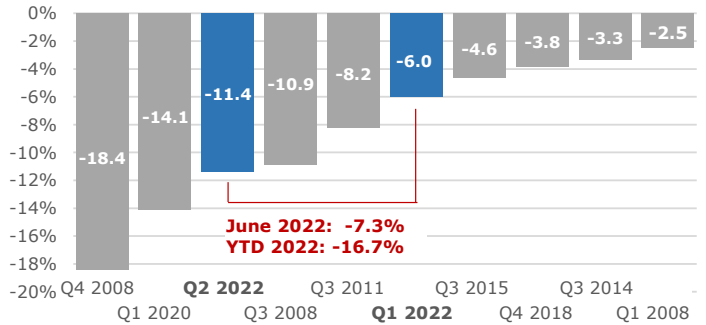


Monthly Spotlight

High yield valuations imply significant economic slowdown

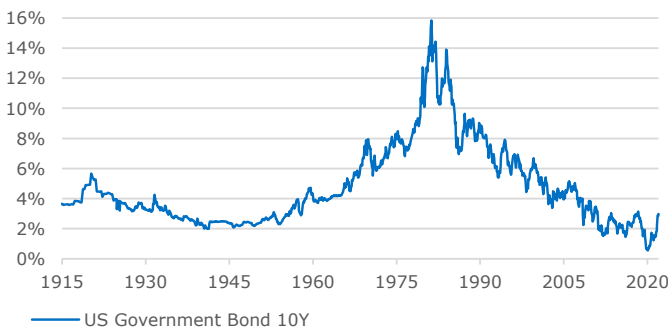
Fixed income markets suffered in June another painful month. For example, high yield ("HY") bonds are down -7.3% and -16.7% YTD, the worst half-year performance since the GFC in 2008. The sell-off this year has been deep, but the pattern has not matched that of previous ones as it was primarily driven by higher rates/input costs. The HY market has seen significant outflows YTD from ETFs and retail funds of nearly USD 35 bn, the highest on record. US HY bond spreads "ex-energy" trade now in the cheapest decile since ~10 years and offer a YTW close to ~9% p.a. A further increase would anticipate a severe recession ahead.

Top 10 largest quarterly drawdowns of global high yield over the last 20 years in given economic cycle.

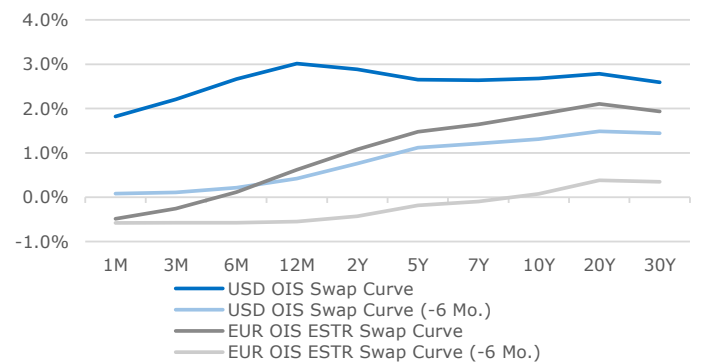


Rates Perspective

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

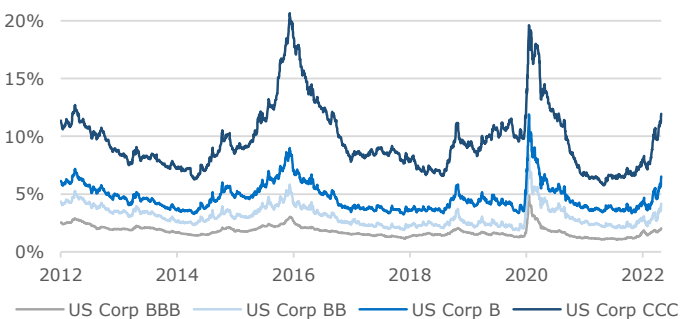


2) Interest Swap Curve: The USD and EUR curve steepened predominantly at shorter and medium tenors.



Corporate Perspective

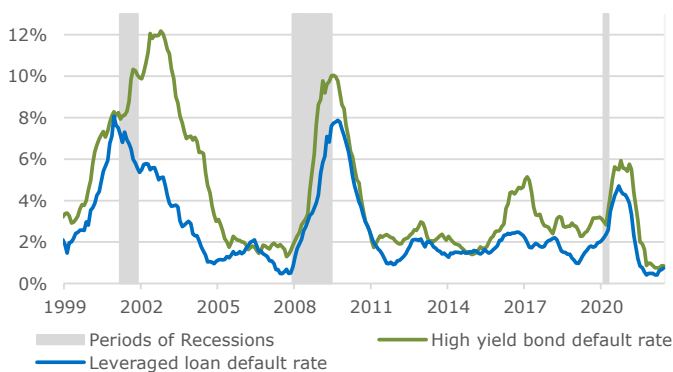
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



