Corporate Credit Monthly Update

February 2024

Europe

The eurozone economy continues to gradually improve, although Germany remains a laggard. This sluggish growth in Europe contrasts with the still buoyant US economy, which has contributed to a further weakening of the euro. Core CPI data shows a slowdown in inflation in the region. The eurozone labour market remains close to full employment, with a record low unemployment rate of 6.4%. The ECB held key interest rates unchanged. Christine Lagarde indicated in her statements that rate cuts were not imminent. Nonetheless, an easing in monetary policy remains highly likely this year, although the timetable is unclear.

Bond markets continue to price in this easing of monetary policy from the ECB in 2024. Demand remained strong for this asset class during the month, with positive inflows and high volumes traded on the secondary market. Primary market activity also intensified, with high issue volumes. Issuers of new bonds took advantage of the improvement in market conditions to refinance their 2025 and 2026 maturities. This supply was easily absorbed by investors. In the European high yield market, spreads tightened by 25 bps over the month, with this rating segment outperforming its US counterpart. The 10-year Bund yield rose 15 bps to 2.17%. The European corporate index yield ended the month at 6.05%.

United States

In the US, the resilience of the economy and statements from the US Federal Reserve indicating a tighter stance weakened expectations of rate cuts in the coming months. Economic indicators reflected the surprising strength of economic activity, with robust GDP growth, job creation, sustained levels of consumer confidence and a slight uptick in inflation. These positive factors make it harder to justify rate cuts in the short term. The US dollar strengthened substantially in January versus the currencies of developed and emerging countries alike. On the geopolitical and military front, the US and the UK led air strikes on Houthi targets in Yemen, interfering with trade routes in the Red Sea and causing supply chain disruptions. This also resulted in oil prices jumping by around 6% in January.

After a few very positive months for US equity and bond markets at the end of 2023, performance was more modest in January. While interest rates were somewhat volatile over the course of the month, US 10-year Treasury yields closed practically unchanged, up 3 basis points at 3.91%. Credit spreads tightened slightly in the investment grade segment but widened in the high yield segment. The US corporate index yield stood at 7.14% at the end of the month.

Emerging

In emerging countries, geopolitical volatility remained high. The conflict in the Middle East showed some signs of escalating, after the US accused Tehran-backed militants of having carried out a drone attack on a US military base. China’s economy continued to show weakness, while its central bank announced a sharp cut in the reserve requirement ratio for banks to indicate its support. The country continues to struggle with deflation, a lack of consumer confidence and oversupply in the real estate sector. The markets in Hong Kong and South Korea also fell, with investors’ concerns heightened by their close commercial ties to China.

January saw a high number of new issues in emerging market debt. Fundamentals and technical data remain favourable for debt as corporates have been prudent in the management of their balance sheets over the last two years. As a result of this sound management, default rates should be held at current levels. The emerging market investment grade segment fell in January (-0.11%), mainly due to its higher sensitivity to the rise in US yields. Credit spreads tightened in the high yield segment, causing it to outperform (+1.68%). Capital flows into emerging markets stood at USD 35.8 billion in January, with inflows of USD 42.7 billion into debt instruments and outflows of USD 6.9 billion from equities. Debt funds have seen major inflows of capital at global level, mainly due to a clear improvement in yields versus recent years. The yield on the emerging market corporate index closed the month at 9.30%.

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Companies in the Spotlight

Atalian (EU)

Atalian, the facility management company, reached an agreement on a refinancing plan with an ad-hoc group of noteholders last week. The company is forecast to have cash around EUR 582 million at the end of the 2023 financial year-end. Under the plan, Atalian will repay around EUR 400 million of the notes in cash, split 60-40 between holders of the 2024 notes and 2025 notes. Of the EUR 400 million cash repayment, EUR 100 million will be allocated to noteholders consenting to the agreement within 10 business days of the exchange offer being launched. The remaining notes will be exchanged into EUR 836 million of notes maturing in June 2028, with an all-in interest rate of 8.5% (3.5% cash interest coupon and 5.0% PIK coupon). The proposed deal will lengthen the company's maturity profile with no haircut on debt. Overall, this is a fair deal from the perspective of noteholders.

Cinemark (US)

Cinemark was upgraded by Moody's to B1 from B2 while the rating of its 8.75% senior secured notes was raised to Ba1 from Ba2. Moody's cited Cinemark's operating performance improvement and prudent financial policies as the main driver behind this upgrade. Although the rating agency expects a lower US box office in 2024 compared with last year, mostly due to Hollywood strikes, it expects Cinemark to continue increasing its revenue per patron and generating positive free cash flow. Total debt is expected to rise temporarily to the 4.5x-5x region over 2024 from 4.2x currently, before trending towards the 4x range in 2025 and after.

