

## Monthly Spotlight

### Credit spreads spiked to August 2020 level in two weeks!

Within a matter of only two weeks, European High Yield spreads have jumped to a spread level of 480 bps, well above the last 5 years average of 366 bps and back at August 2020 levels.

As chart 8 on page 2 demonstrates, sectors such as "food & beverages" or "chemicals" performed the worst given the spike of commodity prices in general as these sectors bear the burden of higher input prices and shrinking profit margins. Unsurprisingly, the best performers have been "energy" / "metals & mining" as well as service sectors. The former are beneficiaries of higher prices for natural resources and the latter enjoy more pricing power as compared to manufacturing companies dealing with spiking input costs. At current valuations, credit spreads appear one in a sudden attractive again, unless a recession is sitting around the corner.

EUR HY Corporate Spread

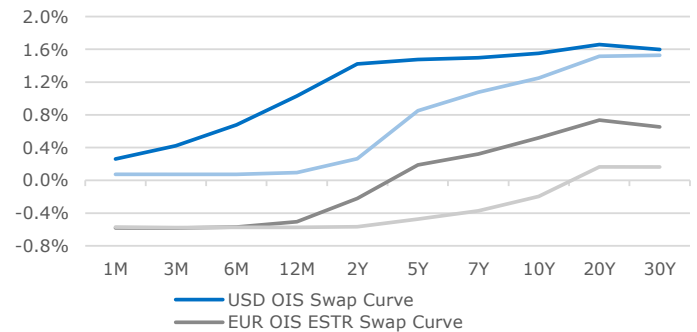


## Rates Perspective

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

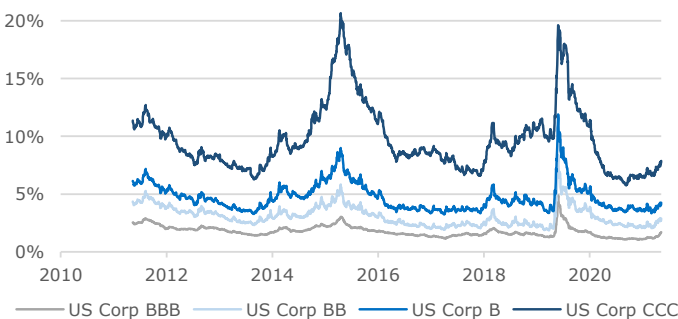


**2) Interest Swap Curve:** Both the USD curve and the EUR curve steepened predominantly at shorter tenors.



## Corporate Perspective

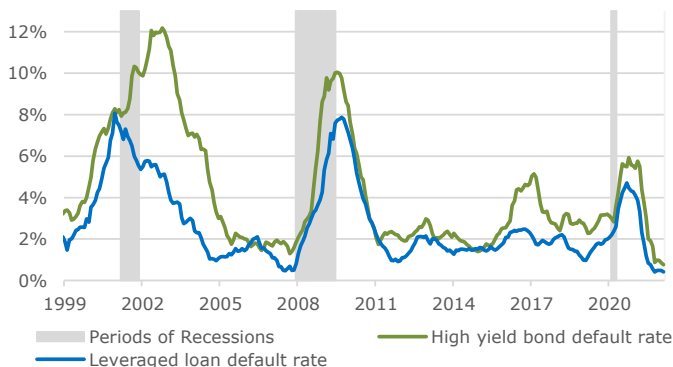
**3) US Corp. Rating:** Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



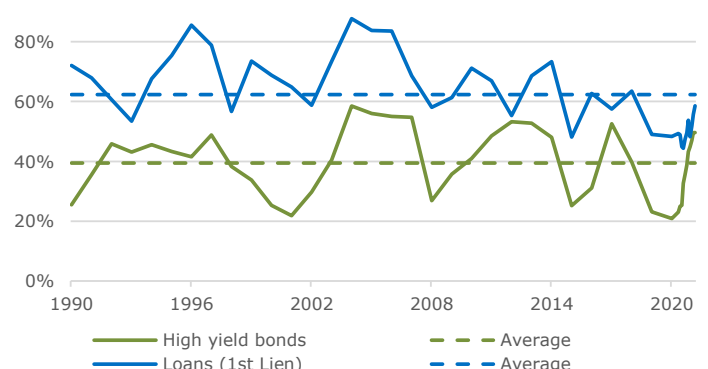
**4) EU vs US:** Credit spreads (OAS) between the US and EU have narrowed since the beginning of 2022.



**5) Default Rates:** Default rates peaked in Q4 2020. HY bond default rates are structurally higher (Ø4.3%) vs. loans (Ø2.7%).



