

Corporate Credit Monthly Update

January 2025

Europe

The eurozone and the UK both recorded very modest growth in 2024, for the second consecutive year. Macroeconomic data highlighted persistent weakness at various levels in December, notably in the eurozone manufacturing sector. The composite PMI came in at 48.1, indicating contraction. In addition, political instability in key countries such as France and Germany had a negative impact on overall sentiment. In France, budget negotiations have hit some serious obstacles; Germany's coalition government has meanwhile collapsed, bringing the prospect of imminent elections. There has been an uptick in goods inflation in the eurozone from its lowest level of recent months, which – despite everything – highlights some signs of a recovery in the region, thanks to the cut in interest rates and a slight bounce in consumer spending. Services inflation meanwhile was stable, though remained at a high level. The ECB cut its key rate by 25 basis points at its December meeting.

European bond markets were volatile in December on the back of these various economic and political factors. 7-10-year Bund yields rose by 25 basis points and reached 2.28% at the end of the month. Bunds saw a sell-off in sympathy with the move in US Treasuries. Performance was negative for European investment grade debt. In contrast, December brought to a close a solid year for European high yield paper. Spreads in this segment tightened by 28 bps during the month, more than offsetting the sell-off in sovereign bonds. It was one of the few asset classes to post positive performance for the month. Despite persistent weakness in the European economy in 2024, high yield debt in the region performed well during the year, rising 8.42% and outperforming its US counterpart. This resilience underlines the ability of this asset class to remain attractive to investors even in a gloomy economic environment. The European corporate index yield ended the month at 5.42%.

In the US, macroeconomic data and the labour market remain extremely robust. The contrast in the situation on the two sides of the Atlantic is becoming increasingly marked. In 2024, the resilience of US consumers was a key element of this economic strength. With close to 70% of GDP depending on the consumption of goods and services, this component remains the main driver of the US economy. The Fed cut its key rate by 25 basis points at its December meeting. Although this decision shows that the trend to easing remains intact, the Fed maintained a prudent stance on its monetary policy, indicating that it would proceed cautiously with any future rate moves. Inflation was in line with expectations at 2.7%, which nonetheless represents a rise for the second month in a row. The oil price rose by 5.5% in December, mainly due to heightened geopolitical uncertainty and the prospect of a potential upturn in Chinese demand. The US dollar rose by 2.6% against other major currencies, driven by expectations of a cautious approach to interest rate cuts.

December saw US markets wipe out a portion of the gains realised in November. Sovereign yields rose following the lukewarm response to the Fed's 2025 forecasts. The US Treasury yield curve steepened over the month; this was primarily due to the move in longer term yields, which are now reflecting fears of more persistent inflation. 7-10-year yields ended the month up a substantial 37 basis points at 4.55%. On credit markets, in addition to this sell-off, spreads widened, leading to strongly negative performance in both the investment grade (-1.86%) and high yield (-0.43%) segments. The high yield segment held up better, thanks in particular to shorter maturities and therefore lower sensitivity to interest rates. The yield on the US corporate index stood at 7.21% at the end of the month.

United States

Emerging

Emerging countries as a whole proved robust in December, despite the challenges posed by an uncertain global economic environment. Prospects for 2025 remain encouraging, with forecasts of sustained growth in a number of strategic regions. Among these economies, India and the countries of Southeast Asia continued to stand out with growth rates of above 5%. This momentum was fuelled by strong domestic demand and massive infrastructure investment driven by government policies. This was accompanied by a continued decline in inflation in many emerging countries, in large part thanks to prudent monetary policies and the stabilisation of commodity prices. These factors meant that central banks could keep interest rates relatively low, thus supporting investment and consumption.

Yet December was characterised by negative performance in emerging markets. Bonds suffered overall from the combined impact of higher US sovereign yields and the persistent strength of the US dollar. Credit spreads remained relatively stable in the investment grade segment, whilst the high yield sector saw a slight widening. Despite a negative monthly performance (-0.29%), the high yield segment clearly outperformed investment grade, which was down -1.36%. The yield on the emerging market bond index stood at 8.19% at the end of the month.