FS Bioenergia (EM)

FS Bioenergia, Brazil's largest producer of corn-based ethanol, issued a new seven-year Green bond with a coupon of 8.875%. The proceeds are expected to fund a recently launched tender offer for the existing 2025 senior secured notes and for general corporate purposes. FS Bioenergia benefits from its three strategically located state-of-the-art plants and from the incentives offered to this industry by the Brazilian authorities. At the end of September 2023, the issuer reported net revenue of c. USD 1.5bn and an adjusted EBITDA of c. USD 314m, while net leverage was 3.3x.

Rating moves

Adient	Moody's	↗	B1
Atos	S&P	↘	B-
Baxter International	Fitch	↘	BBB-
Cirsa	S&P	↗	B+
Deutsche Lufthansa	Moody's	↗	Baa3
Eurogrid	Moody's	↘	Baa2
Mytilineos SA	S&P	↗	BB+
TeamSystem	Moody's	↗	B2

Significative Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Cirsa	6.50%	2029	€450M	B+
Goldstory	6.75%	2029	€500M	B+

United States

Issuer	Yield	Maturity	Amount	Rating
Caesars Entertain.	6.50%	2032	$1.50Bn	B+
Chobani	7.625%	2029	$500M	Caa1

Emerging

Issuer	Yield	Maturity	Amount	Rating
FS Luxembourg	8.99%	2031	$500M	Ba3
Oman Telecom	5.375%	2031	$500M	Ba2

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Macro-Economic Events

Europe

Eurozone: the composite PMI reached a six-month high of 47.9 in January, up from 47.6 the previous month. Albeit still below the critical threshold of 50, indicating lower Eurozone business activity, it signalled the softest rate of decline since July 2023.

ECB: the central bank left interest rates unchanged at its first meeting of 2024, and promised to keep them at sufficiently restrictive levels for as long as necessary to bring inflation back to its 2% target, despite concerns about a looming recession and gradual easing of inflationary pressures.

Germany: inflation dropped to 2.9% YoY in January from 3.7% the previous month, falling short of the market consensus of 3%. It was the lowest rate since June 2021, partly due to slower goods inflation.

France: after Elisabeth Borne's resignation, president Emmanuel Macron appointed his Minister of Education, Gabriel Attal, as prime minister. Aged 34, Attal becomes France's youngest head of government under the Fifth Republic. He now has the task of providing fresh political impetus, most notably through a cabinet reshuffle.

US & EM

United States: employment data far exceeded forecasts, lowering expectations of an early interest rate cut by the Fed. The US economy created 353,000 jobs last month, double the 180,000 predicted. Wage growth also picked up unexpectedly.

China: the official manufacturing PMI was 49.2 in January, in line with market forecasts. This is slightly higher than the low of 49 recorded in December 2023. However, that is the fourth consecutive month in which industrial activity has contracted, even though Beijing is trying to fuel an economic recovery at a time of deflationary pressures, sluggish demand and a persistently weak real estate sector.

Brazil: the central bank cut its key rate by 50 basis points to 11.25% in January, as anticipated. Meanwhile, recent macroeconomic data shows a robust labour market, falling production costs and a first increase in activity (PMI at 52.8) since August 2023. The unemployment rate fell to 7.4%, its lowest level in nearly 10 years.

Ecuador: the government declared a state of emergency in January after a dangerous drugs trafficker escaped from a high-security prison and unrest broke out. The country is in a difficult political and social position. It had traditionally been viewed as a peaceful South American nation, but now faces a difficult battle to restore order, given the problems of poverty and narcotrafficking.

Market Data Indices

Indices (end of January)		Performance		Duration	Yield
High Yield		**MTD**	**YTD**	**DTW**	**YTW**
HE00	High Yield Europe	0.83%	0.83%	2.95	6.29%
J0A0	High Yield United States	0.01%	0.01%	3.63	7.81%
H7PC	High Yield Europe BB/B Excluding Financials	0.83%	0.83%	2.82	6.05%
JC4N	High Yield United States BB/B Excluding Financials	0.06%	0.06%	3.70	7.14%
HYEF	High Yield Emerging Countries Excluding Financials	1.68%	1.68%	3.54	9.30%
Investment Grade					
ER00	Investment Grade Europe	0.09%	0.09%	4.44	3.58%
C0A0	Investment Grade United States	0.15%	0.15%	6.77	5.16%
EMIC	Investment Grade Emerging Countries	-0.11%	-0.11%	5.25	5.37%
Governments					
G4D0	10-Year German Bond	-0.64%	-0.64%		2.17%
G402	10-Year US Bond	0.02%	0.02%		3.91%

