Corporate Credit Monthly Update March 2022

In the eurozone, the invasion of Ukraine by Russian forces caused serious jitters on the financial markets in February. Disquiet concerning the war's economic impact and the severe Western sanctions against Russia have come to the fore, overshadowing the prospect of higher interest rates. Inflationary pressures have also persisted due to rising commodity and energy prices. This situation makes it probable that the ECB will adopt a more cautious monetary stance, because of the risks induced by the Russian-Ukrainian conflict. Europe is more vulnerable than the United States, as it is closer to the conflict and more dependent on Russian energy, and sanctions and reprisals are likely to cause it greater damage. The euro exchange rate has weakened as a result of these concerns.

As a consequence of investor reaction, in particular pending the ECB's response to the war between Russia and Ukraine, the yield on the 10-year German Bund fell to 0.13%, after reaching 0.30%. Corporate credit markets suffered high volatility, the main effect being a widening of spreads on Investment Grade and High Yield. The offer of new High Yield bonds on the primary market has dried up. The European corporate index yield rose by 83 basis points, to 4.28%.

In the United States, the impact of the Russian invasion of Ukraine is expected to be more limited; however, the country is likely to suffer the effect of rising oil prices. WTI crude rose from USD 88.15 to USD 95.75 per barrel in February, up 9%, and shows no signs of easing. Treasury yields rose significantly at the start of the month, on the back of strong economic data, before weakening across all maturities, with a greater decline on short-dated paper.

The financial market volatility has strengthened the demand for safe-haven assets over the course of the month. The 10-year yield ended the month relatively stable at 1.83%, after reaching 2% in its first weeks. US corporate bond spreads widened in February, even for quality bonds. Expectations of the Fed's monetary tightening, global uncertainty and outflows weighed on credit markets. High Yield was particularly affected by negative flows and widened spreads. In this environment, the US corporate index yield rose by 29 basis points, closing the month at 5.19%.

In emerging countries, the heightened global uncertainty also weighed on financial markets. As in Europe and the United States, the current context presents new challenges for the economic prospects of these countries, with risks linked to inflation, geopolitical events and the possibility of new shortages.

Emerging High Yield credit spreads widened more than in developed countries, due to the considerable underperformance of Russian and Ukrainian bonds. This was also the case, although to a lesser extent, for bonds rated Investment Grade. Asian High Yield also suffered from liquidity problems in the Chinese real estate sector, despite the easing of credit restrictions in this area. Many emerging market companies nevertheless maintain solid fundamentals. Moreover, capital outflows remained moderate against this backdrop of an increase in volatility across the board. The emerging market corporate index yield stood at 10.21% at the end of the month.

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Companies in the Spotlight

Cirsa

Cirsa, the Spanish gaming operator, released encouraging Q4 and FY 2021 results in February, driven by easing restrictions in relation to the COVID-19 pandemic. Q4 2021 revenues advanced 79% y-o-y to EUR 378 million, with EBITDA jumping 137% to EUR 121 million. Cash flow performance was robust in Q4 and FY 2021, thanks to the earnings recovery and inflows from working capital. Although the company intends to refinance its outstanding 2023 bonds this year, management noted that current market conditions do not favour such a transaction. IPO of the business remains an option for the exit of owners Blackstone. Cirsa plans to release a detailed ESG report in May 2022.

Scientific Games

Scientific Games reported strong Q4 2021 earnings and announced its target leverage ratio post the divestment of its lottery and betting businesses. Revenues were up 21% in Q4 2021 while adjusted EBITDA increased by 67% vs the previous year. The net leverage ratio decreased to 6.2x from 6.6x as of September 2021. 90% of the proceeds from the lottery business, estimated at USD 5 billion, will be used for debt reduction. Following the disposal, the management targets a leverage ratio in the range of 2.5x to 3.5x.

Sappi

South African paper and packaging producer Sappi published strong Q1 2021-22 results in early February. Revenues rose 46% y-o-y while EBITDA grew 145% thanks to robust market demand, higher sales prices, as well as a better product and customer mix. Cost inflation depressed profitability but the company expects market conditions to remain supportive in FY 2021-22. Net leverage dropped to 2.8x from 3.7x in FY 2020-21.

