Corporate Credit Monthly Update

May 2018

European economic indicators were mixed this month, with the PMI deteriorating and inflation making a comeback. Politics really took centre stage, though. In Italy, the victory of the far-right Northern League and the anti-establishment Five Star Movement led to the alliance of two seemingly incompatible political forces. The content of their election platforms sparked serious concerns regarding Italy's fiscal policy and commitment to staying in Europe. Such an unprecedented state of affairs triggered tensions in Italian sovereign yields and some of the country's issuers. The Italian 10-year sovereign spread ended the month at 283 bp versus the Bund, and the yield at 2.79%, down 100 bp. Meanwhile, in Spain, the process that was supposed to ultimately lead to the downfall of Prime Minister Mariano Rajoy was already under way by the end of May, adding another layer of political uncertainty for the future of the Old Continent. In the High Yield market, the hardest hit sectors in May were insurance, banking and energy, while healthcare and media came out slightly ahead over the month.

May was a good month for the US, economically speaking. Growth was dynamic not only in the manufacturing sector, but in commodities and services as well. This enviable situation boosted employment, drove wages up and encouraged businesses to invest. Despite the relative slowdown in consumer spending, inflation is likely to climb. Against this backdrop, additional rate hikes can be expected from the Fed. The only real question is how many there will be. US foreign policy, ranging from tensions with trade partners (starting with China and Europe) to the Trump administration's isolation on the Iranian nuclear issue, apparently had no ill effects on the market. The 10-year eased by 9 bp over the month. Sectorwise, the High Yield markets delivered mixed performances in May, with the banking, automotive and services sectors flagging while healthcare and insurance thrived. Investors showed a clear preference for lower-rated and shorter-dated bonds.

A semblance of calm was restored in the complicated relations between the US and China this month. A compromise appears to have been reached on customs tariffs and trade volumes. On the whole, emerging markets continued to be weighed down by the strength of the dollar and the rise in US long rates. More specifically, the markets were worried about Argentina's weakness and depreciating currency until the request for IMF aid was announced. In Turkey, the fall of the lira and President Erdogan's plans to shift monetary policy also drove the markets down. The violent and corrupt political climate in Brazil remained a major source of concern. In the EM High Yield segment, the biggest monthly losses were recorded in the State-owned businesses sector, telecoms and energy. Healthcare came out on top.

Companies in the Spotlight

Verallia (Europe)

Verallia, the French packaging company, released another solid set of results in Q1 2018 with revenues up 6.5% at constant exchange rates and adjusted EBITDA margin up 170bps to 20.2%. Management also announced the refinancing of its bonds via a combination of an additional term loan, commercial paper borrowings and cash on hand. Pro Forma for the transaction, net leverage (including PIKs) will be 4.3x. Following the deal, the PIKs will be the only tradeable HY notes in the structure.

Mallinckrodt (US)

Mallinckrodt (MNK) reported better than expected 1Q18 revenues of $573m, implying a 1.7% growth, excluding currency effects. Adjusted EBITDA totaled $236m, down 2.9% from 1Q17. The company reiterated its intention to focus on debt reduction and indicated that proceeds from the potential SGDG sale would be used for that purpose.

JBS (Emerging Countries)

JBS announced during its quarterly call an extension for 3 years of 78% of its credit lines with banks. On the operational side, the company reported strong figures, with sales up 5.8% year-on-year. Adjusted EBITDA is up 30%, driven by the US business. At quarter-end, gross leverage was 4.0x.

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Chemours	4.000%	2026	€450M	Ba3
Interxion	4.750%	2025	€1Bn	B1

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Mattel Inc.	6.750%	2025	$500m	B1
Valeant	8.500%	2027	$750m	Caa1

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Hunt Oil of Peru	6.375%	2028	$600M	Ba1
Nitrogenmuvek	7.000%	2025	€200M	B+

Rating Moves

Bilfinger SE	S&P	↘	BB
CEVA Group PLC	Moody’s	↗	Caa1
Enagas	Moody’s	↗	Baa1
Glencore PLC	S&P	↗	BBB+
Moby SpA	Moody’s	↘	B3
NH Hotel Group SA	Moody’s	↗	B1
Odebrecht Finance Ltd	Fitch	↗	CC
OMV AG	Moody’s	↗	A3
Picard Groupe SAS	S&P	↘	B
Salini SpA	S&P	↘	BB
SGL Carbon SE	Moody’s	↗	B3
TDC A/S	Fitch	↘	B+
Volvo Car AB	Moody’s	↗	Ba1

Macro Economic Events

Germany: inflation accelerated faster than expected in May, hitting its highest level since February 2017 and topping the ECB's target. The CPI rose 0.66% month-on-month and 2.2% year-on-year. Furthermore, the unemployment rate dropped to 5.2% in May.

France: the economy grew 0.2% in Q1 2017 vs. Q4 2016. The CPI climbed even faster YoY in May, hitting 2%. What's more, the European Commission officially recommended putting an end to the Excessive Deficit Procedure launched against France nine years ago.

United Kingdom: not surprisingly, the Bank of England decided to maintain its key rate at 0.5%.

Italy: after nearly three months of wheeling and dealing to form a government, the Five Star Movement and the Northern League reached a compromise with President Mattarella, who had demanded assurances that the country would remain in the euro zone. The appointed Italian Prime Minister, Giuseppe Conte, named his cabinet, with the heads of both parties supporting his coalition government filling key posts.

