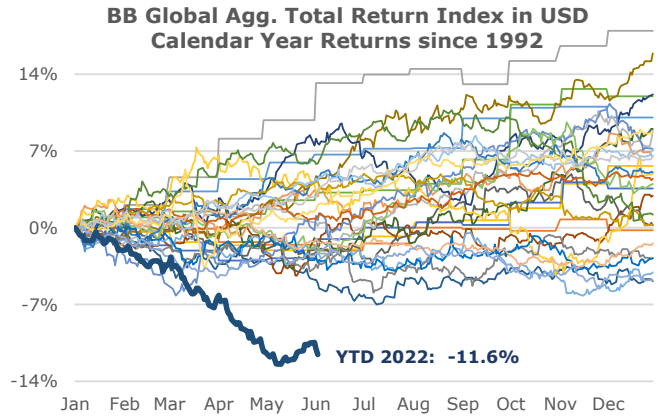


## Monthly Spotlight

### Horrific YTD performance for global high quality bonds

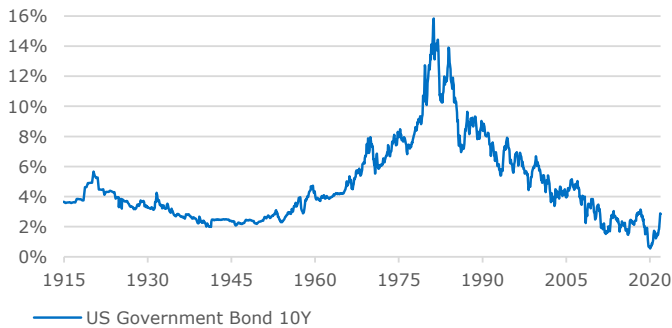
The Bloomberg Global Agg. Bond index, which is composed of corporate and government bonds, experienced with a decline of -11.6% year-to-date by far the worst performance on record! The losing run came only to a halt in mid-May with a loss of -12.4% and recovered only slightly since then.

The chart on the right shows the individual calendar year returns of the index over the last ~30 years and illustrates the unprecedented sell-off in high quality bonds in 2022 caused by the sharp increase in interest rates. The index has an average duration of around 7 years and hence, the boost in rates was felt heavily by this widely used reference index.

