

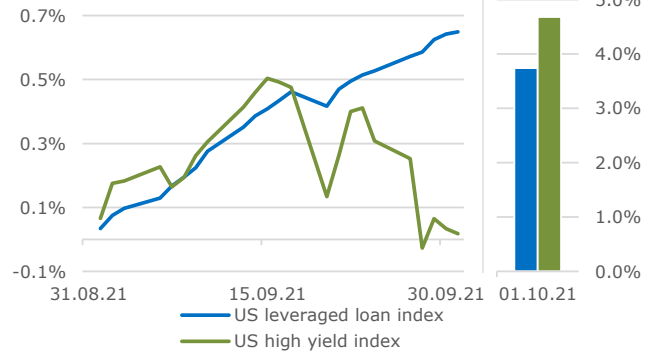
Monthly Spotlight

Loans performed well, while HY bonds faced some headwinds

Leveraged loans held steady during the risk-off mode in the 2nd half of September. While US high yield bonds were negatively affected by higher trending interest rates and falling equity markets, leveraged loans benefitted from their floating rate feature. In addition, the robust performance of leveraged loans was also driven by strong demand from institutional investors and robust CLO primary issuance.

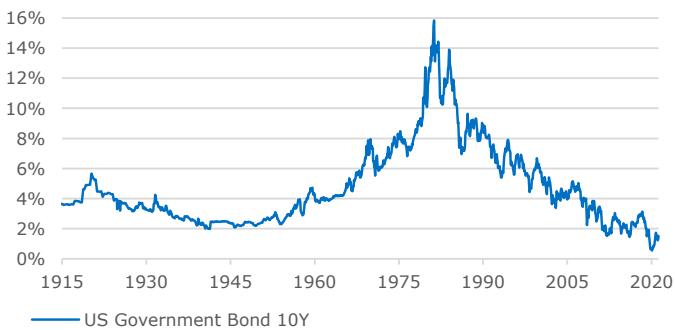
Despite the robust September performance and narrowing spreads of leveraged loans, they still offer a similar credit spread and only a slightly lower YTM as compared to high yield bonds.

September Performance of US Leveraged Loans vs. HY Bonds

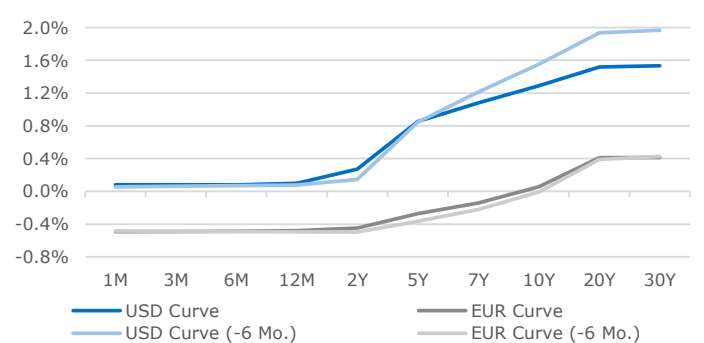


Rates Perspective

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

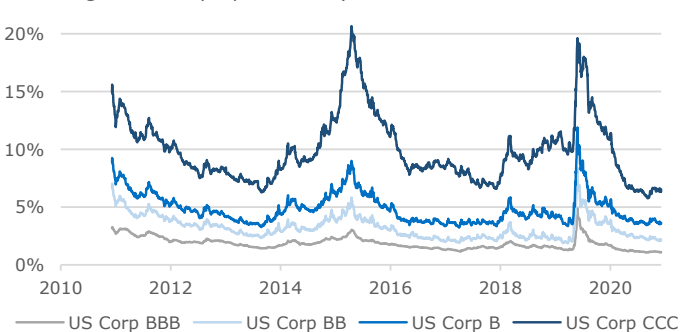


2) Interest Swap Curve: USD swap curve steepened again in the long tenors, while EU swap curve remained at the same level as in Q1.