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Alain Afflelou (EU)

Alain Afflelou has released solid Q1 24-25 results, with revenues rising by around 7% y-o-y to EUR 106m and adjusted EBITDA also up by around 7% at EUR 29m. The improvement was driven by continued positive trends in both optical and hearing-aid segments. Cash flow generation also improved on account of the better EBITDA and lower working capital inflow. Capex stood at EUR 5m, following which AA generated EUR 21m of free cash flow. Consequently, reported net debt decreased q-o-q to EUR 596m in Q1 24-25 and net leverage was down 0.2x at 4.9x.

Walgreens Boots Alliance (US)

Walgreens Boots Alliance (WBA) bonds moved higher in December as the Wall Street Journal reported that the company is in talks to sell itself to private equity firm Sycamore Partners. No details have emerged so far, but the deal could include selling off pieces of Walgreen's business, the report added. WBA's stock dropped by 64% in 2024 and the firm now has a market capitalisation slightly above USD 8.0bn. In parallel, S&P downgraded the issuer to BB- from BB, as it sees additional pressure from pharmacy reimbursement, soft demand in the front-store, and elevated shrink, among other challenges. S&P expects adjusted debt to EBITDA of 5.8x in 2024 and the ratio to remain above 5x well into 2026.

Liquid Telecommunications Holdings (EM)

Liquid Telecommunications Holdings, the South-African fibre firm, has signed new facilities to refinance its South African rand-denominated term loans. The new facilities amount to USD 200m equivalent, of which approximately USD 150m will be used to refinance the company's existing rand loans. This refinancing has enabled the closing of the first equity tranche (USD 90m), the majority of which will flow into the bond perimeter. Following the news, the 2026 USD-denominated bond gapped another 5 points higher (to around 80%), as the company repeated its intention to refinance this issue at par in 2025.

Significant Primary Issues

Europe

Issuer	Yield	Maturity	Amount	Rating
Flos B&B Italia	6.718%	2029	€500M	B
Virgin Media	7.875%	2032	£400M	B+

United States

Issuer	Yield	Maturity	Amount	Rating
Barnes Group	6.75%	2032	\$750M	B
Saks Global Ent.	11.00%	2029	\$2.20Bn	B

Emerging

Issuer	Yield	Maturity	Amount	Rating
Pampa Energia	7.875%	2034	\$360M	-

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Macro-Economic Events

Europe

Eurozone: Manufacturing industry in the eurozone closed 2024 on a negative note, with production again declining. This slowdown was across the board. The region’s three main economies – Germany, France and Italy – are thus in danger of an industrial recession.

France: President Emmanuel Macron named his centrist ally François Bayrou as Prime Minister after several days of tense political stalemate. Bayrou is 73 years old and a member of the centre-right MoDem party. He replaces Michel Barnier, who resigned after a vote of no confidence.

Germany: The business climate indicator fell for the second consecutive month to 84.7 in December, its lowest level since May 2020. The weakness in Germany’s economy has become chronic. The business climate has deteriorated considerably in manufacturing and services, and has also worsened among retailers. The sole bright spot is construction, where the climate has improved.

Switzerland: The central bank has lowered interest rates for the fourth time in a row in a bid to offset the strength of the Swiss franc and support exporters. In December, this was a cut of 50 basis points to 0.5%, while previous cuts since March 2024 were just 25 basis points.

US & EM

United States: The economy recorded annualised growth of 3.1% in the third quarter, slightly up on the 3% figure for the second quarter. This was the highest growth rate since the start of 2024. Personal spending rose at its fastest rate since the first quarter of 2023, boosted by a 5.6% rise in the consumption of goods and higher spending on services.

China: The official manufacturing PMI unexpectedly fell to 50.1 in December, versus the seven-month peak seen in November and market expectations of 50.3. However, it was the third consecutive month of expansion in industrial activity, following a series of support measures taken by Beijing since the end of September. Nonetheless, foreign demand and employment remain very weak.

Brazil: The unemployment rate fell to 6.1% in the final months of 2024 – the lowest level ever recorded – versus 6.6% in the previous quarter. This record low highlights the vibrancy of the country’s labour market, which is supported by both high public spending and household consumption.

