ΛLPINUM INVESTMENT MANAGEMENT

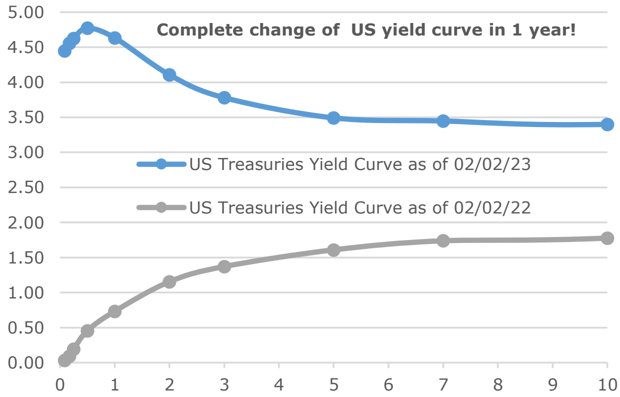
TURNKEY SOLUTIONS FOR WEALTH MANAGERS AND FUND MANAGERS

Alternative Credit Letter — **February 2023**

Monthly Spotlight

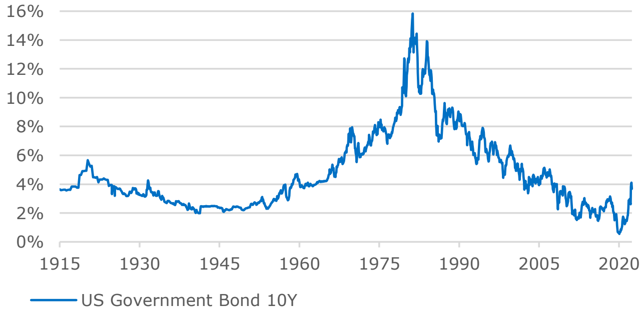
Paradigm Shift In Rates: Higher & Inverse

One of the fastest rate increase paths in modern history has led to a true paradigm shift in US Treasury rates. Compared to one year ago, the rate levels are now higher and have negative term premia causing inversion anywhere beyond the 6-months tenor. Such inversion indicates recession risk, which remains a topic of debate against soft-landing arguments (such as high employment). Regardless of upcoming macroeconomic outcome, return estimates of any risky asset now need to consider close to 5% "risk-free" yield on short term treasuries. From nominal yield perspective this is indeed a paradigm shift versus just one year ago, when the same T-bills earned just above 0%.

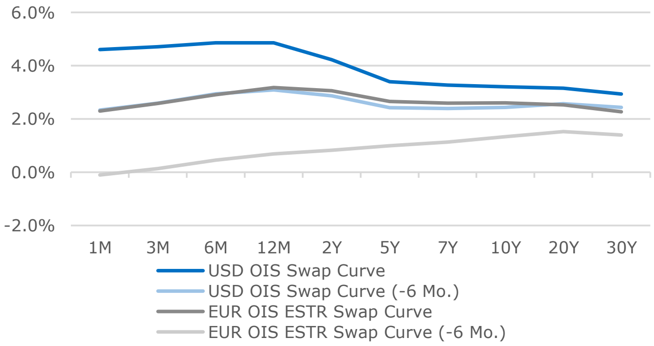


Rates Perspective

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

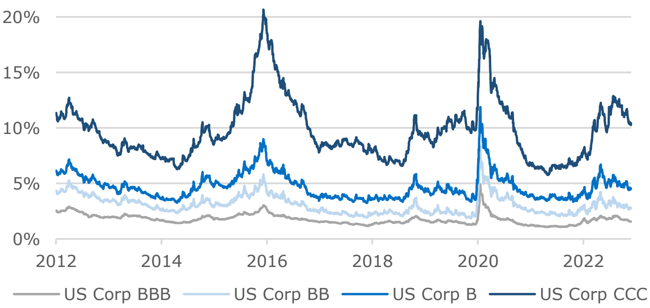


2) Interest Swap Curve: The USD and EUR curve further inverted while shorter tenors continued to increase.



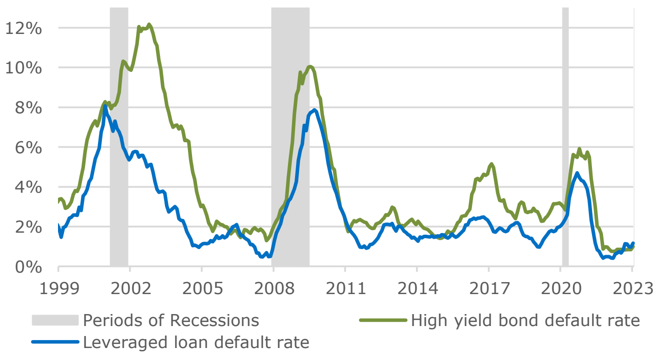
Corporate Perspective

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

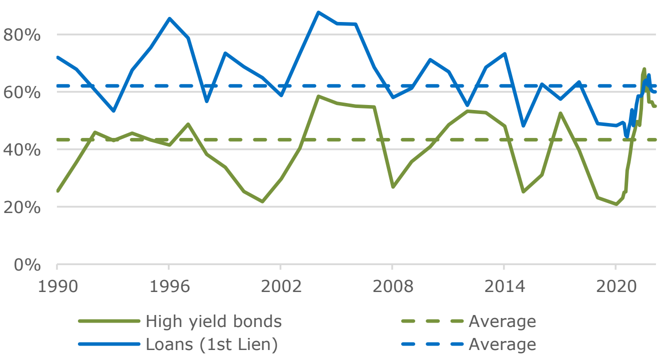


4) EU vs US: Credit spreads (OAS) between the US and EU have started to widen since the second half of 2022.

