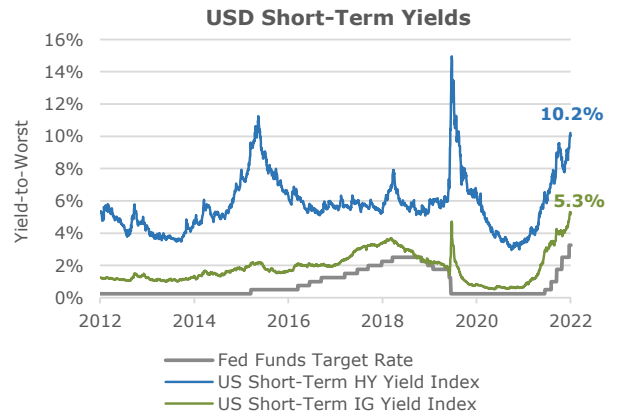


Monthly Spotlight

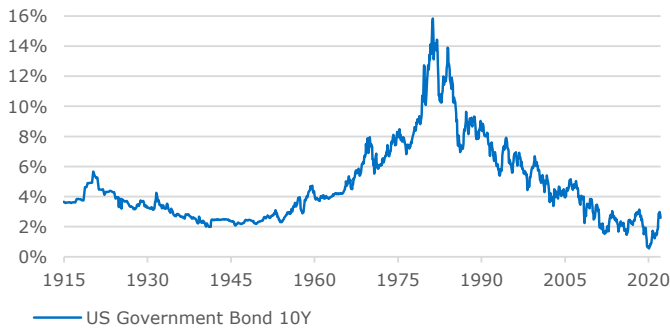
US IG short-term yields reach 10-year record high

The Fed's rate hike path in 2022 is driving up bond yields in all markets. For example, the yields of the short-term high yield and investment grade bond indices bottomed out in 2021 and climbed to a high of 10.2% and 5.3%, respectively, by the end of September 2022. The latter is a remarkable rise as it represents a record high in the last 10 years. This is accompanied by a negative YTD-performance of the index of -5.4%, not much less than the loss of the short-term high yield index at -5.9%, confirming that the negative performance this year was mainly caused by rising interest rates rather than fundamental credit concerns. With the economy cooling ahead, credit spreads could widen further in the short term, putting potentially additional pressure on bond markets. However, with these high interest rate levels, bonds offer some "yield protection" at the same time.

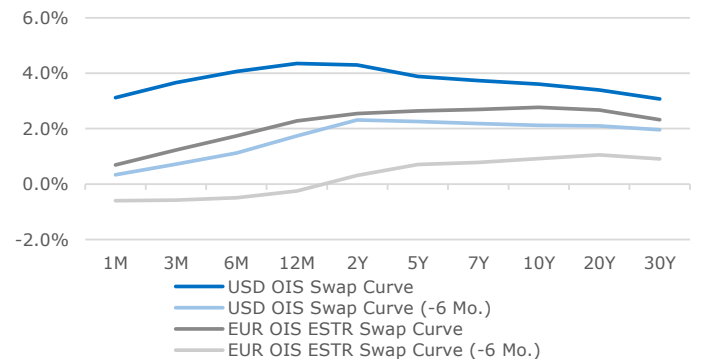


Rates Perspective

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

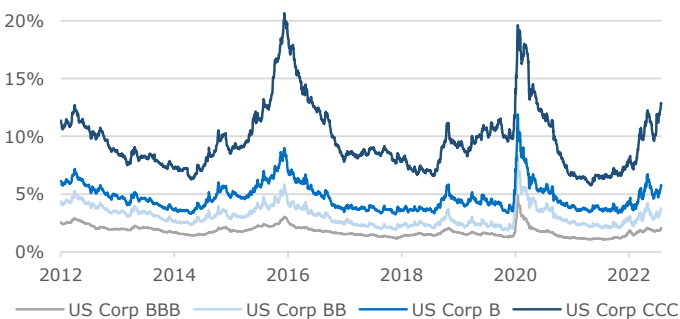


2) Interest Swap Curve: The USD and EUR curve further inverted while shorter tenors continued to increase.