Corporate Perspective

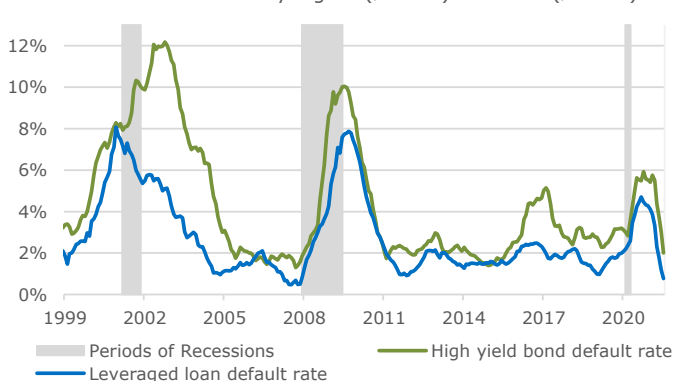
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds tightened disproportionately.



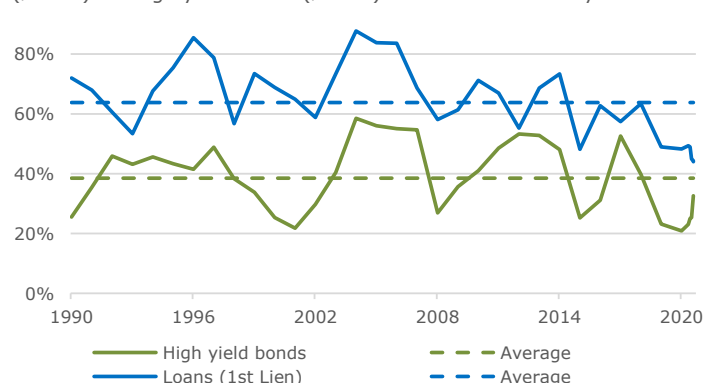
4) EU vs US: Since the Covid-19 spike, credit spreads (OAS) between the USA and EU have converged in tandem to lower levels.



5) Default Rates: Default rates peaked in Q4 2020. HY bond default rates are structurally higher (Ø4.4%) vs. loans (Ø2.8%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø64%) vs. high yield bonds (Ø38%) 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	47	-2
AA	55	-4
A	70	-3
BBB	110	-4
BB	218	-3
B	364	-8
CCC	654	-6

Global high yield (bps)

	curr	Δ month
US HY	315	-6
EU HY	304	+1
Asia HY	1112	+164
EM HY	398	+11

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

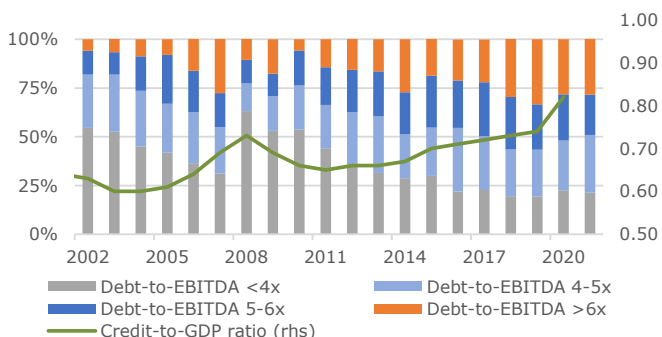
CDS spreads (bps)

	curr	Δ month
CDX IG - US	53	+7
iTraxx IG - EU	50	+5
CDX HY - US	302	+26
iTraxx XO - EU	253	+25

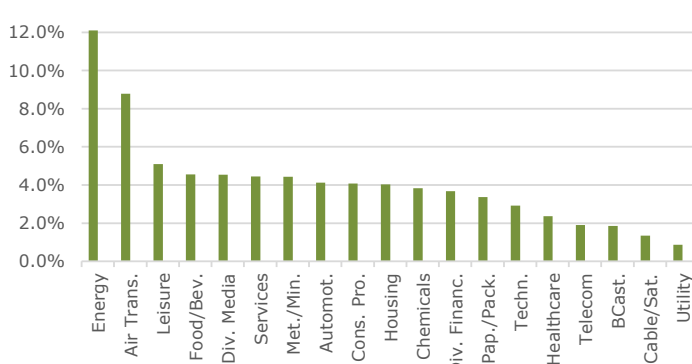
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	371	-11
CLO AAA	144	+10
CLO BBB	396	+17
CLO BB	757	+24

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



8) YTD Sector High-Yield Returns: The energy sector caught up the most on a month-on-month basis.



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 BBs.