5) Default Rates: HY bond default rates are structurally higher (Ø4.2%) vs. loans (Ø2.7%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø62%) vs. high yield bonds (Ø43%) 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	56	-1
AA	73	-3
A	102	-11
BBB	156	-15
BB	280	-29
B	455	-64
CCC	1044	-109

Global high yield (bps)

	curr	Δ month
US HY	430	-49
EU HY	441	-53
Asia HY	829	-172
EM HY	493	-47

spread tightening (positive price action)

spread widening (negative price action)

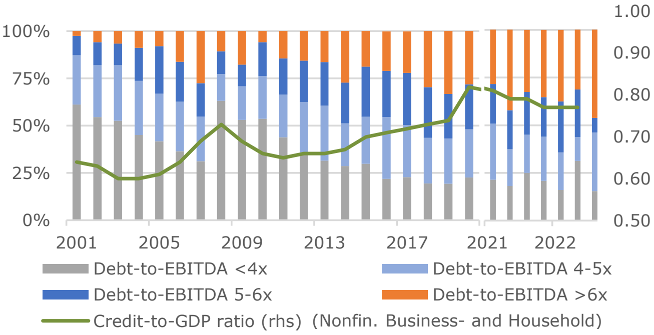
CDS spreads (bps)

	curr	Δ month
CDX IG - US	82	+0
iTraxx IG - EU	91	+0
CDX HY - US	484	+0
iTraxx XO - EU	474	+0

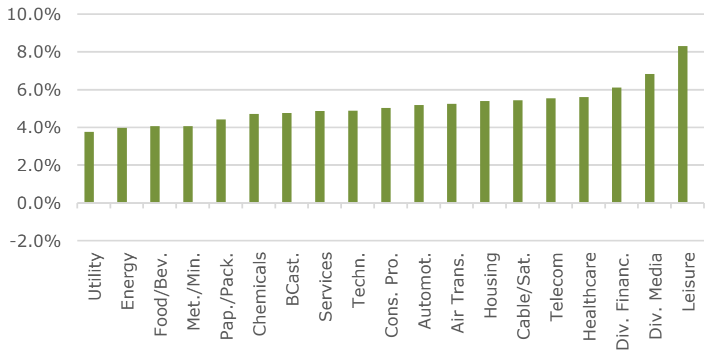
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	910	+0
CLO AAA	609	+0
CLO BBB	912	+0
CLO BB	1404	+0

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

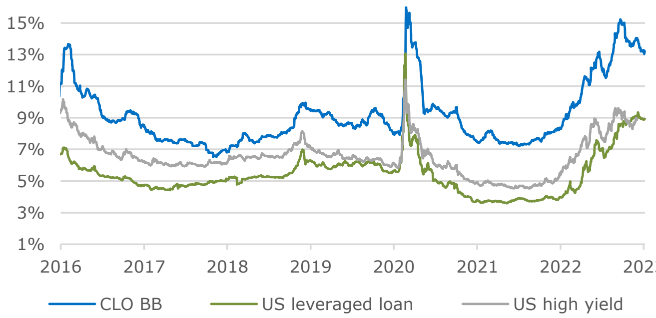


8) YTD Sector High-Yield Returns: All sectors have recovered sharply YTD.

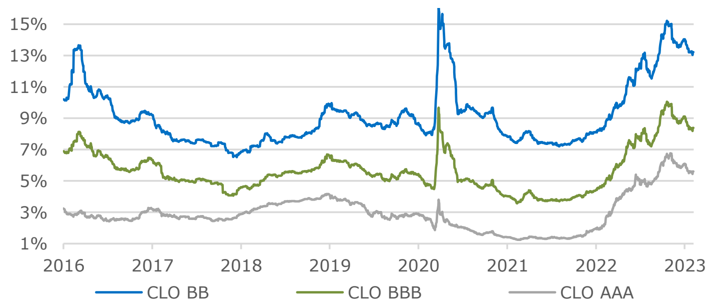


Alternative Perspective

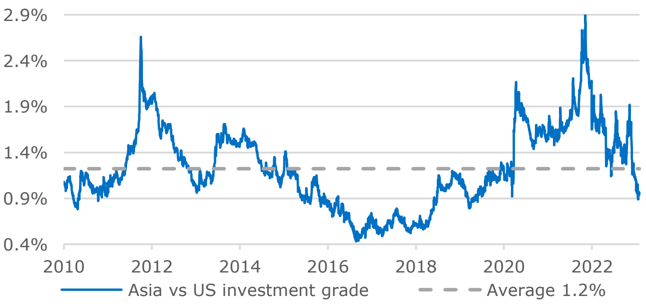
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs Loans and HY bonds.



