Corporate Credit Monthly Update

April 2024

Europe

The economic outlook for the eurozone is improving timidly. The composite PMI has returned to neutral territory after severe contraction in 2023, and the employment market remains robust. Yet weak growth in Europe contrasts with much stronger growth in the US. Moreover, the situation varies considerably from one member state to another. Inflation fell to 2.4% in the eurozone in March – the third consecutive month of slowdown. The ECB held its interest rates unchanged. These have remained stable since September 2023. In contrast, the SNB's decision made Switzerland the first G10 member to announce a fall in interest rates, ushering in the prospect of a broader-based movement. In an opposite trend in the Far East, Japan ended its policy of negative interest rates with the first rise in 17 years. On the geopolitical front, the ongoing conflicts in Ukraine and Gaza and disruptions to maritime transport in the Red Sea weighed on markets and continue to fuel fears of a resurgence in inflation, particularly as regards energy prices. The oil price saw a steep rise of over 6% in March.

In European bond markets, the 10-year Bund yield fell by 11 basis points to end the month at 2.30%. The yield differential between the German Bund and other eurozone bonds fell further, primarily due to the relative weakness of the German economy and the growing likelihood of the ECB easing its policy. Meanwhile corporate credit spreads performed well, with a tightening in both Europe and the US. The European corporate index yield ended the month at 5.97%.

United States

In the US, the economy continues to perform well, with GDP growth forecast at over 2% in 2024, versus a little under 1% for Europe as a whole. Unemployment and consumer expenditure – key drivers of the US economy – continue to reflect this positive outlook and are not slowing to any significant degree. US inflation remained stable in March. Despite the lack of progress on this front, the Fed has not changed its stance – it left its rates unchanged whilst continuing to signal its intent to lower during the course of the year. Against this backdrop, the US dollar remains strong against other currencies.

Financial markets – bonds in particular – performed well in March in the US. The 10-year T-bond yield fell by 5 basis points to end the month at 4.20%. The spread between 10-year and 2-year yields widened to 42 basis points. Corporate investment grade and high yield bonds benefited from this movement on rates and from tightening credit spreads. Spreads are now at historically tight levels. Demand nevertheless remains strong for the asset class, particularly for lower rated securities. This positive sentiment contributed to the increase in new bond issues on primary markets across the world, and in particular in the US. There were USD 85 billion of new issues in the US high yield segment in the first quarter of 2024. The US corporate index yield stood at 7.02% at the end of the month.

Emerging

In emerging markets, central banks in Latin America were more optimistic, particularly in Mexico, Brazil and Peru. In Asia, China showed signs of recovery. Industrial production accelerated, adding to positive momentum in the region. However, the Chinese real estate sector remains apathetic, the victim of further falls in housing prices and weak commercial activity. China's central bank is continuously accumulating gold in order to diversify its reserves and distance itself from US assets. The price of gold thus hit a record high in March, as it also benefited from its role as a safe haven in periods of rising geopolitical tension.

The tone of the US Federal Reserve remained encouraging, creating a propitious backdrop for risky assets. Logically, this continuous improvement in risk appetite benefited emerging bond markets, particularly bonds denominated in hard currency. The corporate index for the region rose in March. The high yield segment performed very well, outperforming the investment grade segment (+1.53% versus +0.95%). The yield on the emerging market corporate index closed the month at 8.66%.

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Companies in the Spotlight

Kiloutou (EU)

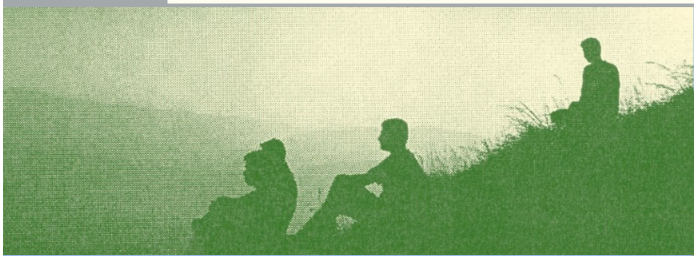
Kiloutou, the French equipment rental company, posted solid Q4 results. Revenues rose 8.2% YoY or 4.2% organically. Organic sales growth was entirely driven by higher prices, while volumes were flat. EBITDA advanced 15.5% to EUR 132m, with the margin advancing approx. 270 bps to 42.3%. Organic EBITDA growth was the result of higher prices, cost control and sales of used equipment. Free cash flow rose to EUR 13m YoY (Q4 22: EUR 8m), with growth driven by higher EBITDA and decreased maintenance capex, albeit partly offset by increased growth fleet capex. Reported net leverage improved by 0.1x to 3.7x. As of FYE 2023, liquidity included EUR 84m of cash and EUR 138m in undrawn RCF.

