

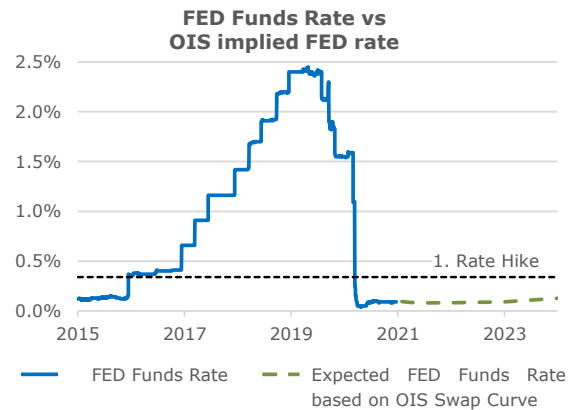
## Monthly Spotlight

### US short-term rates don't move, but curve set to steepen

With the arrival of the pandemic crisis, the FED had cut rates aggressively close to zero. In addition, it had announced an adaptation of its interest rate policy towards an "average inflation targeting" and that it will keep short term rates low for a multi-year period.

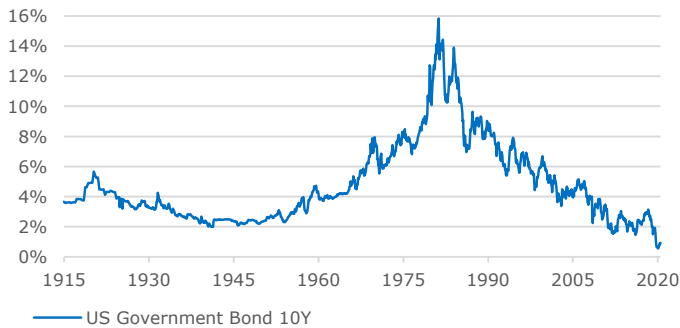
Since late 2020, the long end of the USD OIS swap curve has started to steepen, but no Fed Funds rate hike is priced in before 2023 as the graph does well demonstrate (dotted green line for expectations).

Chart 2) below illustrates the curve steepening in the US rate market (vs. 6 months ago), whereas the EUR curve did not move and is anticipating lower inflation expectations compared to the US economy.

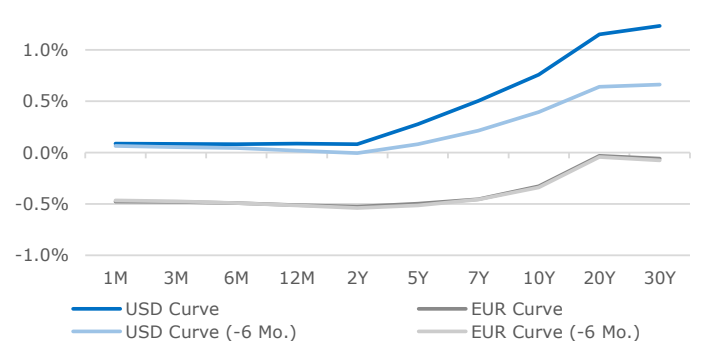


## Rates Perspective

**1) Historical US Treasury Yield:** 10-year US government bond yield reached its 100-year low in 2020.

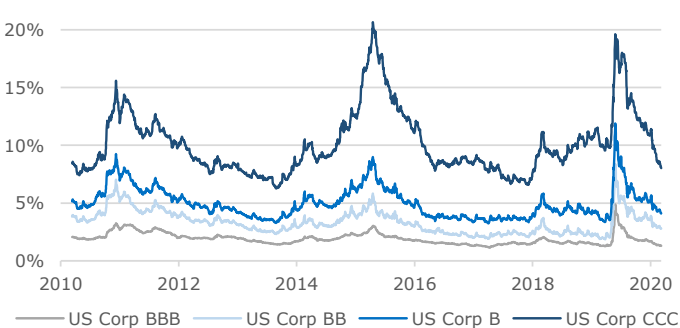


**2) Interest Swap Curve:** USD swap curve has further steepened due to cyclical recovery hopes. EUR swap curve remained unchanged.

