

# Corporate Credit Monthly Update

## March 2024

### Europe

The European economy is still avoiding recession and seems to be on course for a soft landing in the early part of this year, after the stagnation of last year. Inflation continues to head downwards, but the rate of decline is lessening in both Europe and the United States. The latest figures have prompted central banks to put off the start of policy easing. The labour market is still holding up well in the Eurozone: the only dark spot is the rate of youth unemployment. The sturdy employment figures and the resulting strong wage growth pose a major concern for the ECB as regards inflation. The price of gas in Europe has hit its lowest level since May 2021, dropping below €23/MWh. By way of comparison, it reached a peak of around €340/MWh in August 2022, due to the tensions with Russia and uncertainties surrounding Nord Stream 2. The development of alternative fuels, strategic stock replenishment and mild winters have caused gas prices to fall considerably.

Bond markets continue to anticipate a monetary pivot on both sides of the Atlantic. In Europe, investors are increasingly turning to corporate debt, favouring risk segments as they anticipate ECB rate cuts. Credit spreads continued to tighten in February, while sovereign bonds showed signs of weakness: the yield on the 10-year Bund rose 24 bps to 2.41%. High yield bonds outperformed investment grade bonds, which recorded negative performances due to their greater sensitivity to movements in sovereign interest rates. The volume of primary market issues in Europe was significantly lower than in the rest of the world, although, on the whole, companies did not encounter any difficulties in obtaining refinancing. The European corporate index yield ended the month at 6.02%.

In the United States, solid data confirming the resilience of the economy, together with a less accommodating stance from the Fed, led the markets once again to temper their expectations of a rate cut. Consumer confidence has fallen unexpectedly, possibly due to the tensions surrounding November's presidential election, which will see the confrontation between two controversial candidates. On the geopolitical front, bad news from war zones abroad has also had an impact. Nevertheless, the employment market is still remarkably buoyant. The US dollar continues strong and oil prices have once again risen, by around 3% in February. Market sentiment in the oil sector remains mixed, with concerns about global demand and tensions in the Middle East threatening supply. Lastly, the publication of Q4 2023 corporate results turned out better than expected, and profits exceeded expectations by an average of 7%. Warning signs persist, however, with relatively weak forecasts for 1Q 2024 and margins that appear to be levelling off.

US bond markets were unchanged or fell back in February. The 10-year T-bond yield rose by 34 basis points to end the month at 4.25%. February was the second consecutive month of stagnation for high yield, although spreads narrowed by 32 basis points over the month. Performance has also been virtually flat since the start of the year. However, this segment is outperforming investment grade (-1.25%), as the economic outlook remains favourable for risk assets. The US corporate index yield stood at 7.22% at the end of the month.

### United States

### Emerging

Emerging countries continued to drive global growth at the start of the year, with the economic situation improving in India and Brazil. China is struggling to bounce back despite its efforts to revive growth through fiscal measures and interest rate cuts. The country's manufacturing sector remains under pressure due to the weakness of both external demand and the domestic recovery. In addition, the crisis in the property sector continues to be a major drag on the economy.

Emerging market corporate debt had another relatively good month, particularly for the lowest-rated securities. These instruments owed this positive performance, despite the rise in sovereign yields in developed markets, to the continued tightening of credit spreads. High yield therefore significantly outperformed investment grade (+1.42% versus -0.26%), as this segment is more sensitive to movements in Treasury bonds and spreads have not tightened sufficiently to counter this effect. This more positive sentiment gave rise to large volumes of primary market issuance in emerging economies, reflecting the trend in the United States. Capital flows into emerging markets rose to USD 22.2 billion in February, with inflows of USD 17.2 billion of this accounted for by debt instruments. The yield on the emerging market corporate index closed the month at 8.89%.

Edited: 11/03/2024

Verisure (EU)

Verisure, the Sweden-based provider of monitored alarm solutions, published another set of excellent results yesterday. Q4 2023 revenues rose 8.4% yoy supported by increases of 8.9% in the customer base and 1.1% in ARPU. Adjusted EBITDA rose 13.8% to EUR 338 million, with the margin up around 210 bps at 43.1%. Operating cash flow generation continued to be solid at EUR 255 million with stronger EBITDA and a higher working capital release only partly offset by increased cash interest. Capex was up 6.3% at EUR 250 million. Verisure generated EUR 6 million of FCF in the quarter. Net debt was EUR 7.41 billion, up qoq from EUR 7.39 billion as of Q3. Net secured leverage and net leverage were 4.5x and 5.5x, respectively. Liquidity amounted to EUR 500 million. Verisure plans to proactively address its debt maturities and is open to refinancing the debt falling due in 2026 in 2024 if markets are strong.

