

# Corporate Credit Monthly Update

## December 2024

### Europe

Economic growth in the Eurozone is again showing signs of a slowdown, while the progress of inflation towards the 2% target seems to have stalled. The employment market remains robust; this is in contrast to weakening PMIs, which indicate a deterioration in economic activity. Geopolitical risks remain, as the Eurozone still has far greater exposure to developments in the situation in Ukraine and the Middle East than other developed economies. In addition, the domestic political environment has become increasingly unstable in recent months, with governments falling firstly in Germany and then in France. This political uncertainty is hampering efforts to stimulate the economy, just as the budget deficit in France is approaching 6% of GDP – around double the limit set by the EU.

In November, European sovereign debt yields fell across the board on the back of expectations of swifter cuts in key rates by the ECB. In addition, the fact that German inflation came in below expectations provided momentum for Bunds, with 7-10-year yields falling by 30 basis points to reach 2.03% at the end of the month. The European credit market benefited from this environment and chalked up positive performance, particularly in the case of assets with the greatest sensitivity to interest rate changes. European and US investment grade bonds thus performed well in November, buoyed by this fall in sovereign yields. On the other hand, the European high yield segment proceeded at a more moderate pace than its US counterpart. European spreads widened over the course of the month due to the weaker growth environment and worries that the Trump administration may implement an aggressive trade policy. The European corporate index yield ended the month at 5.52%.

The US presidential election saw the return of Donald Trump to the White House, with the Republicans seizing control of both chambers of Congress. The outlook for this term of office is resolutely anti-establishment, with policies focused on a cut in taxation, a hike in tariffs and increased deregulation in the domestic market. These measures should support US economic growth but will also bring inflationary pressure. The Fed, meanwhile, cut its key interest rate by 25 basis points in November in line with expectations. Given these policy directions, we could, however, see a slowdown in rate cuts over the coming months. Economic indicators still confirm the positive trend: an unemployment rate of 4.1% – close to historic lows – and annualised inflation of 2.6%, with a modest monthly rise of 0.2%. The oil price was volatile in November on the back of geopolitical uncertainty and closed the month down 2.5%. On the currency front, the US dollar rose by 1.7% against other major currencies, driven by expectations of the introduction of new trade tariffs.

US financial markets reacted favourably to the outcome of the presidential election, with both equities and bonds rising. The initial trend was a rise in interest rates and increased risk taking, which translated into a tightening of spreads. The US Treasury market was volatile throughout the month, showing a spike followed by a stabilisation. The 10-year yield rose to close to 4.5% after the publication of a new wave of solid macroeconomic data, which dampened expectations of rate cuts from the Fed in December; it nevertheless ended the month lower. 7-10-year yields fell 8 basis points to close the month at 4.18%. The credit market saw a tightening of spreads, generating positive performance in both the investment grade (+1.27%) and high yield (+1.15%) segments. The yield on the US corporate index stood at 6.87% at the end of the month.

### United States

### Emerging

Emerging markets remain exposed to currency volatility and risks related to the global growth outlook. Latin American and Eastern European economies nonetheless continued to prove resilient, thanks to cautious monetary policies and a tight grip on inflation. However, inflation remains above target in a number of these countries. The Chinese economy showed signs of stabilisation thanks to targeted government measures. Challenges remain, however – particularly in the real estate segment, which despite some improvement is still in a fragile state, while weak domestic demand continues to depress corporate earnings in the industrial segment.

In November, the slight downturn in US Treasury yields at the end of the month provided support for the EM credit market in both the high yield and investment grade segments. Spreads nevertheless widened slightly during the month, reflecting an environment that is still characterised by global uncertainty. Despite relatively uniform performance for the two segments during the month, high yield debt has sharply outperformed since the start of the year with a rise of 12.73% far outstripping the 4.5% increase for investment grade issuers. In terms of valuation, emerging markets continue to offer attractive opportunities – particularly in the high yield segment, which is seeing a gradual return of investors. The yield on the EM corporate index stood at 7.95% at the end of the month.

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### Premier Foods (EU)

Premier Foods, a UK frozen food producer, reported good H1/24-25 results with revenues growing 1.4% yoy to GBP501m and EBITDA margin improving by 30bps to 16.4%. The better profitability was driven by positive mix effects with a greater share of higher-margin branded sales and positive operating leverage from higher volumes, albeit partly offset by increased cocoa prices. Cash flow generation also improved despite increased capex spending leading to net leverage improving by 0.1x to 1.1x. Premier has solid liquidity, mainly thanks to the GBP227m undrawn RCF and GBP114m cash balance. It has limited near-term maturities.

