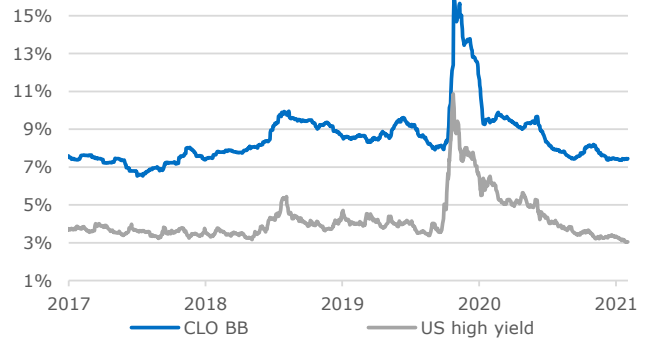


## Monthly Spotlight

### BB CLOs yield 7.4% vs. US High Yield bonds with 3.0%

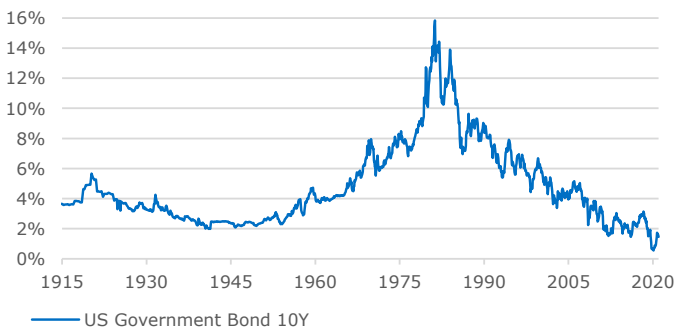
CLOs have always offered an attractive premium to bond or loan spreads, but investors continue to overlook the asset class due to their complexity and as they tend to be less liquid during market stress periods. However, a rational investor should take advantage of this relative yield advantage. Now, the yield spread looks particularly interesting vs. loans/bonds and the nominal yield for CLO BBs averages at 7.4%. Another interesting feature of CLOs is their floating-rate nature and hence, an investor would benefit should short term interest rates increase. Primary issuance for CLOs until mid-June 2021 has been strong with a total of USD 74 bn, representing 80% of total primary issuance in 2020.