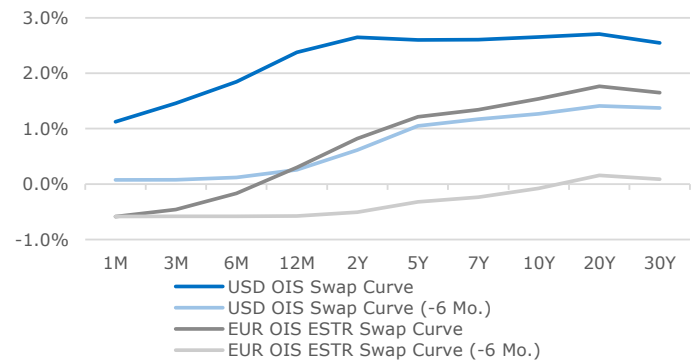


## Rates Perspective

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

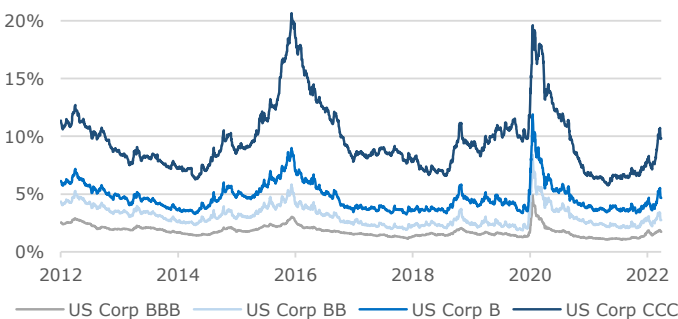


**2) Interest Swap Curve:** The USD curve steepened predominantly at shorter and medium tenors.

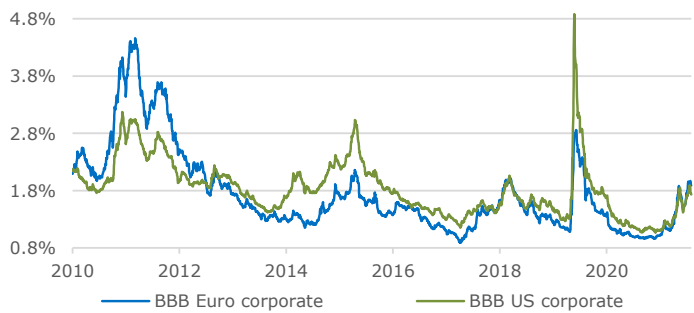


## Corporate Perspective

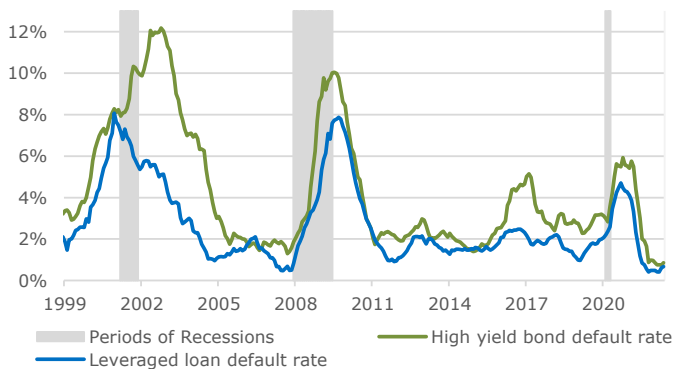
**3) US Corp. Rating:** Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



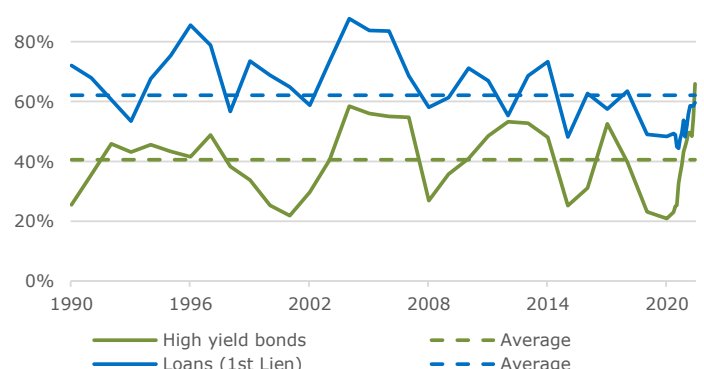
**4) EU vs US:** Credit spreads (OAS) between the US and EU have narrowed since the beginning of 2022.



**5) Default Rates:** 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 (Ø41%) 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	62	-8
AA	83	-3
A	113	-4
BBB	173	+2
BB	274	-11
B	467	+46
CCC	983	+128

### Global high yield (bps)

	curr	Δ month
US HY	422	+25
EU HY	474	+20
Asia HY	1183	+63
EM HY	516	+29

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

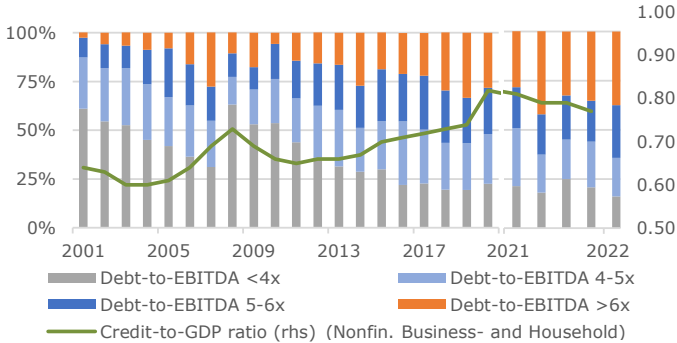
### CDS spreads (bps)

	curr	Δ month
CDX IG - US	80	-4
iTraxx IG - EU	88	-3
CDX HY - US	461	-0
iTraxx XO - EU	437	+10

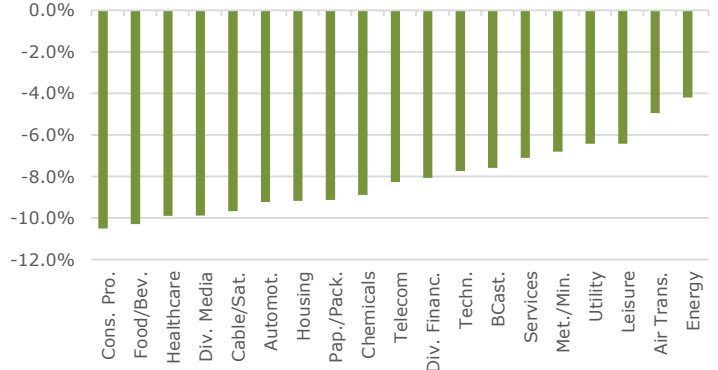
### Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	576	+102
CLO AAA	453	+19
CLO BBB	730	+75
CLO BB	1136	+100