Victra (US)

Victra, a leading independent retailer for Verizon Wireless in the United States, announced in February a repricing of its term loan B issued in March 2022 from S+725 bps to S+650 bps. For the twelve months ending 31 December 2023, the company pre-announced a pro forma adjusted EBITDA of USD 315 million and net adjusted leverage of 3.9x. The company also took this opportunity to reiterate its focus on deleveraging with a target of 3.5x and no intention to initiate dividends going forward. All synergies identified in relation with the acquisition of Go Wireless last year were also achieved ahead of plan (for a total of USD 59.6 million).

Grupo Axo (EM)

Grupo Axo, a Mexican multi-brands distribution group reported strong earnings for the last quarter of 2023. In Q4 2023, the group posted net sales of MXN 8.23 billion, a 20.7% increase versus last year, with organic growth of 4.6%. The gross margin and EBITDA margin were supported by pricing strategy and inventory optimization, with the Q4 2023 EBITDA margin reaching 24.4%, 326 bps above that of Q4 2022. Positively, the improvement was seen across all segments, with lifestyle (full price), off-price and athletics all posting net sales growth and margin improvements. The net leverage ratio ended the year at 1.7x, and the company provided guidance of mid to high single-digit revenue growth and an EBITDA margin of 20%.

Rating moves

Arena	Moody's	➔	Ba3
Coty	Moody's	➔	Ba2
Energopro	S&P	➔	BB-
Infineon	S&P	➔	BBB+
Miller Homes	S&P	➔	B
Orsted	S&P	➔	BBB
Securitas	S&P	➔	BBB
Telenet	Moody's	➔	B1
Tui	S&P	➔	B1
Whirlpool	Moody's	➔	Baa2

Significative Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Forvia	5.50%	2031	€500M	BB+
TUI	5.94%	2029	€500M	B+

United States

Issuer	Yield	Maturity	Amount	Rating
First Quantum Minerals	9.375%	2029	\$1.60Bn	B
Wesco Distribution	6.375%	2029	\$900M	BB

Emerging

Issuer	Yield	Maturity	Amount	Rating
FS Bioenergia	8.99%	2031	\$500M	Ba3
Raizen	6.47%	2034	\$1.00Bn	BBB

Edited: 11/03/2024

### Macro-Economic Events

#### Europe

**Eurozone:** the economy remained stable in 4Q 2023 compared with the previous quarter, neither growing nor shrinking. This stagnation was in line with economists' expectations. However, it did rise by 0.1% on an annualised basis. The business climate indicator dipped to 95.4 in February compared with 96.1 in January, below market forecasts of 96.7. Sentiment remains lacklustre, with companies facing persistently high inflation, rising borrowing costs and weak external demand.

**Germany:** in February, inflation fell for the second month running to 2.5% year-on-year, compared with 2.9% the previous month. This was slightly below the market consensus of 2.6%, and the lowest rate since June 2021, with food inflation slowing sharply and energy prices continuing to fall.

**France:** the PMI construction index rose to 41.9 in February, following a three-year low of 39.6 in January. However, it remains down for the 21st consecutive period (below 50). New orders fell sharply, to their lowest level for five months, against a backdrop of fewer invitations to tender and an unfavourable investment climate. The residential, commercial and civil engineering sectors all declined. As a result, companies in the sector have once again reduced their workforce.

#### US & EM

**United States:** the consumer confidence index fell to 106.7 in February, versus the January figure of 110.9. Analysts were expecting this index to remain unchanged from one month to the next. The decline comes after three consecutive months of improvement. In particular, concerns about a possible recession have increased, despite recent data showing the health of the US economy.

**China:** the official manufacturing PMI fell slightly to 49.1 in February from 49.2 the previous month, in line with market forecasts. This is the fifth consecutive month of contraction in manufacturing activity, this time due to the impact of the Lunar New Year holiday week, when most factories were closed or slowed down their operations. However, activity in the services sector expanded for the 14th month in a row, at the fastest pace since last September.

**Venezuela:** the High Court of Justice has upheld the ban on Maria Corina Machado, the main opposition candidate to the current president, Nicolas Maduro, from standing in the 2024 presidential elections. The Court runs the risk of having US sanctions reinstated, which could once again weigh on a Venezuelan economy that is already in crisis.