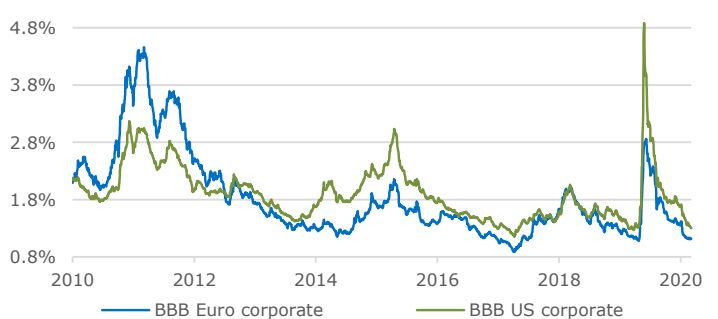


## Corporate Perspective

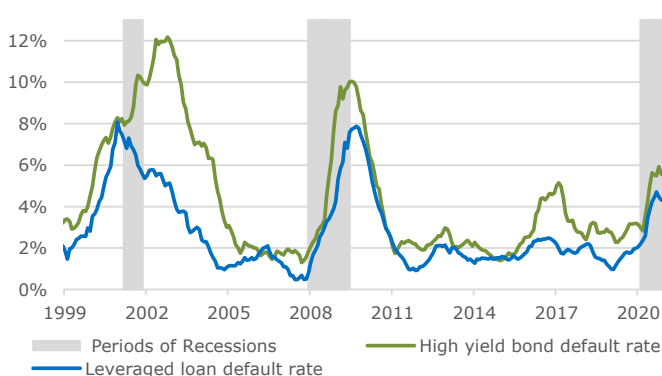
**3) US Corp. Rating:** In December, credit spreads (OAS) of lower rated high-yield bonds continued to tighten disproportionately.



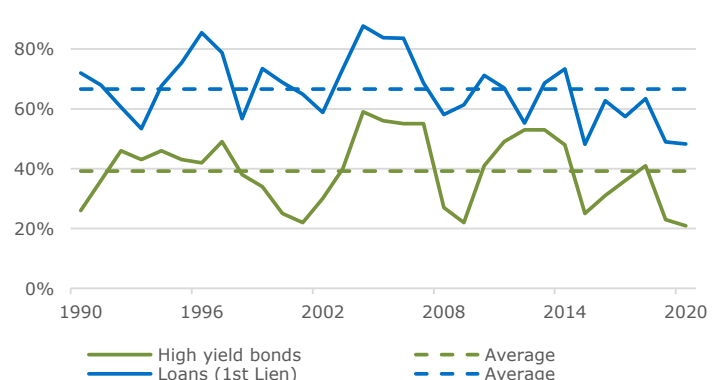
**4) EU vs US:** Since the March-spike, credit spreads (OAS) between the USA and EU have converged in tandem to lower levels.



**5) Default Rates:** Default rates of HY bonds & loans are peaking. HY bond default rates are structurally higher (Ø4.4%) vs. loans (Ø2.8%).



**6) Recovery Rates:** Recovery rates of leveraged loans are higher (Ø67%) vs. high yield bonds (Ø39%) due to lower severity.



## OAS spread change overview across major credit asset classes - as of month end

### US corporates by rating (bps)

	curr	Δ monthly
AAA	55	-4
AA	63	-6
A	79	-5
BBB	130	-13
BB	279	-29
B	413	-52
CCC	803	-119

### Global high yield (bps)

	curr	Δ monthly
US HY	386	-47
EU HY	355	-14
Asia HY	726	-73
EM HY	429	-42

■ spread tightening (positive price action)  
■ spread widening (negative price action)

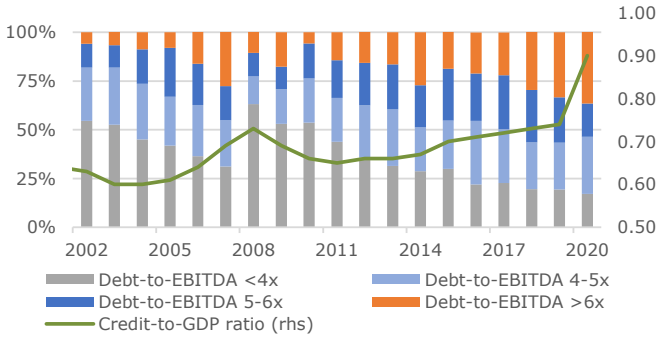
### CDS spreads (bps)

	curr	Δ monthly
iTraxx IG - EU	49	-0
CDX IG - US	47	-2
iTraxx XO - EU	295	-10
CDX HY - US	239	-25