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Sazka	4.125%	2028	EUR 400M	BB-
WFS	6.125%	2027	EUR 250M	B3

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
AMC Entmt.	7.50%	2029	$950M	B-
CS Games	6.625%	2030	$800M	B

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Energo Pro	8.50%	2027	$435M	B+
Studio City	7.00%	2027	$350M	B+

Rating moves

Arcelik AS	Fitch	↘	BB
Ausnet	Moody’s	↘	Baa1
Boston Scientific	Moody’s	↗	Baa1
Derichebourg	S&P	↗	BB+
Digi Comm.	Moody’s	↗	Ba3
EDF	S&P	↘	BBB
Enel	Fitch	↘	BBB+
Hapag-Lloyd	S&P	↗	BB+
IGT	S&P	↗	BB+
Infineon	S&P	↗	BBB
Nexans	S&P	↗	BB+
Optus	Fitch	↘	BBB+
Promontoria	S&P	↗	B
Tendam Brands	S&P	↗	B+

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Macro Economic Events

Eurozone: the annual inflation rate was confirmed at 5.1% in January, with energy the main factor in the rise (28.8%). Excluding energy, inflation was 2.5%. This level of inflation remains well ahead of the ECB's target of 2%. The energy crisis is leading to a sharp rise in the cost of crude oil, natural gas, coal and electricity. The upturn in demand and supply chain constraints linked to the pandemic are also contributing to rising pressure on prices.

Germany: the ZEW Indicator of Economic Sentiment for Germany rose by 2.6 points to reach 54.3 in February – versus 51.7 the previous month – its highest level since July 2021. Investors are expecting an easing of restrictions related to the pandemic and continued economic recovery in the first half of 2022. They are also counting on inflation weakening, albeit at a slower rate and from a higher level than anticipated in previous months.

France: economic growth for the fourth quarter of 2021 was confirmed at 0.7%, which represents a slowdown from growth of 3.1% recorded in the previous period. This is the result of stricter measures introduced to contain the spread of the Omicron variant. Nonetheless, France's economic output was 0.9% above its pre-pandemic level.

United States: the PMI fell to 56.3 in February, versus 65.2 in January. This is the lowest reading since August 2020, which suggests a slowdown in economic activity. The five major indicators all fell. New orders and supplier deliveries were the hardest hit. Only inventory levels rose slightly during the course of the month. Companies continued to build inventories in response to persistent difficulties in supply chains.

China: the central bank injected further liquidity into the financial system. It made its largest weekly injection of the last two years in order to hold liquidity conditions stable.

Mexico: the central bank raised its key rate by 50 basis points to 6%, as expected. This represents the sixth consecutive hike due to worries caused by inflationary pressure and the prospect of the Federal Reserve raising interest rates.

South Africa: the government revised its budget deficit forecast to 5.7% of GDP for the 2021/22 fiscal year, versus a previous estimate of 7.8% in November. This lower figure is mainly due to better-than-expected tax collections, namely higher mining receipts.

Market Data Indices (end of February)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-3.23%	-4.71%	3.74	4.32%
J0A0	High Yield United States	-0.91%	-3.64%	4.47	5.55%
H7PC	High Yield Europe BB/B Excluding Financials	-2.99%	-4.43%	3.65	4.28%
JC4N	High Yield United States BB/B Excluding Financials	-0.86%	-3.69%	4.58	5.19%
HYEF	High Yield Emerging Countries Excluding Financials	-5.95%	-8.66%	3.84	10.21%
Investment Grade					
ER00	Investment Grade Europe	-2.65%	-3.93%	5.11	1.28%
C0A0	Investment Grade United States	-2.18%	-5.24%	7.83	3.13%
EMIC	Investment Grade Emerging Countries	-3.27%	-5.31%	5.94	3.67%
Governments					
G4D0	10-Year German Bond	-1.21%	-2.56%		0.13%
G402	10-Year US Bond	-0.38%	-2.67%		1.83%