Spain: socialist Pedro Sanchez became the new Head of Government, after the PSOE won enough votes to overturn the government led by Mariano Rajoy. In other news, the Catalan Parliament elected a new leader, the separatist candidate handpicked by exiled Carles Puigdemont, Quim Torra, who vowed to build an independent Catalan republic.

Ratings: S&P confirmed the long-term AAA rating on the Netherlands and Switzerland, both with a stable outlook.

United States: the White House announced the beginning of customs tariffs on imported steel and aluminium, which it had suspended on two separate occasions in the hopes of negotiating a more favourable agreement with the EU and other implicated countries (Japan, Mexico, Canada, Australia, Argentina, Brazil, etc.). Brussels warned that it would respond with symbolic measures, setting customs tariffs on US motorcycles, jeans and whisky, worth roughly €3 billion.

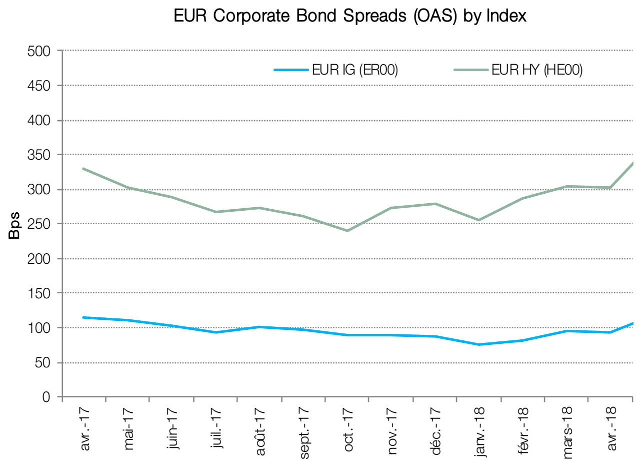
China: the IMF confirmed its 6.6% growth forecast for 2016, but expressed concern over the sharp rise in lending and trade tensions between China and the US.

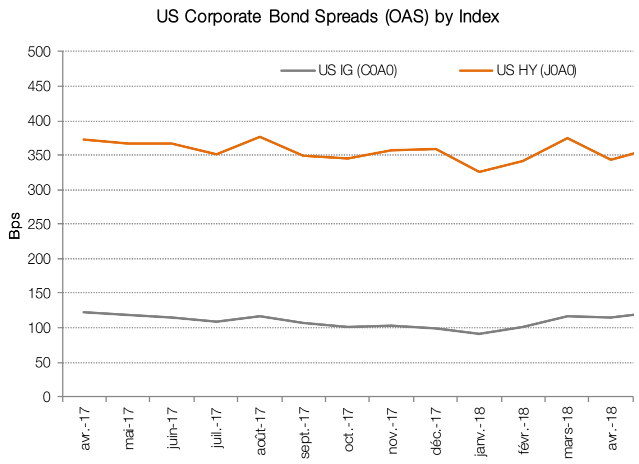
Market Data Indices		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-1.38%	-1.24%	4.03	3.38%
J0A0	High Yield United States	-0.02%	-0.30%	4.21	6.34%
H7PC	High Yield Europe BB/B Excluding Financials	-0.97%	-0.85%	3.94	3.46%
JC4N	High Yield United States BB/B Excluding Financials	-0.09%	-0.61%	4.32	5.94%
HYEF	High Yield Emerging Countries Excluding Financials	-1.43%	-2.56%	3.71	7.14%
Investment Grade					
ER00	Investment Grade Europe	-0.24%	-0.55%	5.17	0.98%
C0A0	Investment Grade United States	0.45%	-2.59%	7.05	3.94%
EMIC	Investment Grade Emerging Countries	0.08%	-1.95%	5.23	4.03%
Governments					
10YGE	10-Year German Bond	2.10%	0.78%		0.34%
10YUS	10-Year US Bond	0.88%	-3.88%		2.86%

Inflation						
Expected inflation		May	April	March	6M	12M
EURO INF	Expected inflation for 2018 in Europe	1.50%	1.50%	1.50%	1.50%	1.60%
US INF	Expected inflation for 2018 in the United States	2.50%	2.46%	2.44%	2.10%	2.40%
Realized inflation		May	April	March	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	1.20%	1.20%	1.30%	1.50%	1.40%
US CPI	Realized inflation in the United States (rolling 12-month)	2.50%	2.50%	2.40%	2.20%	1.90%

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

Source : Merrill Lynch





Corporate Bond Spreads		May	April	6 months	12 months
Europe					
ER00	Investment Grade Europe	117	91	87	107
HE00	High Yield Europe	368	302	271	309
ER30	Bonds rated A Europe	98	76	74	92
ER40	Bonds rated BBB Europe	145	111	105	131
HE10	Bonds rated BB Europe	290	231	207	241
HE20	Bonds rated B Europe	536	479	440	367
United States					
C0A0	Investment Grade United States	121	113	100	116
J0A0	High Yield United States	370	354	369	381
C0A3	Bonds rated A United States	97	91	78	93
C0A4	Bonds rated BBB United States	153	143	130	147
JUC1	Bonds rated BB United States	263	238	220	251
JUC2	Bonds rated B United States	396	378	381	388
Emerging Countries					
EMIC	Investment Grade Emerging Countries	167	151	131	155
HYEF	High Yield Emerging Countries	469	387	411	471
EMAQ	Bonds rated A Emerging Countries	127	121	107	126
EM2B	Bonds rated BBB Emerging Countries	219	193	167	197
EM3C	Bonds rated BB Emerging Countries	355	291	255	294
EM6B	Bonds rated B Emerging Countries	538	455	401	469

Source : Merrill Lynch

Anaxis Asset Management

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