Tegna (US)

Tegna, one of the largest broadcasters of leading TV networks NBC, ABC and FOX in the United States, reported inline earnings for Q4 2023. The company reported net sales of USD 2.9bn, down 11% from 2022, and an EBITDA of USD 739m. The drop in revenues is inherent in Tegna's business model, whereby activity is to a large extent driven by political elections. According to the company, 2024 should be a strong year for the business with the Presidential election in November and the Olympic Games in the summer. The company did not provide clear guidance for FY 2024, but targets a FCF in the range of USD 900m to USD 1.1bn in 2024 and 2025 included. By way of comparison, Tegna reported a FCF of USD 1.3bn over 2022 and 2023.

Trans-Oil Group (EM)

Trans-Oil Group, a leading agro company in Moldova, reported strong H1 24 earnings. The company's revenue rose by 30% on a sequential basis thanks to higher sales volumes, resilient margins and improved utilisation rates. EBITDA also improved by 52%, with a margin of 9.2%. Due to seasonal factors, as inventories build up during the first half of the fiscal year, Trans-Oil posted a negative FCF figure (USD -135m). However, pre-working capital FCF was positive, and the company hinted at optimising its working capital levels in the coming 9 to 12 months in order to facilitate the refinancing of its senior unsecured notes due in April 2026. In February this year, Fitch upgraded the company's rating to B+, with a stable outlook.



Rating moves

Almaviva	S&P	↗	BB
CBR Service GmbH	S&P	↗	B+
CEMEX Corp	S&P	↗	BBB-
Intelsat SA	Fitch	↗	BB-
Lorca Holdco Ltd	Fitch	↗	BB
Paramount Global	S&P	↘	BB+
Premier Foods PLC	S&P	↗	BB+
Rolls-Royce PLC	Fitch	↗	BBB-
Vericast Corp	S&P	↗	B-

Significative Primary Issues

Europe

Issuer	*Yield*	*Maturity*	*Amount*	*Rating*
Fnac	6.00%	2029	€550M	BB+
VMED	5.625%	2032	€600M	BB+

United States

Issuer	*Yield*	*Maturity*	*Amount*	*Rating*
Ford Motor	5.80%	2029	$1.60Bn	BBB-
Hilton Domestic	5.3875%	2029	$550M	BB+

Emerging

Issuer	*Yield*	*Maturity*	*Amount*	*Rating*
AES Andes	6.31%	2029	$500M	BBB-
Movida	7.94%	2029	$500M	BB-

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Macro-Economic Events

Europe

Eurozone: the unemployment rate remained stable in February at 6.5%, a record low despite the grim economic environment. In particular, the rate remained unchanged at 14.6% for the fourth consecutive month for under 25-year-olds. Among the eurozone's major economies, Spain continues to show the highest unemployment rate, followed by Italy and France, whilst Germany has the lowest rate at 3.2%.

Germany: the business climate index rose to 87.8 in March, up from 85.7 the previous month and ahead of market expectations of 86. Positive sentiment for Europe's largest economy has thus reached its highest level since June 2023, fuelled by expectations of potential interest rate cuts by the ECB and a gradual weakening of inflationary pressure.

France: in March, inflation fell to 2.3% year-on-year, compared with 3% the previous month. This was below the market consensus of 2.6% and the lowest rate since September 2021, with a slowdown in food inflation in particular.

Switzerland: the Swiss National Bank lowered its key rate by 25 basis points to 1.5% at its March meeting, to the surprise of markets which had expected no change. The SNB also sharply revised down its forecast for inflation in Switzerland. It now expects that inflation will remain below the 1.5% threshold in the coming months.

US & EM

United States: economic growth in the fourth quarter of 2023 exceeded economists' expectations with annual growth of 3.4% versus expectations of 3.2%. However, this performance reflects slowing momentum after growth of 4.9% for the third quarter.

China: the official manufacturing PMI rose to 50.8 in March, compared with 49.1 a month earlier, exceeding market expectations of 49.9. This represents the first expansion in industrial activity in six months and the highest level for a year, against the backdrop of Beijing's ongoing efforts to stimulate economic recovery. In particular, there was a rise in new domestic and foreign orders. However, the employment market contracted further, with companies adopting a cautious approach to hiring in an attempt to keep costs under control.

Panama: Fitch lowered its credit rating for the country from BBB- to BB+ with a stable outlook. This rating cut reflects worries regarding the country's fiscal challenges, aggravated by the recent closure of a major copper mine. This unexpected decision destabilised investors and sparked a sharp sell-off in Panama's bonds.

