

Corporate Credit Monthly Update

August 2017

«Geopolitical newsflow was disconcerting»



Pierre Gial-Levra,
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In the absence of any major economic newsflow, volatility remained muted among European credit markets during the month. Inflation remains lacklustre, amid steady growth in the eurozone, while the unemployment rate fell slightly. Geopolitical newsflow was more disconcerting on the other hand. The escalating war of words between the US and North Korea served as a reminder of the risks associated with nuclear proliferation, confirmed by a further long-range missile test and then a subterranean nuclear blast at the beginning of September. Donald Trump's ambiguous stance on racism also weighed on investor sentiment as the US president appears to be losing the support of businesses due to his ineptness. August was also marked by deadly terrorist attacks in Spain. On a far less dramatic note, the month ended with the annual central bank symposium at Jackson Hole, which failed to announce any interesting news regarding the monetary institutions' intentions. A hike in euro rates was considered highly unlikely and Mario Draghi's comments did nothing to change investor expectations in this front.

The US high-yield market was affected by volatility in August. The first part of the month saw high-yield bond prices suffering their heaviest setback since mid-March due to i) rising tensions between North Korea and the US, ii) fears that Trump's strategy for the economy and business is falling apart and iii) a drop in oil prices (WTI down 5.9% in August). Investor concerns over these factors then eased, which, combined with solid Q2 results and limited primary issuance, led to a rebound in bond prices.

In August, EM high-yield credit continued to outperform other asset classes as risk sentiment was weighed down by geopolitical events including rising tensions between North Korea and the US, falling oil prices, the progress of reforms in Brazil and political noise around the NAFTA re-negotiations. This performance clearly highlights EM's credit resilience, which may be attributed to investor confidence in the favourable macro environment, while confirming indications that positioning in EM is not overly stretched.

Companies in the Spotlight

LimaCorporate (Europe)

The Italy-based manufacturer and distributor of orthopaedic implants LimaCorporate issued a 6-year floating rate note of €275 million on 2nd August. The notes were priced in-line with the RCF (E+375 bps) despite the RCF's Super Senior ranking and potential for additional senior leverage. Tenure was also extended by a year to six years and the note is rated B by S&P. Proceeds of the issuance will be used to repay outstanding debt.

TransDigm (US)

In August, TransDigm, a manufacturer of commercial and military aerospace components, reported Q3 16/17 revenues of USD908m, up +13.8% vs. the previous year and an EBITDA of USD443m, up +15.4%. Revenue growth was largely driven by acquisitions as organic net sales grew by around 3%, while the EBITDA margin of 48.8% was approximately 70bps higher. Overall, management views performance as in-line with expectations, as commercial transport aftermarket revenues grew by mid-to-high single digits, despite weakness in the interiors business, which was partially offset by continued weakness in bizjets and helicopters aftermarket revenues. The defense segment saw greater-than-anticipated growth. Notably, Transdigm announced intent to issue a new USD1.8bn first lien term loan to redeem USD1.2bn of the existing TLC tranche and to fund a potential USD1.0-USD1.25bn special dividend.

Studio City (Emerging Countries)

Studio City, a Macau-based gaming company, announced its intent to go public. Melco Resorts & Entertainment currently owns 60% of Studio City and the remaining 40% stake is owned by New Cotai, which is in turn owned by Silver Point Capital and Oaktree Capital. There are few details on the IPO plan, including stakes to be sold and whether vendor or new shares are being issued, and no price indication either.