Inflation (end of February)						
Realized inflation		February	January	December	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	5.80%	5.10%	5.00%	3.00%	0.90%
US CPI	Realized inflation in the United States (rolling 12-month)		7.50%	7.00%	5.30%	1.70%

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

Source : Merrill Lynch

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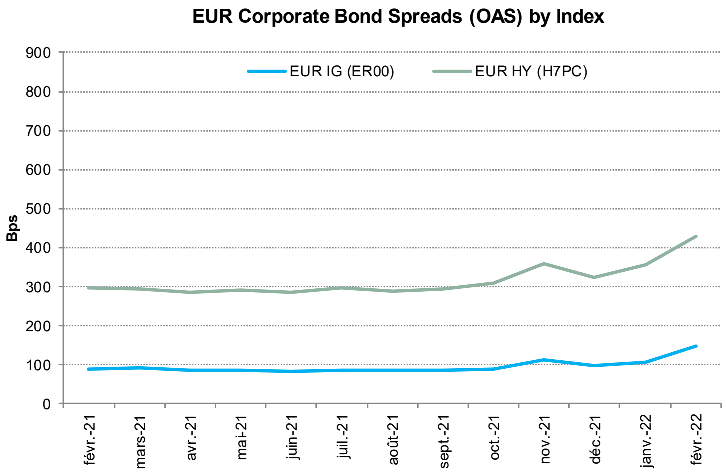

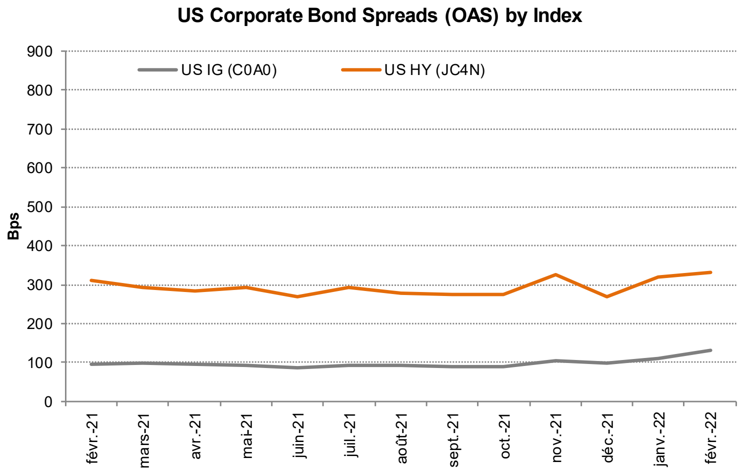

Corporate Bond Spreads		February	January	December	12 months
Europe					
ER00	Investment Grade Europe	146	106	97	88
HE00	High Yield Europe	450	374	341	331
H7PC	High Yield Europe BB/B Excluding Financials	431	363	332	304
ER30	Bonds rated A Europe	123	91	84	74
ER40	Bonds rated BBB Europe	170	123	112	106
HE10	Bonds rated BB Europe	358	293	269	254
HE20	Bonds rated B Europe	586	506	455	430
United States					
C0A0	Investment Grade United States	128	107	95	89
J0A0	High Yield United States	389	373	322	368
JC4N	High Yield United States BB/B Excluding Financials	353	340	290	329
C0A3	Bonds rated A United States	100	84	74	66
C0A4	Bonds rated BBB United States	160	133	119	113
JUC1	Bonds rated BB United States	298	286	235	272
JUC2	Bonds rated B United States	436	418	375	419
Emerging Countries					
EMIC	Investment Grade Emerging Countries	206	148	138	139
HYEF	High Yield Emerging Countries	863	740	762	539
EMAQ	Bonds rated A Emerging Countries	118	105	103	105
EM2B	Bonds rated BBB Emerging Countries	308	200	183	181
EM3C	Bonds rated BB Emerging Countries	497	402	410	348
EM6B	Bonds rated B Emerging Countries	1218	1017	935	672

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Anaxis Asset Management

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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