### Samsonite (US)

Samsonite, the luggage producer, reported disappointing earnings for the 3<sup>rd</sup> quarter of 2024, with net sales down by 8.4% yoy (-6.8% on a constant basis) and management EBITDA declining to \$155m (from \$194m in 3Q23). Despite earnings softness year-to-date, free cashflow amounted to \$175m, representing 15% of the company's pre-IFRS 16 net debt. Net leverage remained low at 1.7x as of September 2024.

### Auna (EM)

Auna, the Peruvian private clinic operator reported strong results for the 3<sup>rd</sup> quarter of 2024. Q3/24 consolidated revenues amounted to PEN 1.13bn, up +11% yoy, and the adjusted EBITDA stood at PEN 250m (+19%yoy). These good earnings were due to an improvement in healthcare services in Peru and Mexico thanks to increased capacity utilisation and a focus on high-complexity services in the revenue mix. Net leverage decreased by 0.4x to 3.7x, driven by lower net debt and higher LTM EBITDA.

## Significant Primary Issues

### Europe

Issuer	Yield	Maturity	Amount	Rating
Asmodee	5.75%	2029	€600M	B
Iliad	5.375%	2030	€600M	BB-

### United States

Issuer	Yield	Maturity	Amount	Rating
Icahn Enterprises	10.00%	2029	\$500M	BB-
Select Medical	6.25%	2032	\$550M	B

### Emerging

Issuer	Yield	Maturity	Amount	Rating
Fosun/Fortune Star	8.25%	2028	\$300M	BB-
IHS Holding	7.97%	2030	\$550M	B+

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Macro-Economic Events

Europe

**Eurozone:** 12-month rolling inflation accelerated for the second consecutive month, rising from 2% in October to 2.3% in November, in line with market expectations. This end-of-year increase was largely expected due to base effects, as last year's sharp falls in energy prices were no longer taken into account in the annual rates. This gives a strong case for a more cautious approach to the ECB's interest rate cut in December.

**France:** The ongoing political crisis persisted throughout November, and the fragile coalition around Michel Barnier's government remained under threat of being toppled by a coalition of the far right and the left. The far-right National Rally party expressed its support for a vote of no confidence in the national budget, which led to the resignation of the government in early December.

**Germany:** The consumer sentiment indicator fell to -23.3 points as December approached, its lowest level since last May. This figure is below the forecast of -18.6 and is comparable to December 2023 levels. Income expectations fell sharply, dropping 17.2 points and reaching a nine-month low of -3.5. This decline was fuelled by fears of a prolonged recession and rising unemployment.

**Hungary:** Moody's affirmed Hungary's debt rating at Baa2, but lowered its outlook from stable to negative. It notes that weaker governance risks losing access to billions in European Union funds, while increased spending in the run-up to the elections could put a strain on the fiscal situation.

US & EM

**United States:** Retail sales rose by 0.4% in October, boosted by strong purchases of cars and electronics. September's figures have also been revised upwards, reflecting the strength of consumer spending.

**China:** The official manufacturing PMI rose from 50.1 in October to 50.3 in November, in line with the market consensus. This figure is the highest since April. It was also the second consecutive month of expansion in industrial activity, following a series of support measures taken by Beijing since the end of September. Production grew at its fastest rate in seven months, while new orders picked up. However, difficulties persist, with foreign orders and employment remaining weak.

**Brazil:** GDP rose by 0.9% over the previous quarter in Q3 2024, as expected, following a 1.4% increase in Q2. Growth was driven by a strong performance from the services sector, followed by industry, while agriculture contracted due to lower production. The Brazilian economy grew by 4% year-on-year in Q3 2024.