Corporate Perspective

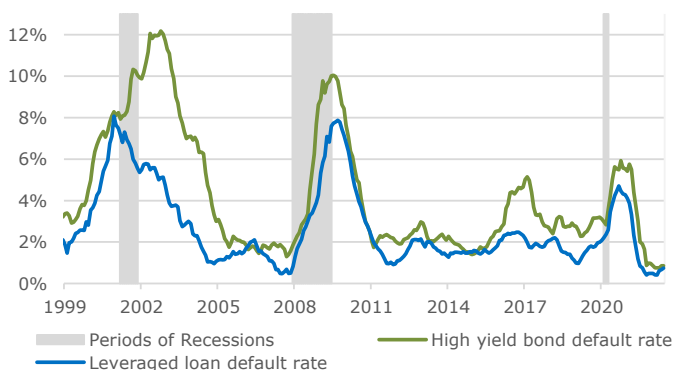
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



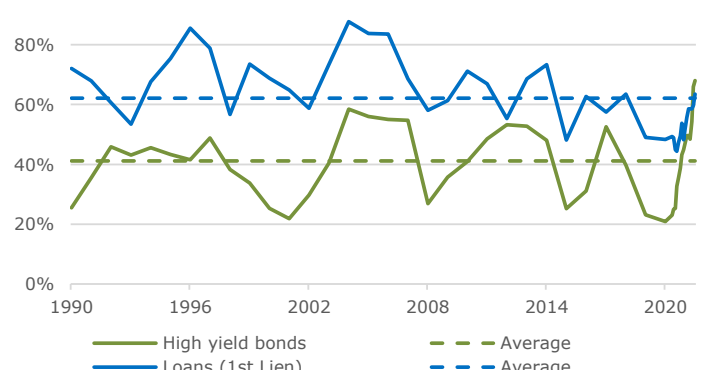
4) EU vs US: Credit spreads (OAS) between the US and EU have started to widen since the second half of 2022.



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	73	+8
AA	96	+11
A	138	+19
BBB	206	+21
BB	366	+22
B	574	+47
CCC	1281	+106

Global high yield (bps)

	curr	Δ month
US HY	543	+40
EU HY	625	+72
Asia HY	1504	+144
EM HY	647	+51

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

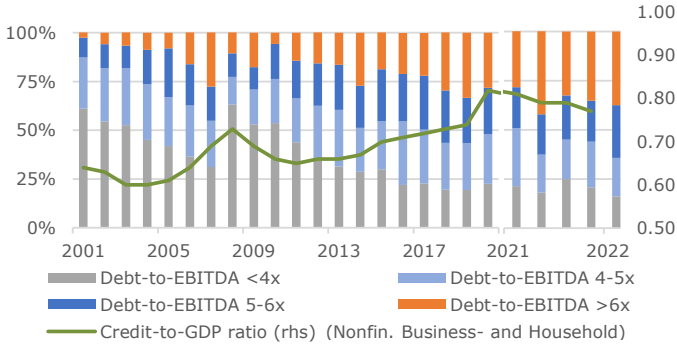
CDS spreads (bps)

	curr	Δ month
CDX IG - US	108	+20
iTraxx IG - EU	135	+21
CDX HY - US	610	+96
iTraxx XO - EU	641	+82

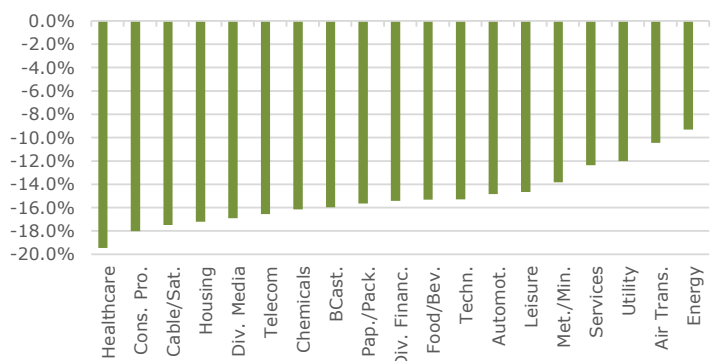
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	804	+110
CLO AAA	619	+111
CLO BBB	950	+181
CLO BB	1433	+222