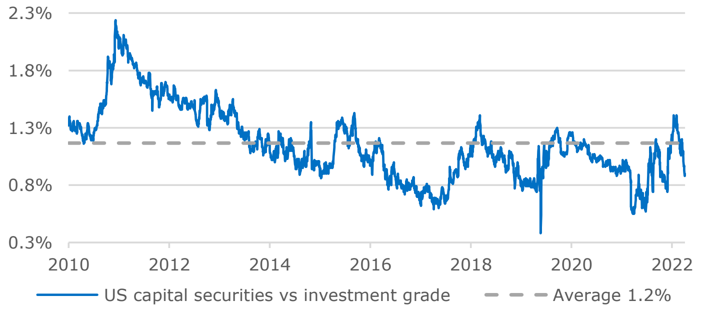
10) CLO Yields: CLOs offer an attractive yield premium over bonds and loans.



11) Asia vs. US: Asian IG spreads have tightened thanks to China's economy reopening and US inflation easing.



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

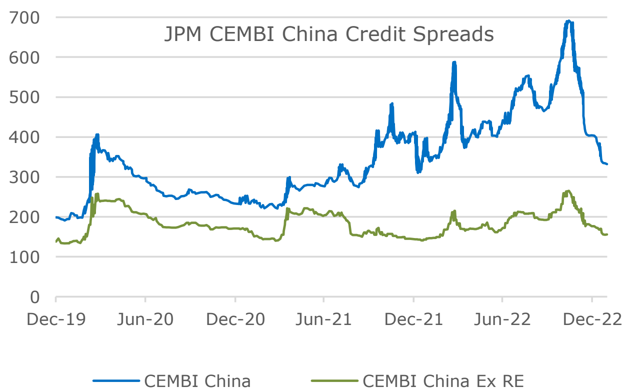


Education Corner

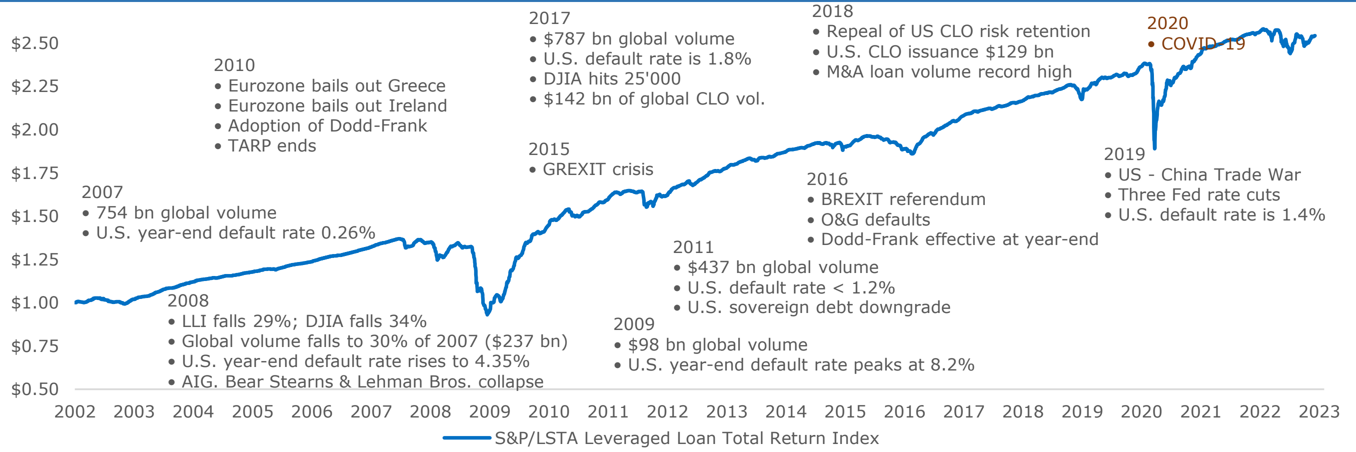
Emerging Markets Credit Spreads Tightening

Credit spreads on emerging market debt have tightened significantly since late last year. While slowing-down inflation in the US has supported the overall EM sentiment, one of the key internal drivers of the EM rally was China's economy reopening. The removal of COVID-19 restrictions has released pent-up demand in the world's second largest economy. Excluding real estate developers (green line), the remaining spread levels tightened all the way to 163 bps, just 20 bps wider than pre-COVID level in Dec 2019. Notably even the stressed real estate sector has seen a recovery thanks to government support policies.

The beta recovery in EM credit has been fast and strong. The big topic for investors from now on will be to identify opportunities that remained undervalued and separate them from credits that had already tightened too much.



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 perdiodically 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

Alpinum Investment Management	Federal Reserve Bank of St. Louis	Palmer Square indices
Bank of America Merrill Lynch indices	Markit CDS indices	Preqin
Bloomberg	Moody's Investors Service	S&P
The Federal Reserve	J.P. Morgan	Federal Housing Finance Agency
US Census Bureau		

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