US CLOs vs High Yield Bonds

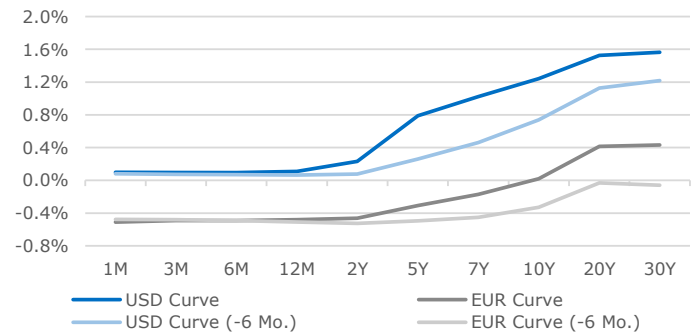


## Rates Perspective

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

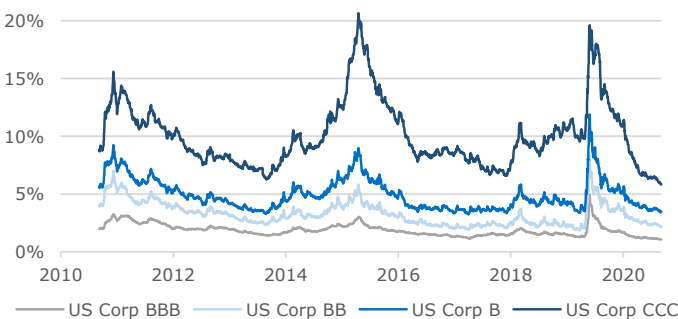


**2) Interest Swap Curve:** USD swap curve experienced a strong steepening, what is most evident with tenors > 2 years.

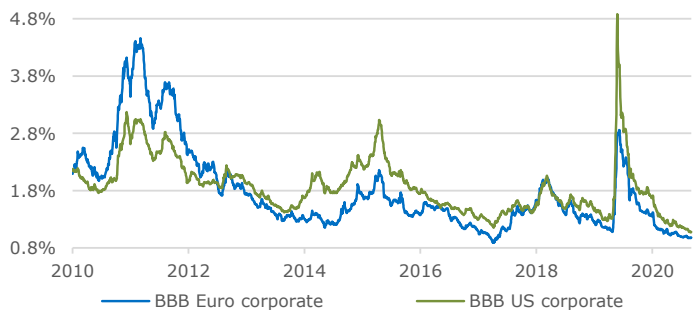


## Corporate Perspective

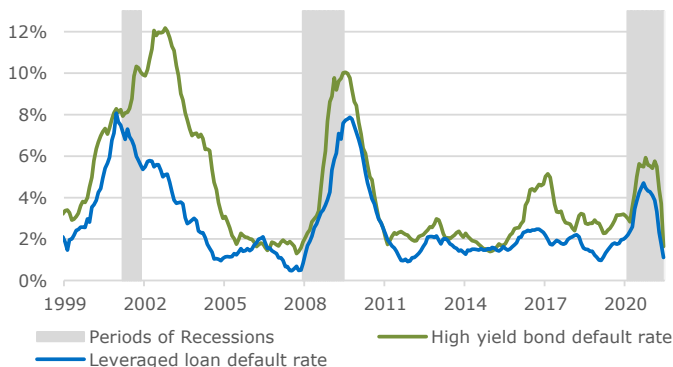
**3) US Corp. Rating:** Credit spreads (OAS) of lower rated high-yield bonds continued to tighten disproportionately.



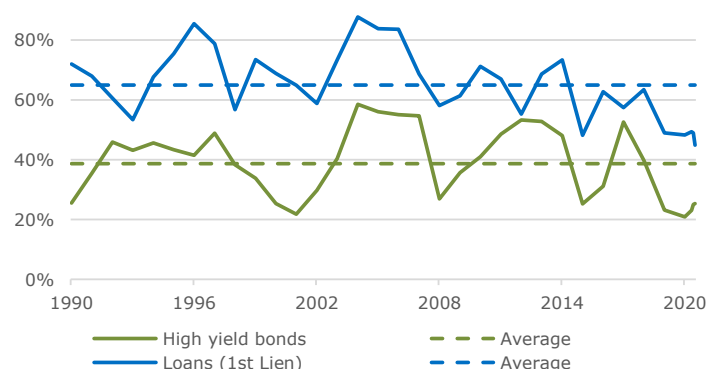
**4) EU vs US:** Since the Covid-19 spike, credit spreads (OAS) between the USA and EU have converged in tandem to lower levels.



**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 (Ø65%) 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 month
AAA	44	-2
AA	52	-2
A	67	-2
BBB	107	-6
BB	219	-23
B	349	-28
CCC	583	-56

### Global high yield (bps)

	curr	Δ month
US HY	304	-30
EU HY	296	-7
Asia HY	812	+105
EM HY	371	-11

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

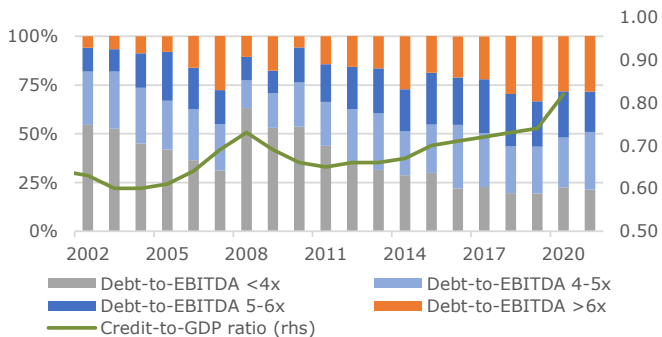
### CDS spreads (bps)

	curr	Δ month
CDX IG - US	48	-3
iTraxx IG - EU	47	-3
CDX HY - US	273	-15
iTraxx XO - EU	232	-15

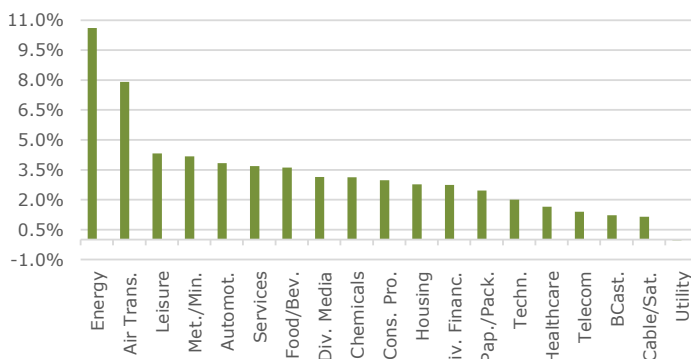
### Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	370	+6
CLO AAA	141	+9
CLO BBB	382	+7
CLO BB	742	-1