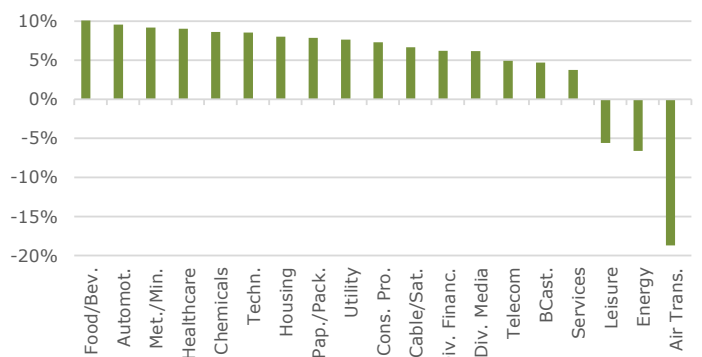
### Loans and CLOs (yld, bps)

	curr	Δ monthly
US Loan	398	-18
CLO AAA	140	-9
CLO BBB	412	-20
CLO BB	782	-45

**7) US Leverage:** Debt-to-EBITDA of US companies decreased in Q1 2020, but increased to a record high in Q3 2020.

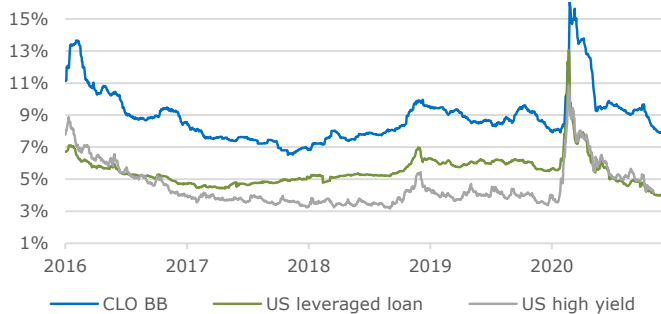


**8) YTD Sector High-Yield Returns:** In 2020, all sectors except Leisure, Energy, Air Transportation performed very well.



## Alternative Perspective

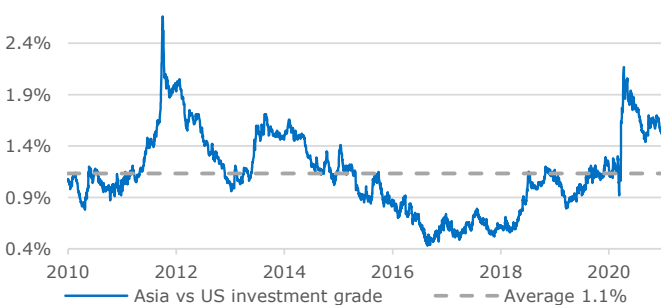
**9) Loans vs. CLO vs. HY:** CLO BB yields are still wider vs Loans and HY bonds, despite the recent price increase in CLO BB.



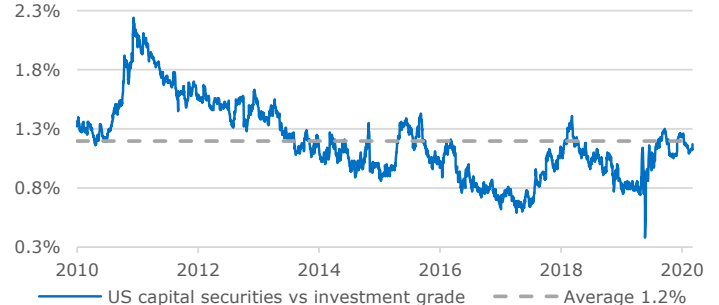
**10) CLO Yields:** CLO BB yields tightened more than higher rated CLOs. CLOs offer an attractive yield premium over bonds / loans.



**11) Asia vs. US:** Despite a recent tightening of Asian IG spreads they continue to offer a sizeable premium vs. US IG spreads.



**12) Capital vs IG.:** Capital Securities structurally earn a premium vs. US IG bonds. Capital Securities are dominated by the financial sector.



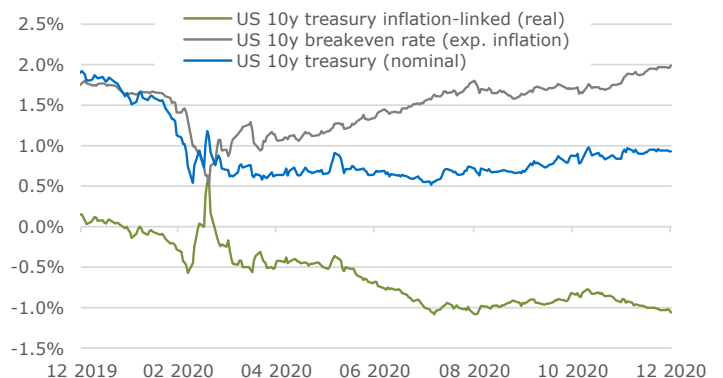
## Education Corner

### TIPS in 2021

Expected inflation, derived from the 10-year US breakeven rate, is almost at the same level as the 2% long-term average of the US CPI Urban Consumer Index.

$$(1 + \text{yield}_{\text{nominal}}) = (1 + \text{yield}_{\text{real}}) * (1 + \text{inflation}_{\text{expected}})$$

If the vaccination (and economic) optimism proves to realize, it will cause inflation to rise. If inflation expectations rise as well, TIPS will outperform comparable nominal Treasury bonds. As the FED is ruling out a rate hike in short-term rates for years, this will stimulate inflation expectations on top of it.



