macro Economic Events

Eurozone: annual inflation accelerated to 2% in May from 1.6% in April, above the market forecast of 1.9%. This is the highest figure since October 2018. The cost of energy rose sharpest (13.1% vs 10.4% in April). Core annual inflation, which excludes volatile energy, food, alcohol and tobacco prices, is expected to be up from 0.7% to 0.9%.

ECB: faced with constantly rising borrowing costs, the ECB must decide on the future rate of its emergency bond purchases at its next meeting in June. A growing number of political leaders are calling for a steady flow of stimulus measures, fearing that the recovery may be flagging.

Germany: the seasonally-adjusted jobless total fell by 15,000 to 2.74 million in May. Figures show a strong labour market recovery in recent months as the pandemic has eased.

United Kingdom: the PMI was revised upwards to 62.9 in May, reflecting the biggest improvement since the index began in January 1998. Rapid rates of production growth were observed in both manufacturing and services, supported by business and consumer spending. Job creation is at its highest since June 2014.

United States: the consumer confidence index was revised upwards to 82.9, in line with market forecasts. It does however show the lowest level of consumer confidence for three months. Inflation forecasts remained high for the coming year (4.6%) and for the next five years (3%).

India: the manufacturing PMI dropped to 50.8 in May 2021, a 10-month low. It missed the consensus forecast of 52.0 as the number of Covid-19 cases surged across the country, having a negative impact on the economy. Production and new orders posted their weakest growth in ten months, while purchased inputs slowed considerably. Further job cuts were recorded.

Market Data Indices (end of May)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.20%	2.42%	3.49	2.57%
JOA0	High Yield United States	0.27%	2.19%	3.71	4.09%
H7PC	High Yield Europe BB/B Excluding Financials	0.16%	1.93%	3.42	2.51%
JC4N	High Yield United States BB/B Excluding Financials	0.21%	1.57%	3.83	3.78%
HYEF	High Yield Emerging Countries Excluding Financials	0.91%	1.56%	3.33	5.90%
Investment Grade					
ER00	Investment Grade Europe	-0.15%	-0.85%	5.33	0.37%
COA0	Investment Grade United States	0.70%	-2.68%	8.05	2.14%
EMIC	Investment Grade Emerging Countries	0.45%	-1.28%	5.96	2.34%
Governments					
G4D0	10-Year German Bond	-0.10%	-2.62%		-0.19%
G402	10-Year US Bond	0.55%	-4.33%		1.59%

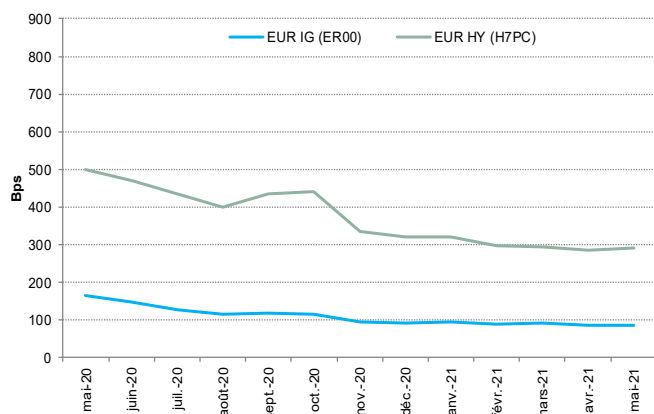
Inflation (end of May)						
Expected inflation		May	April	March	6M	12M
EURO INF	Expected inflation for 2021 in Europe	1.70%	1.60%	1.50%	0.30%	0.40%
US INF	Expected inflation for 2021 in the United States	3.00%	2.60%	2.45%	1.20%	0.80%
Realized inflation		May	April	March	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.00%	1.60%	1.30%	-0.30%	0.10%
US CPI	Realized inflation in the United States (rolling 12-month)		4.20%	2.60%	1.20%	0.10%

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

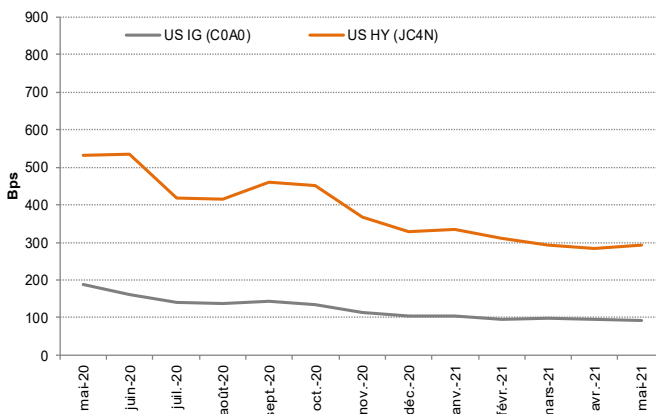
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		May	April	March	12 months
Europe					
ER00	Investment Grade Europe	86	84	90	165
HE00	High Yield Europe	312	311	322	561
H7PC	High Yield Europe BB/B Excluding Financials	297	294	301	501
ER30	Bonds rated A Europe	72	71	76	137
ER40	Bonds rated BBB Europe	100	98	106	206
HE10	Bonds rated BB Europe	245	241	250	421
HE20	Bonds rated B Europe	405	416	422	712
United States					
C0A0	Investment Grade United States	86	90	91	182
JOA0	High Yield United States	343	339	347	654
JC4N	High Yield United States BB/B Excluding Financials	310	303	311	537
C0A3	Bonds rated A United States	64	67	69	136
C0A4	Bonds rated BBB United States	109	113	114	238
JUC1	Bonds rated BB United States	255	252	260	467
JUC2	Bonds rated B United States	396	387	394	673
Emerging Countries					
EMIC	Investment Grade Emerging Countries	149	152	141	254
HYEF	High Yield Emerging Countries	538	545	560	865
EMAO	Bonds rated A Emerging Countries	107	108	105	194
EM2B	Bonds rated BBB Emerging Countries	198	202	183	324
EM3C	Bonds rated BB Emerging Countries	346	361	361	597
EM6B	Bonds rated B Emerging Countries	720	712	748	1031

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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