Market Data Indices

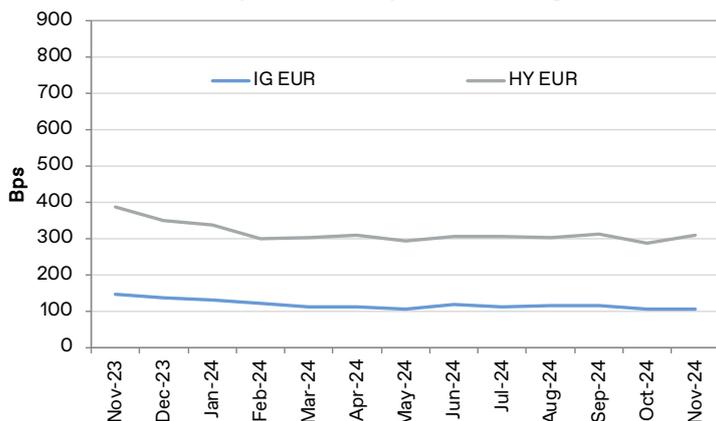
Indices (end of November)	Performance			
	MTD	YTD	Duration	Yield
<b>High Yield</b>				
Corporates High Yield Europe	0.55%	7.73%	3.02	5.69%
Corporates High Yield United States	1.15%	8.59%	3.15	7.14%
Corporates High Yield Europe Excluding Financials	0.51%	6.91%	2.96	5.52%
Corporates High Yield United States Excluding Financials	1.09%	7.93%	3.16	6.87%
High Yield Emerging Markets	0.72%	12.73%	3.78	7.95%
<b>Investment Grade</b>				
Corporates Investment Grade Europe	1.72%	5.23%	4.56	3.21%
Corporates Investment Grade United States	1.27%	4.38%	6.88	5.07%
Investment Grade Emerging Countries	0.63%	4.50%	6.10	5.19%
<b>Governments</b>				
7-10 Year German Bond	2.54%	1.85%		2.03%
7-10 Year US Bond	0.97%	1.67%		4.18%

Inflation (end of November)					
Realized inflation	November	October	September	6M	12M
Realized inflation in Europe (rolling 12-month)	2.30%	2.00%	1.70%	2.60%	2.40%
Realized inflation in the United States (rolling 12-month)		2.60%	2.40%	3.30%	3.10%

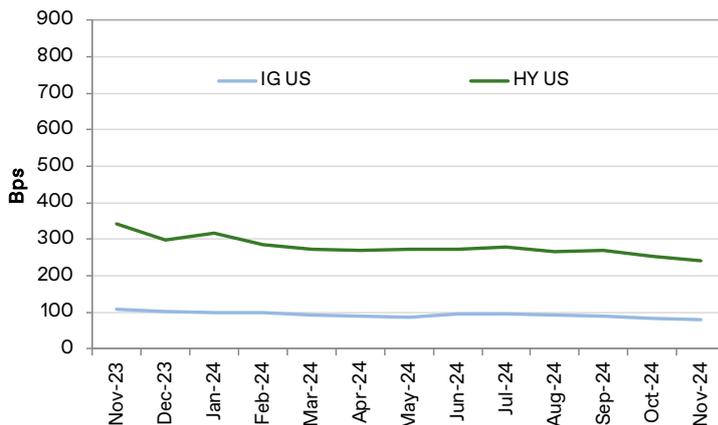
Month-to-date = MTD  
Year-to-date = YTD

Edited: 12/12/2024

EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



## Corporate Bond Spreads

	November	October	September	12 months
<b>Europe</b>				
Corporates Investment Grade Europe	107	104	116	145
Corporates High Yield Europe	337	317	342	426
Corporates High Yield Europe Excluding Financials	310	287	312	386
Corporate Bonds rated A Europe	96	94	104	125
Corporate Bonds rated BBB Europe	122	120	134	172
Corporate Bonds rated BB Europe	226	205	236	314
Corporate Bonds rated B Europe	380	360	383	484
<b>United States</b>				
Corporates Investment Grade United States	80	85	90	107
Corporates High Yield United States	268	284	300	375
Corporates High Yield United States Excluding Financials	240	254	268	342
Corporate Bonds rated A United States	67	70	74	91
Corporate Bonds rated BBB United States	99	105	113	133
Corporate Bonds rated BB United States	163	176	184	232
Corporate Bonds rated B United States	264	279	291	388
<b>Emerging Countries</b>				
Investment Grade Emerging Countries	103	99	108	129
High Yield Emerging Countries	367	361	389	560
Corporate Bonds rated A Emerging Countries	80	79	89	98
Corporate Bonds rated BBB Emerging Countries	139	133	143	177
Corporate Bonds rated BB Emerging Countries	249	238	252	310
Corporate Bonds rated B Emerging Countries	383	380	406	584

Source: Anaxis AM

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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 15 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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