Market Data Indices

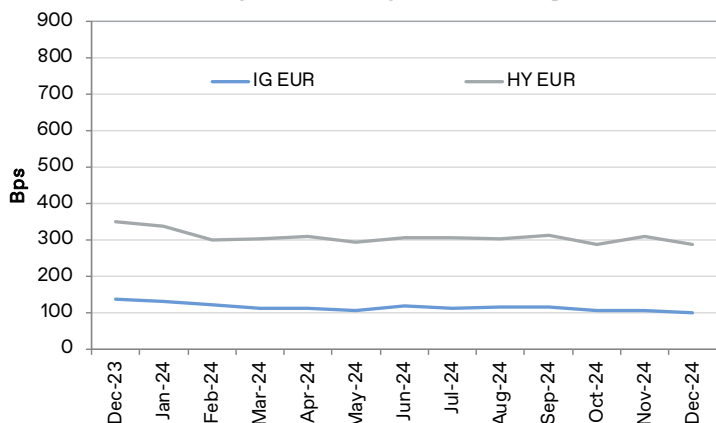
Indices (end of December)	Performance			
High Yield	MTD	YTD	Duration	Yield
Corporates High Yield Europe	0.64%	8.42%	2.96	5.61%
Corporates High Yield United States	-0.43%	8.12%	3.25	7.47%
Corporates High Yield Europe Excluding Financials	0.71%	7.67%	2.89	5.42%
Corporates High Yield United States Excluding Financials	-0.48%	7.41%	3.27	7.21%
High Yield Emerging Markets	-0.29%	12.40%	3.73	8.19%
Investment Grade				
Corporates Investment Grade Europe	-0.38%	4.83%	4.48	3.33%
Corporates Investment Grade United States	-1.86%	2.44%	6.67	5.34%
Investment Grade Emerging Countries	-1.36%	3.08%	5.91	5.44%
Governments				
7-10 Year German Bond	-1.74%	0.08%		2.28%
7-10 Year US Bond	-2.24%	-0.61%		4.55%

Inflation (end of December)	December	November	October	6M	12M
Realized inflation					
Realized inflation in Europe (rolling 12-month)	2.40%	2.20%	2.00%	2.50%	2.90%
Realized inflation in the United States (rolling 12-month)		2.70%	2.60%	3.00%	3.40%

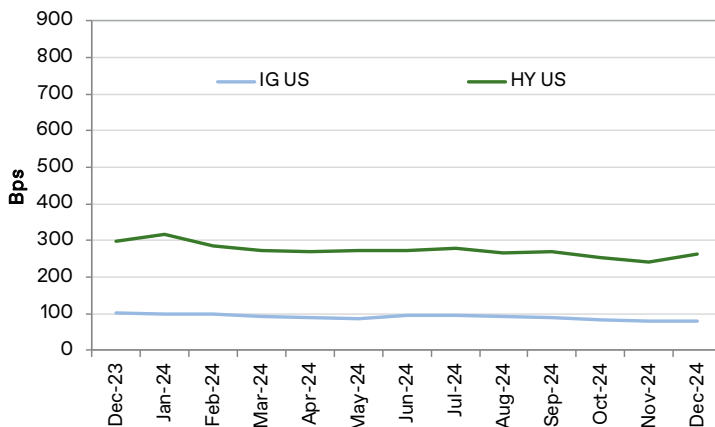
Month-to-date = MTD
Year-to-date = YTD

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads

	December	November	October	12 months
Europe				
Corporates Investment Grade Europe	101	107	104	136
Corporates High Yield Europe	309	337	317	390
Corporates High Yield Europe Excluding Financials	289	310	287	350
Corporate Bonds rated A Europe	91	96	94	119
Corporate Bonds rated BBB Europe	114	122	120	160
Corporate Bonds rated BB Europe	205	226	205	279
Corporate Bonds rated B Europe	337	380	360	451
United States				
Corporates Investment Grade United States	81	80	85	101
Corporates High Yield United States	289	268	284	327
Corporates High Yield United States Excluding Financials	262	240	254	297
Corporate Bonds rated A United States	69	67	70	86
Corporate Bonds rated BBB United States	100	99	105	125
Corporate Bonds rated BB United States	182	163	176	203
Corporate Bonds rated B United States	287	264	279	330
Emerging Countries				
Investment Grade Emerging Countries	103	103	99	126
High Yield Emerging Countries	375	367	361	536
Corporate Bonds rated A Emerging Countries	79	80	79	97
Corporate Bonds rated BBB Emerging Countries	140	139	133	170
Corporate Bonds rated BB Emerging Countries	256	249	238	304
Corporate Bonds rated B Emerging Countries	391	383	380	513

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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