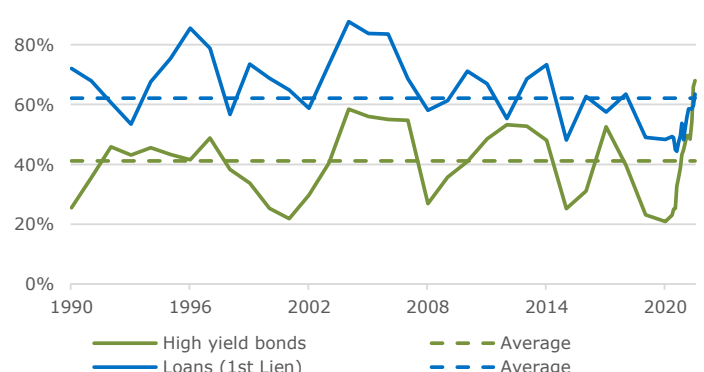
4) EU vs US: Credit spreads (OAS) between the US and EU have narrowed since the beginning of 2022.



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	0	-62
AA	0	-83
A	0	-113
BBB	204	+31
BB	417	+143
B	652	+185
CCC	1194	+211

Global high yield (bps)

	curr	Δ month
US HY	587	+165
EU HY	641	+167
Asia HY	1381	+198
EM HY	676	+160

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

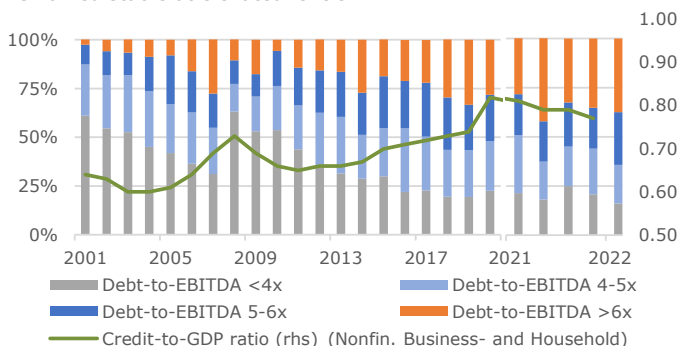
CDS spreads (bps)

	curr	Δ month
CDX IG - US	101	+22
iTraxx IG - EU	119	+34
CDX HY - US	579	+122
iTraxx XO - EU	580	+159

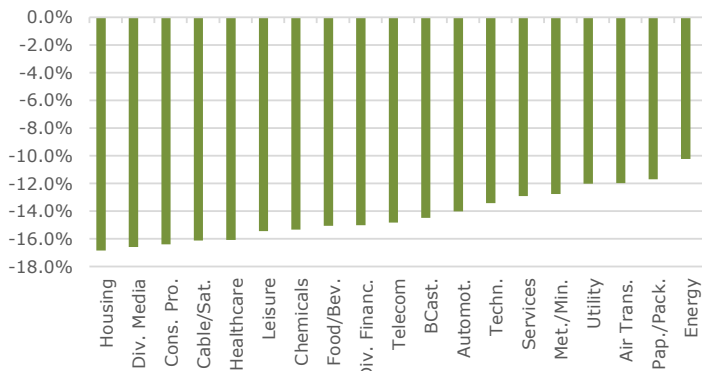
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	694	+108
CLO AAA	492	+48
CLO BBB	772	+43
CLO BB	1232	+99

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

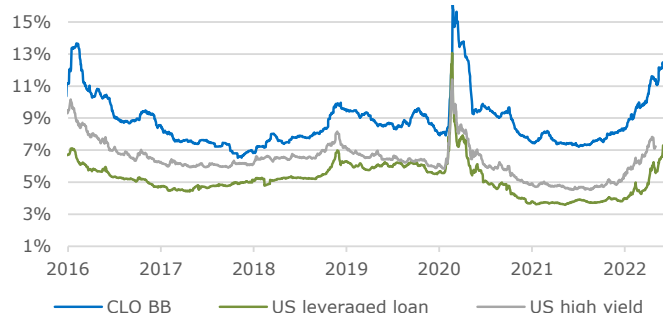


8) YTD Sector High-Yield Returns: Almost all sectors are suffering YTD.