**7) US Leverage:** Debt-to-EBITDA ratio of US companies remained stable at elevated levels.

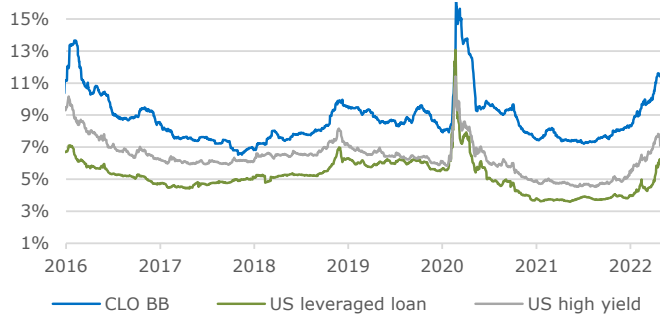


**8) YTD Sector High-Yield Returns:** Total return of consumer products and food and beverage suffered the most YTD.



## Alternative Perspective

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



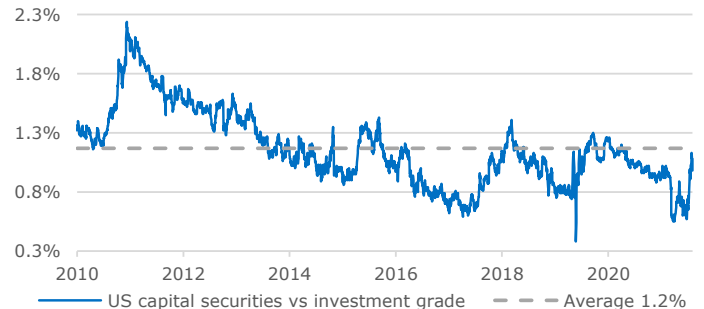
**10) CLO Yields:** CLOs offer an attractive yield premium over bonds and loans.



**11) Asia vs. US:** Asian IG spreads are elevated primarily driven by 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

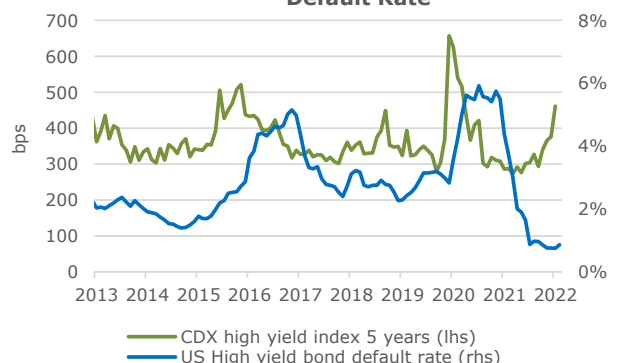
### High yield fairly valued @ implied default rate of ~5.2%

The CDS high yield index is a benchmark index that tracks a basket of 100 liquid U.S. single-issuer non-investment grade credit default swaps. Credit default swaps act like insurance policies in the financial world, offering a buyer protection in the event of a borrower's default.

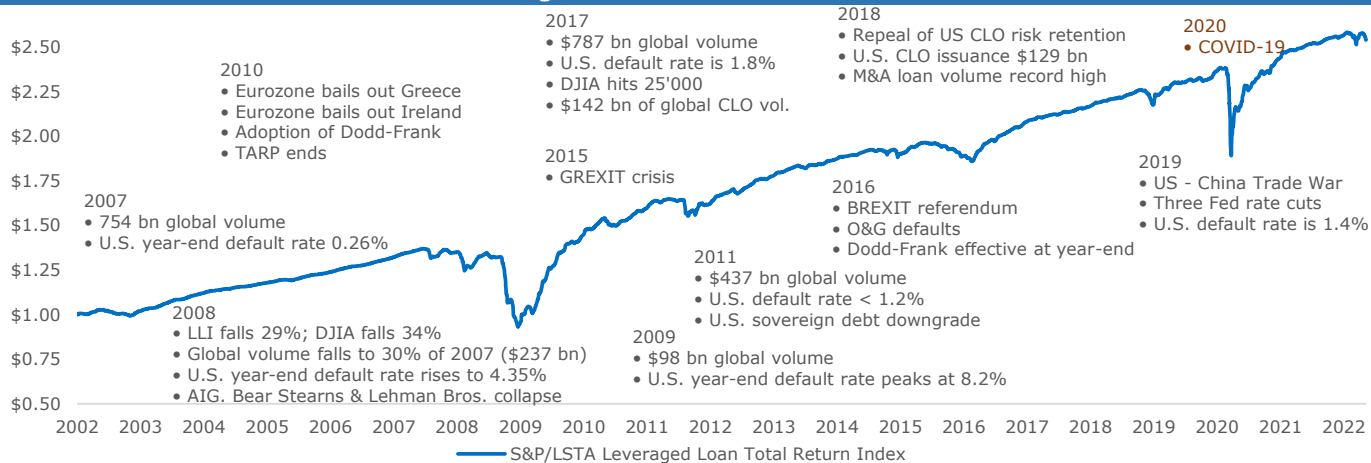
The average CDX High Yield spread stands at 464 bps at the end of May, what represents a simplified implied default rate of ~5.2% and makes HY bonds look fairly valued despite a worsening economic outlook. The current default rate stands at 0.8%.

Calculation of simplified implied default rate: Assuming a 40% recovery rate and 150 bps risk compensation after losses resulting from defaults. ==>  $([464 \text{ bps} \cdot 150 \text{ bps}] / [1 - 0.4])$ .

### CDS US High Yield Spread vs Corporate Default Rate



## 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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