**7) US Leverage:** Debt-to-EBITDA of US companies has remained stable at high level in Q1 2021.

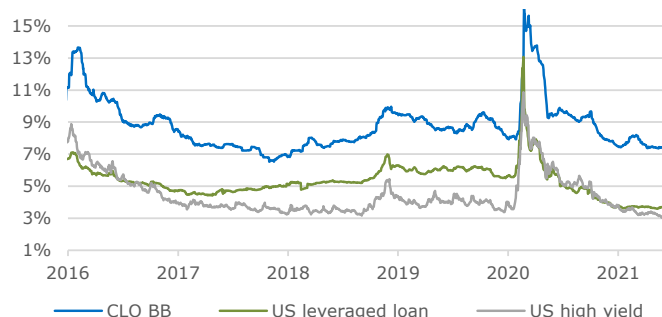


**8) YTD Sector High-Yield Returns:** Energy and air transport continued to catch up.



## 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.



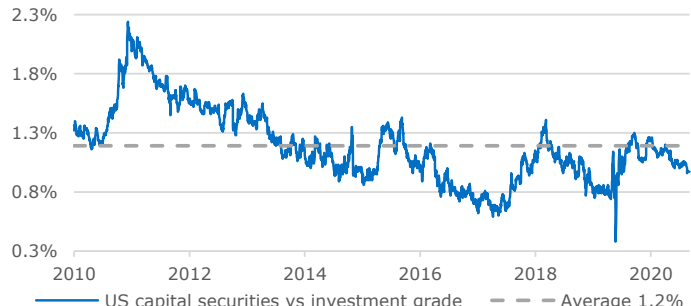
**10) CLO Yields:** CLO BB yields tightened more than higher rated CLOs. CLOs offer an attractive yield premium over bonds / loans.



**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

### FED raised the IOER to 0.15% to smoothen short-term funding

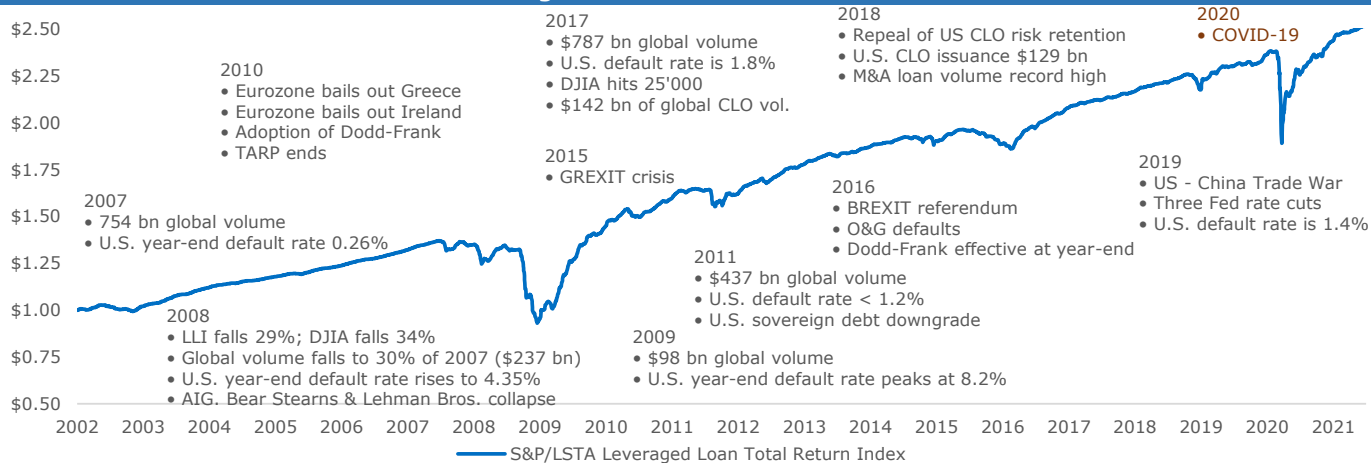
In June 2021, the FED increased the IOER by 5 bps to 0.15% with the goal of supporting a "smooth functioning of short-term funding markets". This brought some relief to money market investors as the dollar glut in short-term funding markets led to record low short-term interest rates, which approached the 0%-mark.

Bank's excess reserves (cash held by banks or other financial institutions at the Fed in excess of requirements) increased by over USD 1 tn last year to over USD 3.2 tn. Hence, a large pile of the money creation by the Fed during the pandemic was not directed to the private sector, but was rather stuck in the banking system. Since the FED announced in 2008 that it would pay an interest rate on excess reserves (Interest On Excess Reserves [IOER]), a new monetary policy tool has been created. The IOER acts as a "floor" for the Fed funds rate.

### Excess Reserves and Interest



## 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

Alpinum Investment Management

Bank of America Merrill Lynch indices

Bloomberg

The Federal Reserve

US Census Bureau

Federal Reserve Bank of St. Louis

Markit CDS indices

Moody's Investors Service

J.P. Morgan

Palmer Square indices

Preqin

S&P

Federal Housing Finance Agency

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