**6) Recovery Rates:** Recovery rates of leveraged loans are higher (Ø62%) 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	73	+8
AA	86	+14
A	111	+22
BBB	169	+35
BB	287	+21
B	424	+28
CCC	786	+52

### Global high yield (bps)

	curr	Δ month
US HY	390	+27
EU HY	476	+109
Asia HY	1438	+218
EM HY	522	+76

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

### CDS spreads (bps)

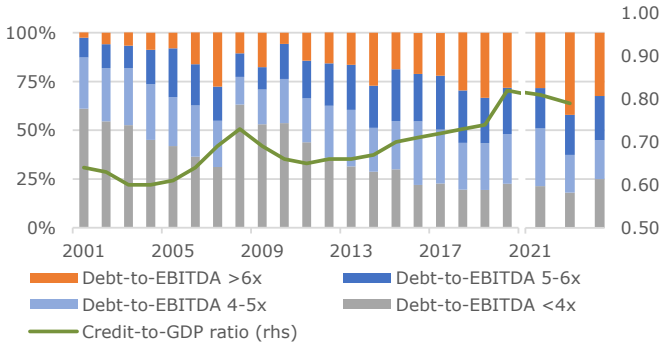
	curr	Δ month
CDX IG - US	74	+14
iTraxx IG - EU	83	+24
CDX HY - US	392	+53
iTraxx XO - EU	399	+113

### Loans and CLOs (yld, bps)

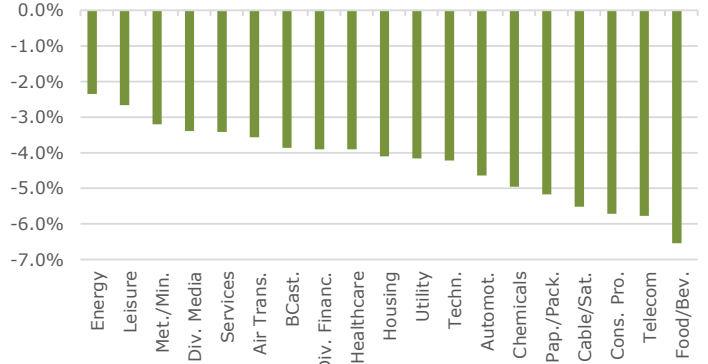
	curr	Δ month
US Loan	432	+31
CLO AAA	289	+74
CLO BBB	513	+41
CLO BB	899	+64

Figures as of 04.03.2022

**7) US Leverage:** Debt-to-EBITDA of US companies has remained stable at high level in Q3 2021 compared to Q4 2020.

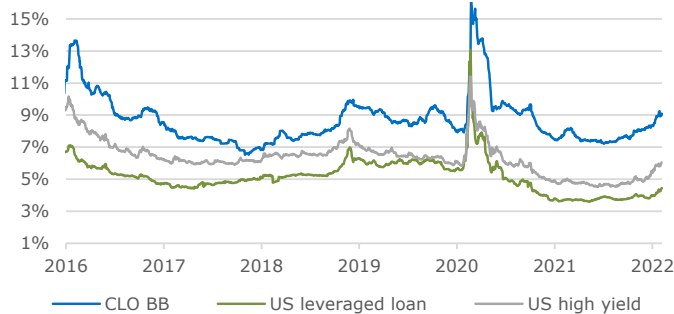


**8) YTD Sector High-Yield Returns:** Total return of food and beverage suffered the most.



## Alternative Perspective

**9) Loans vs. CLO vs. HY:** CLO BB yields are wider vs Loans and HY bonds.



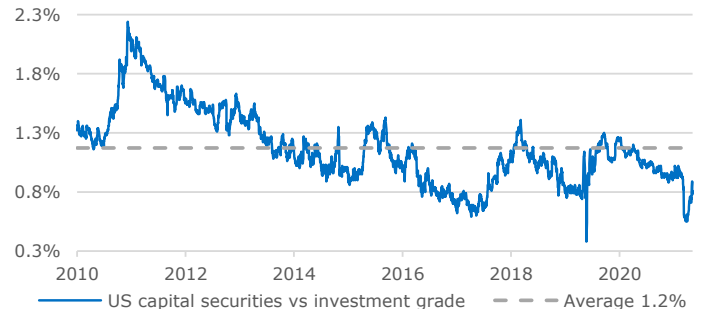
**10) CLO Yields:** CLOs offer an attractive yield premium over bonds and loans.



**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.



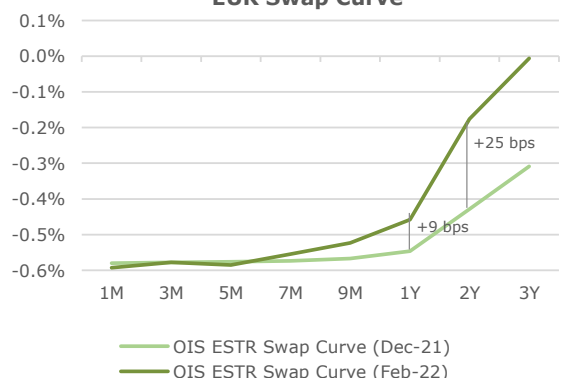
## Education Corner

### EUR Swap rates soar and put pressure on short-term bonds

An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments with each other over a specified period of time. At the time of the swap agreement, the total value of the fixed rate flows of the swap equals the value of the expected floating interest payments. This causes the value of the swap to change in relation to the expected future level of interest rates.

Rising inflation figures and a subsequent hawkish tone from the ECB opens up the likelihood of an earlier rate hike, leading to a steepening of the swap yield curve for the short tenors. This caused the European short-term credit market into flux: The ICE BofA 1-3 Year Euro Corporate Index lost over 1% in February.

### EUR Swap Curve



## 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

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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