Market Data Indices

Indices (end of March)		Performance		Duration	Yield
High Yield		MTD	YTD	DTW	YTW
HE00	High Yield Europe	0.44%	1.63%	2.95	6.40%
J0A0	High Yield United States	1.18%	1.46%	3.56	7.69%
H7PC	High Yield Europe BB/B Excluding Financials	0.65%	1.88%	2.80	5.97%
JC4N	High Yield United States BB/B Excluding Financials	1.15%	1.26%	3.63	7.02%
HYEF	High Yield Emerging Countries Excluding Financials	1.53%	4.70%	3.61	8.66%
Investment Grade					
ER00	Investment Grade Europe	1.21%	0.40%	4.51	3.67%
C0A0	Investment Grade United States	1.19%	-0.08%	6.75	5.36%
EMIC	Investment Grade Emerging Countries	0.95%	0.58%	5.25	5.44%
Governments					
G4D0	10-Year German Bond	1.09%	-1.58%		2.30%
G402	10-Year US Bond	0.72%	-1.32%		4.20%

Inflation (end of March)						
Realized inflation		March	February	January	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.40%	2.60%	2.80%	4.30%	6.90%
US CPI	Realized inflation in the United States (rolling 12-month)		3.20%	3.10%	3.70%	5.00%

Month-to-date = MTD
Year-to-date = YTD

Duration-to-worst = DTW
Yield-to-worst = YTW

Source: Merrill Lynch
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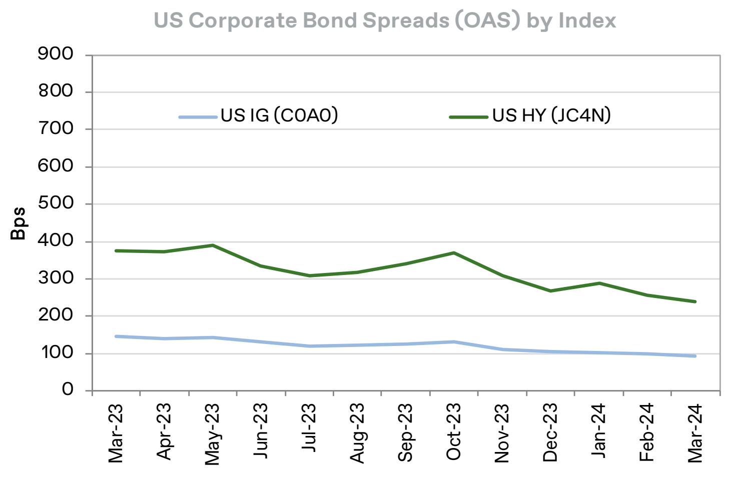

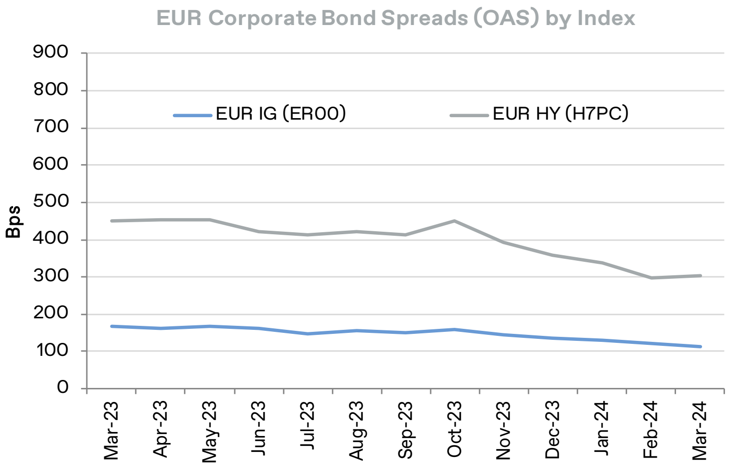

Corporate Bond Spreads

		March	February	January	12 months
Europe					
ER00	Investment Grade Europe	116	124	133	170
HE00	High Yield Europe	377	366	395	489
H7PC	High Yield Europe BB/B Excluding Financials	316	310	351	458
ER30	Bonds rated A Europe	103	112	119	146
ER40	Bonds rated BBB Europe	135	144	154	201
HE10	Bonds rated BB Europe	249	255	289	375
HE20	Bonds rated B Europe	449	416	467	564
United States					
C0A0	Investment Grade United States	96	102	103	148
J0A0	High Yield United States	328	344	376	468
JC4N	High Yield United States BB/B Excluding Financials	261	279	310	393
C0A3	Bonds rated A United States	81	86	87	126
C0A4	Bonds rated BBB United States	119	127	128	181
JUC1	Bonds rated BB United States	209	222	245	307
JUC2	Bonds rated B United States	330	353	385	506
Emerging Countries					
EMIC	Investment Grade Emerging Countries	113	120	137	179
HYEF	High Yield Emerging Countries	435	455	534	750
EMAQ	Bonds rated A Emerging Countries	89	92	108	128
EM2B	Bonds rated BBB Emerging Countries	153	165	186	252
EM3C	Bonds rated BB Emerging Countries	303	308	355	456
EM6B	Bonds rated B Emerging Countries	431	457	525	702

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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