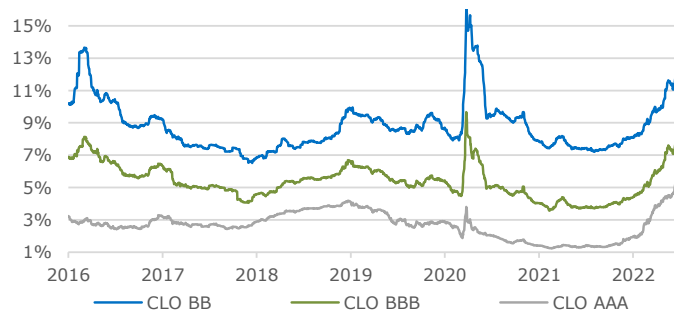


Alternative Perspective

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



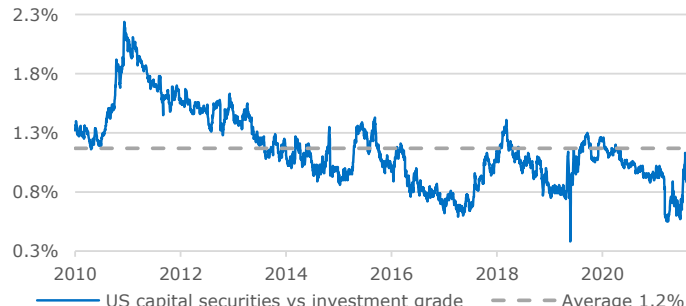
10) CLO Yields: CLOs offer an attractive yield premium over bonds and loans.



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.

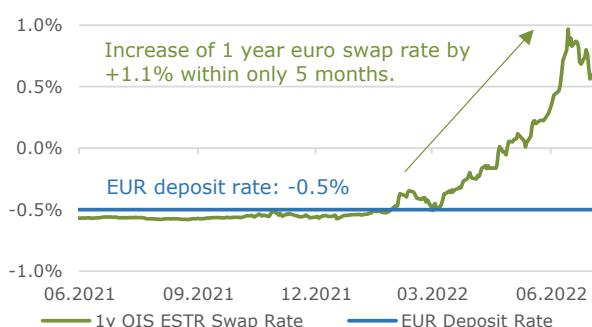


Education Corner

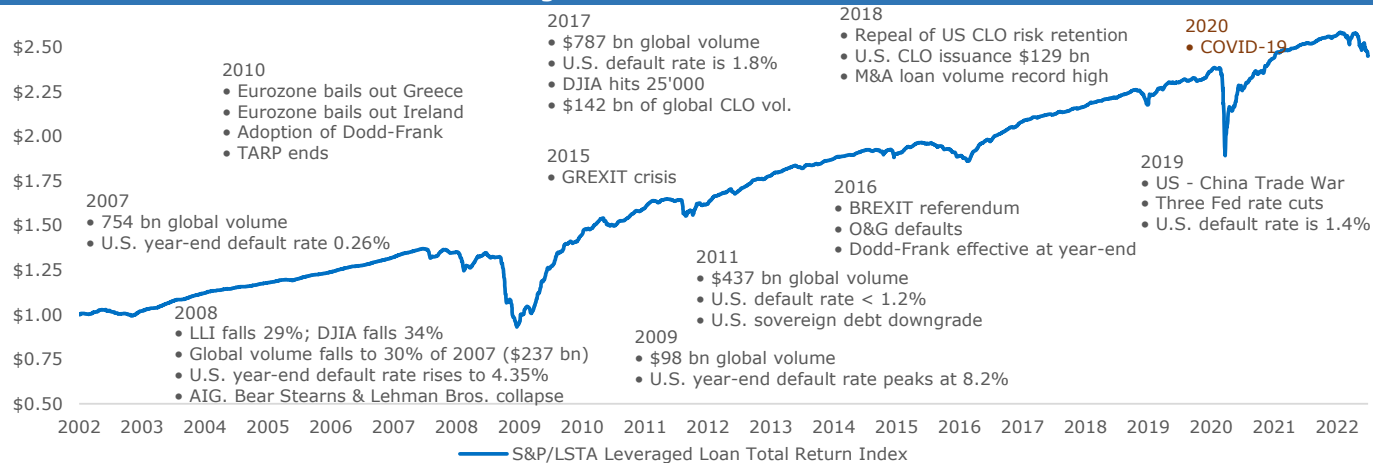
EUR Swaps imply short-term rates to climb above 0.5%

ECB hesitated to hike rates earlier this year but signalled a 25 bps interest rate hike in July and said a bigger increase may be needed in September as inflationary pressures were increasing and broadening. However, the market had anticipated this some time ago, and the risk-free 1-year swap rate started to shoot up at the end of the first quarter '22, reaching 0.65% on June 30. This sharp increase has led to high volatility in the bond market, resulting in heavy losses in short duration bonds, as can be seen in the "ICE BofA 1-3 Year Euro Corporate" index, which closed YTD at -4.4%. The ongoing volatility in the market for short-term Euro bonds is mainly due to uncertainty about the ECB's future response. However, it is a healthy development that interest rates start to normalize and within only a matter of few months, the below-zero policy is a relic from the past.

EUR Riskfree Market vs Deposit 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

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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