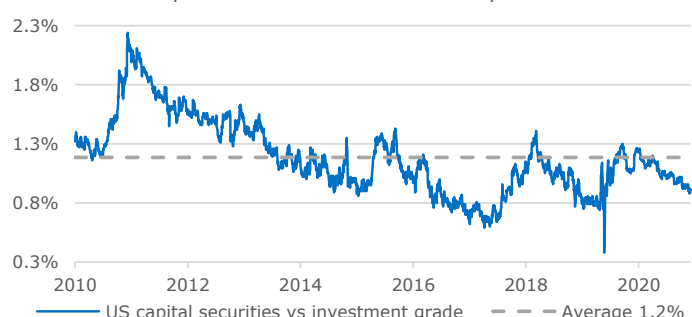
10) CLO Yields: CLO BB yields tightened more than higher rated CLOs. CLOs offer an attractive yield premium over bonds / loans.



11) Asia vs. US: Asian IG spreads spiked in recent months due to the stress in the Chinese real estate development sector.



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

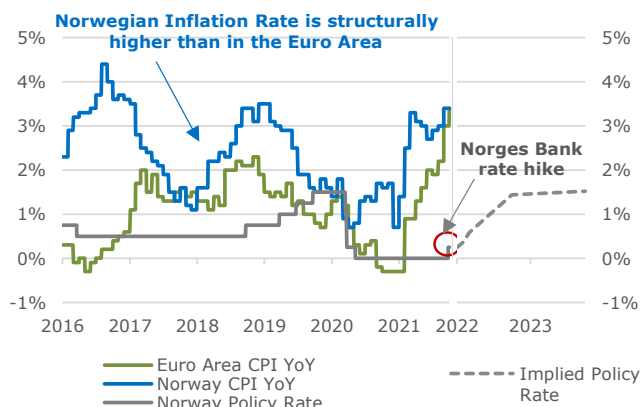


Education Corner

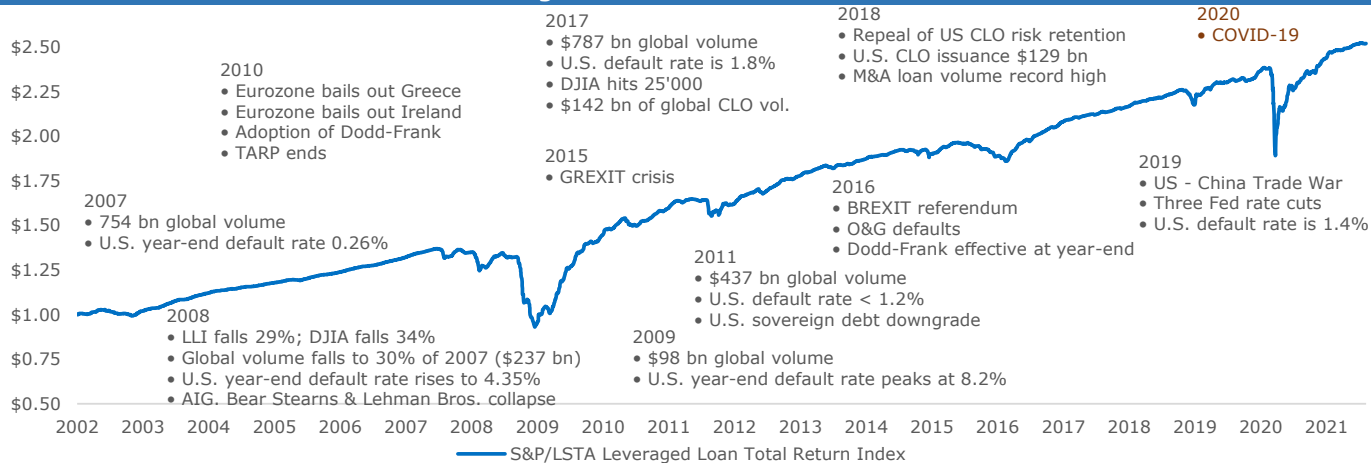
Norwegian Central Bank increased rates

Norwegian Central Bank (Norges Bank) raised interest rates from 0% to 0.25% on September 23, becoming the first major Western central bank to raise rates since the outbreak of the coronavirus pandemic and after three rate cuts in 2020.

Norwegian economic activity is now above pre-pandemic levels and unemployment has continued to decline. Moreover, the inflation rate in Norway has been structurally higher compared to the euro area and rose sharply to 3.3% in early 2021. The economic upswing is likely to continue through autumn and Norges Bank stated that a further increase is likely in December 2021.



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

Alpium 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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