Inflation (end of January)						
Realized inflation		January	December	November	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.80%	2.90%	2.40%	5.30%	8.60%
US CPI	Realized inflation in the United States (rolling 12-month)		3.40%	3.10%	3.20%	6.40%

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

Source: Merrill Lynch
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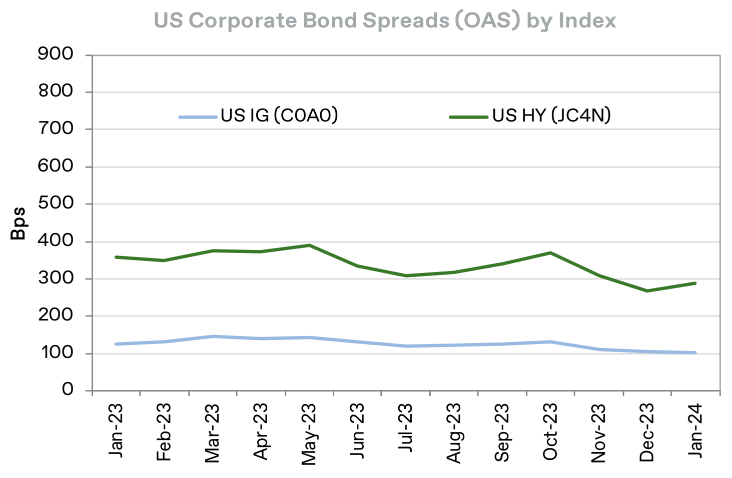

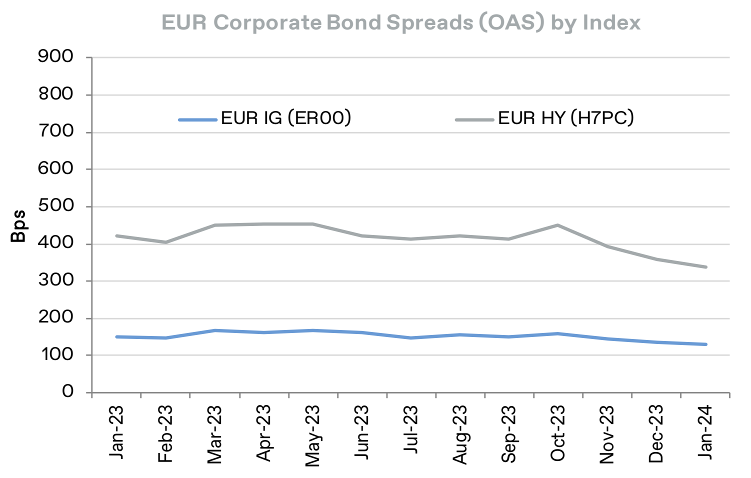

Corporate Bond Spreads

		January	December	November	12 months
Europe					
ER00	Investment Grade Europe	133	139	148	153
HE00	High Yield Europe	395	406	438	455
H7PC	High Yield Europe BB/B Excluding Financials	351	376	407	431
ER30	Bonds rated A Europe	119	123	130	129
ER40	Bonds rated BBB Europe	154	163	173	182
HE10	Bonds rated BB Europe	289	306	333	340
HE20	Bonds rated B Europe	467	465	495	537
United States					
C0A0	Investment Grade United States	103	106	113	127
J0A0	High Yield United States	376	358	397	436
JC4N	High Yield United States BB/B Excluding Financials	310	295	329	371
C0A3	Bonds rated A United States	87	90	95	104
C0A4	Bonds rated BBB United States	128	132	142	158
JUC1	Bonds rated BB United States	245	234	254	295
JUC2	Bonds rated B United States	385	369	418	468
Emerging Countries					
EMIC	Investment Grade Emerging Countries	137	135	139	161
HYEF	High Yield Emerging Countries	534	571	598	636
EMAQ	Bonds rated A Emerging Countries	108	104	105	119
EM2B	Bonds rated BBB Emerging Countries	186	188	197	219
EM3C	Bonds rated BB Emerging Countries	355	371	373	373
EM6B	Bonds rated B Emerging Countries	525	577	659	645

Source: Merrill Lynch

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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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