## US Loan Index Total Return - Attractive Long Term Yield Generation



## List of Abbreviations

**Capital Securities (Or preferred securities):** Are fixed income securities combining features of bonds and preferred stocks.

**CDS:** Credit default swaps transfer credit event risk to another party in exchange of a periodically paid premium. CDX index covers the US IG-, iTraxx the EU IG- and iTraxx crossover (XO) the EU HY market.

**CLOs:** Collateralized loan obligations are structured finance securities collateralized predominantly by a large pool of different loans.

**Default Rate:** Number of defaulted corporate issuers of leveraged loans and high yield bonds.

**Loans:** Are syndicated, public tradable loans. Synonyms are «syndicated loans», «loans», «leveraged loans» and «bank loans».

**OAS:** Option-adjusted spread is the yield difference of an interest paying security to the risk free rate considering embedded options.

**TIPS:** Treasury Inflation-Protected Securities are US government linked to the US CPI Urban Non-Seasonally Adjusted.

**Up-/ downgrades:** Rating actions of Moody's and S&P of up-or downgrades of US high yield bond issuers denominated in USD.

**Up-/ downgrade ratio:** Number of upgrades of total rating actions.

**Recovery Rates:** Bond issuer-weighted recovery rates express the principal and accrued interest on defaulted debt that can be recovered in percentage of face value. Example:

*Expected loss rate if US HY defaults were 10%: 10% ./ Estimated average recovery rate of ~30% = -7%;* Example for Loans:

*Expected loss rate if US Loan defaults were 10%: 10% ./ Estimated average recovery rate of ~65% = -3.5%;*

## Data and Price Sources

Alpimum Investment Management

Bank of America Merrill Lynch indices

Bloomberg

The Federal Reserve

Federal Reserve Bank of St. Louis

Markit CDS indices

Moody's Investors Service

J.P. Morgan

Palmer Square indices

Preqin

S&P

## Disclaimer

This document does not constitute an offer to anyone, or a solicitation by anyone, to make any investments in securities. Such offer will only be made by means of a personal, confidential memorandum. This document is for the intended recipient only and may not be transmitted or distributed to third parties.

Past performance is not a guide to future performance and may not be repeated. You should remember that the value of investments can go down as well as up and is not guaranteed. The actual performance realized by any given investor depends on, amongst other things, the currency fluctuations, the investment strategy invested into and the classes of interests subscribed for the period during which such interests are held. Emerging markets refer to the markets in countries that possess one or more characteristics such as certain degrees of political instability, relative unpredictability in financial markets and economic growth patterns, a financial market that is still at the development stage, or a weak economy. Respective investments may carry enhanced risks and should only be considered by sophisticated investors.

Nothing contained in this document constitutes financial, legal, tax, investment or other advice, nor should any investment or any other decisions be made solely based on this document. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness and no liability is accepted for any direct or indirect damages resulting from or arising out of the use of this information. All information as well as any prices indicated is subject to change without notice. Any information on asset classes, asset allocations and investment instruments is only indicative. Before entering into any transaction, investors should consider the suitability of the transaction to their own individual circumstances and objectives. We strongly suggest that you consult your independent advisors in relation to any legal, tax, accounting and regulatory issues before making any investments.

This publication may contain information obtained from third parties, including but not limited to rating agencies such as Standard & Poor's, Moody's and Fitch. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Alpimum Investment Management AG and the third-party providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and will not be responsible for any errors or omissions (negligent or otherwise), or for the results obtained from the use of such content. Third-party data are owned by the applicable third parties and are provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products, or any indices. Such data are provided without any warranties of any kind.

If you have any enquiries concerning the document please contact your Alpimum Investment Management AG contact for further information. The document is not directed to any person in any jurisdiction which is prohibited by law to access such information. All information is subject to copyright with all rights reserved. Any communication with Alpimum Investment Management AG may be recorded.

Alpimum Investment Management AG is incorporated in Switzerland and is FINMA licensed and regulated.

Contact Information:  
Alpimum Investment Management AG  
Talstrasse 82  
CH-8001 Zurich  
Tel: +41 43 888 79 30  
Fax: +41 43 888 79 31  
alpimumim.com