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
LHC Three PLC	4.125%	2024	€575M	Ba2

US

Issuer	Coupon	Maturity	Amount	Rating
AES Corp	5.125%	2027	\$500M	Ba2
H&E Equipment	5.625%	2025	\$750M	B2

EM

Issuer	Coupon	Maturity	Amount	Rating
Medco Straits	8.500%	2022	\$400M	B2

Rating Moves

Algeco Scotsman global	Moody's	↘	Caa3
Almirall SA	S&P	↘	BB-
AP Moller – Maersk	S&P	↘	BBB-
Astaldi SpA	S&P	↘	B-
British American Tobacco	Fitch	↘	BBB
Deutsche Lufthansa AG	Moody's	↗	Baa3
Metinvest BV	Moody's	↗	Caa1
NewCo	S&P	↗	BB
Schneider Electric	Moody's	↘	Baa1
TEVA	Moody's	↘	Baa3
Teva Pharmaceutical	Fitch	↘	BBB-
Thomas Cook Group PLC	Fitch	↗	BB-
XPO Logistics Inc.	S&P	↗	BB-

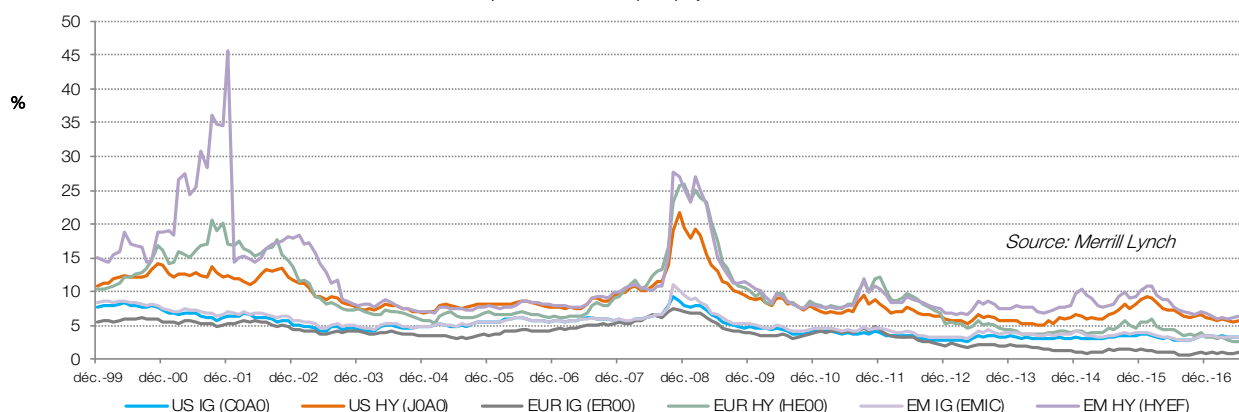
Macro Economic Events

- Eurozone:** the GDP of the 19 eurozone countries using the single currency increased by 0.6% from April-June. The unemployment rate fell to 9.1% in June, which is the lowest level since February 2009. Furthermore, the ECB announced on 21 August 2017 owning EUR 105.29 billion of corporate bonds in the context of its CSPP programme.
- France:** the economy grew by 0.5% in Q2 2017 vs Q1. Growth in Q1 2017 also came in at 0.5% vs the previous quarter.
- Germany:** GDP increased by 0.6% during Q2 2017, vs the first three months of the year.
- UK:** growth of 0.3% was confirmed from April-June, after 0.2% over the three preceding months. The BoE left its base rates unchanged and revised growth forecasts downwards for 2017 and 2018 due to the impact of the Brexit on household spending power.
- Spain:** the economy recorded growth of 0.9% in Q2 vs the previous quarter, after having expanded by 0.8% during Q1.
- Greece:** Fitch upgraded its rating from CCC to B-, based on reduced political risk and steady GDP growth. According to Prime Minister Tsipras, Greek economic growth will be close to 2% in 2017, i.e. slightly higher than the latest government forecast (1.8%).
- World:** in November, OPEC will review the output reduction agreement which has been in place since the beginning of the year in order to decide whether to extend or close the arrangement.
- US:** job-openings surged to a new record in June, exceeding the payroll increase and confirming the strength of the employment market. The trade deficit also contracted sharply in June, by 5.9% to USD 43.6 billion.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
High Yield		MTD	YTD	DTW	YTW	STW
JOA0	US HY Cash Pay	-0.02%	6.12%	3.66	5.53%	389
HE00	Euro HY	0.24%	5.33%	3.21	2.34%	281
JC4N	US HY BB/B Non-Fncl Constr.	0.05%	5.54%	3.68	4.84%	320
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	0.32%	4.81%	3.16	2.43%	278
HYEF	EM HY Ex. Subordinated Financial	1.28%	6.73%	3.54	6.07%	457
Investment Grade						
COA0	US Corporates Master	0.85%	5.54%	7.15	3.09%	113
ER00	EMU Corporates	0.57%	1.99%	5.22	0.75%	99
EMIC	Emerging Markets Corporates	0.85%	5.33%	5.20	3.04%	148
Governments						
10Y US	10 Year US Benchmark	1.59%	3.05%		2.12%	
10Y GE	10 Year German Benchmark	1.82%	-1.55%		0.36%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