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

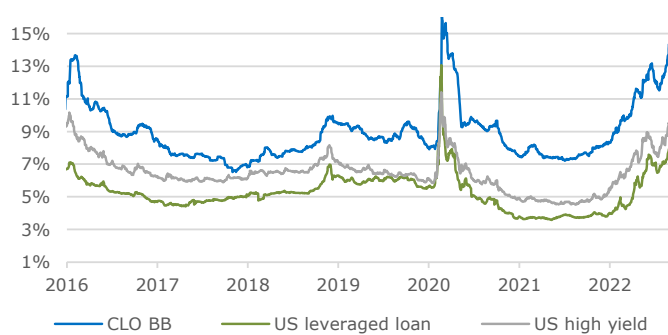


8) YTD Sector High-Yield Returns: All sectors have continued to suffer YTD.

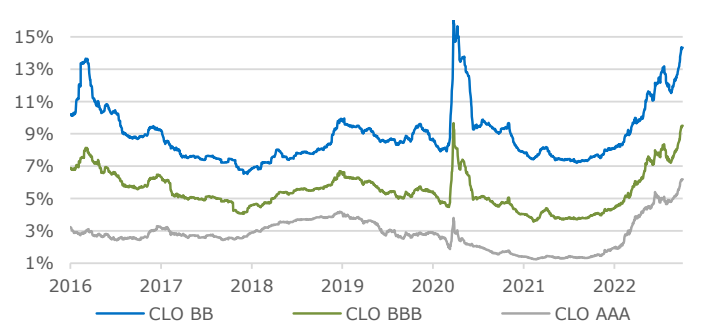


Alternative Perspective

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



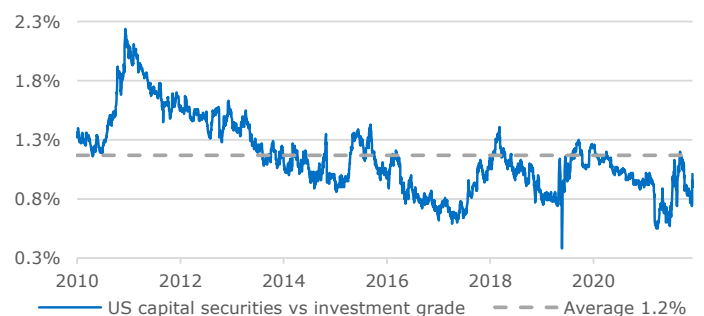
10) CLO Yields: CLOs offer an attractive yield premium over bonds and loans.



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.



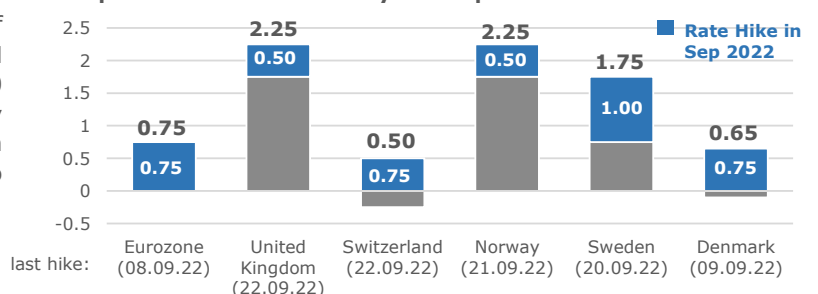
Education Corner

Several central banks in Europe followed the ECB hike of early September

September was marked by key interest rate increases by various European central banks. The ECB raised deposit rates at the beginning of September for the second time this year due to skyrocketing inflation rates above 8% - far away from the ECB's 2% medium-term target.

This move by the ECB was followed by rate hikes of 50 to 75 basis points by other European central banks. The Swedish Riksbank even increased by 100 basis points to catch up after a late start to the policy tightening campaign. However, given the sharp rise in the cost of living, the 1.75% policy rate is expected to be raised further to combat inflation.

European Central Bank's Policy and Deposit Rates



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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