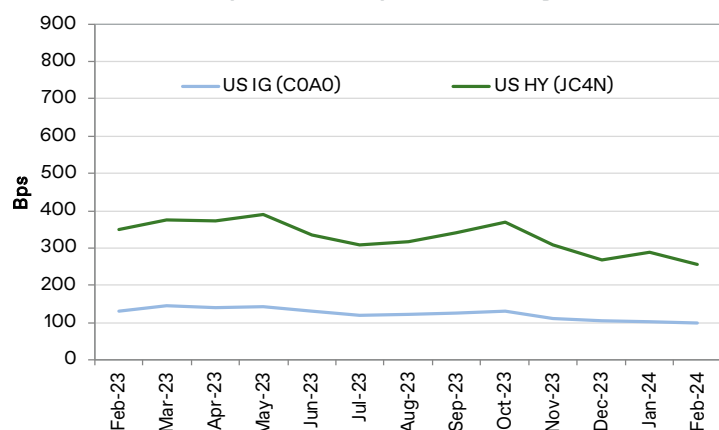
## Market Data Indices

Indices (end of February)		Performance		Duration	Yield	
High Yield		MTD	YTD	DTW	YTW	
HE00	High Yield Europe	0.35%	1.18%	2.99	6.39%	
JOA0	High Yield United States	0.27%	0.28%	3.61	7.87%	
H7PC	High Yield Europe BB/B Excluding Financials	0.39%	1.23%	2.85	6.02%	
JC4N	High Yield United States BB/B Excluding Financials	0.04%	0.10%	3.67	7.22%	
HYEF	High Yield Emerging Countries Excluding Financials	1.42%	3.12%	3.57	8.89%	
Investment Grade						
ER00	Investment Grade Europe	-0.89%	-0.80%	4.43	3.87%	
COA0	Investment Grade United States	-1.40%	-1.25%	6.68	5.46%	
EMIC	Investment Grade Emerging Countries	-0.26%	-0.36%	5.22	5.55%	
Governments						
G4D0	10-Year German Bond	-2.02%	-2.65%		2.41%	
G402	10-Year US Bond	-2.05%	-2.03%		4.25%	
Inflation (end of February)						
Realized inflation		February	January	December	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.60%	2.80%	2.90%	5.20%	8.50%
US CPI	Realized inflation in the United States (rolling 12-month)		3.10%	3.40%	3.70%	6.00%

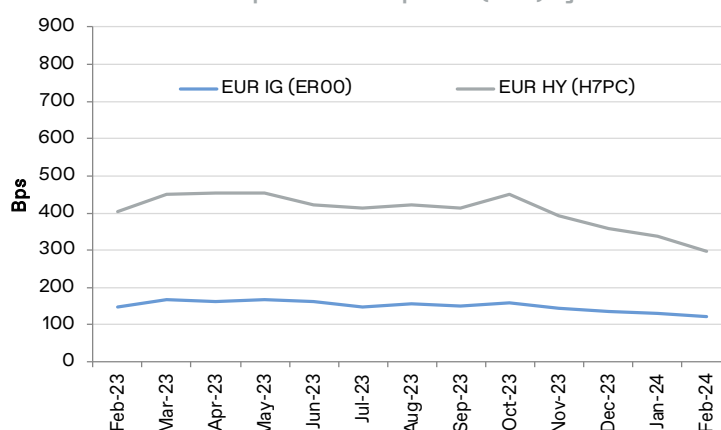
Month-to-date = MTD      Duration-to-worst = DTW  
Year-to-date = YTD      Yield-to-worst = YTW

Source: Merrill Lynch  
Edited: 11/03/2024

US Corporate Bond Spreads (OAS) by Index



EUR Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

		February	January	December	12 months
<b>Europe</b>					
ER00	Investment Grade Europe	124	133	139	148
HE00	High Yield Europe	366	395	406	436
H7PC	High Yield Europe BB/B Excluding Financials	310	351	376	412
ER30	Bonds rated A Europe	112	119	123	128
ER40	Bonds rated BBB Europe	144	154	163	175
HE10	Bonds rated BB Europe	255	289	306	331
HE20	Bonds rated B Europe	416	467	465	507
<b>United States</b>					
COA0	Investment Grade United States	102	103	106	132
JOA0	High Yield United States	344	376	358	430
JC4N	High Yield United States BB/B Excluding Financials	279	310	295	365
COA3	Bonds rated A United States	86	87	90	109
COA4	Bonds rated BBB United States	127	128	132	164
JUC1	Bonds rated BB United States	222	245	234	296
JUC2	Bonds rated B United States	353	385	369	451
<b>Emerging Countries</b>					
EMIC	Investment Grade Emerging Countries	120	137	135	151
HYEF	High Yield Emerging Countries	455	534	571	662
EMAQ	Bonds rated A Emerging Countries	92	108	104	111
EM2B	Bonds rated BBB Emerging Countries	165	186	188	211
EM3C	Bonds rated BB Emerging Countries	308	355	371	388
EM6B	Bonds rated B Emerging Countries	457	525	577	616

Source: Merrill Lynch

ANAXIS AM

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.

**Anaxis Asset Management**  
9 rue Scribe  
75009 Paris

+33 (0)9 73 87 13 20  
info@anaxis-am.com  
www.anaxis-am.com