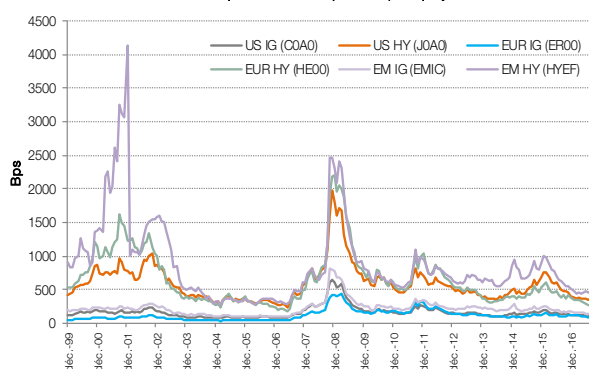
Exp. Inflation	Bloomberg's expected CPI 12M forward	August	July	June	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.00%	2.10%	2.20%	2.40%	2.20%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.50%	1.60%	1.50%	1.30%
Realized Inflation		August	July	June	6M	12M
US CPI	US CPI YoY		1.70%	1.60%	2.70%	1.10%
EUR CPI	Eurozone CPI YoY	1.50%	1.30%	1.30%	2.00%	0.20%

Source: Merrill Lynch

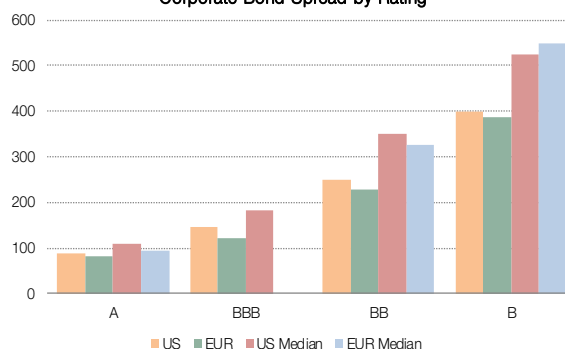
Corporate Bond Spreads

Corporate Bond Spreads (STW)		August	July	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	113	105	118	135	140
ER00	EMU Corporates	99	92	122	104	116
EMIC	Emerging Markets Corporates	148	144	154	167	501
JOA0	US HY Cash Pay	389	366	386	514	501
HE00	Euro HY	281	280	359	390	442
HYEF	EM HY Ex. Subordinated Financial	457	465	443	610	501
COA3	US A	89	83	95	105	110
ER30	EURO A	83	78	105	87	94
EMAQ	EM A	120	118	127	134	95
COA4	US BBB	145	136	151	178	184
ER40	EURO BBB	121	112	150	133	
EM2B	EM BBB	189	184	201	221	161
JUC1	US BB	249	234	267	335	349
HE10	EURO BB	229	216	274	278	326
EM3C	EM BB	281	287	290	352	341
JUC2	US B	399	374	391	517	523
HE20	EURO B	386	396	483	504	548
EM6B	EM B	482	481	488	612	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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