

Monthly Spotlight

Increase in US real rates supports credit investments

Following further slowdown in inflation expectations, real rates have surged in the last three months and are now exceeding 2%. The positive long- and short-term real rates benefit fixed income investors across entire spectrum of credit market sectors.

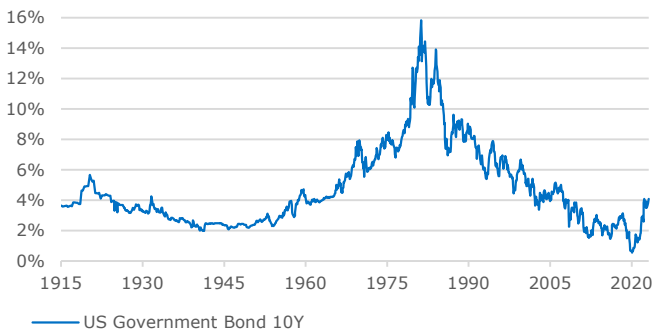
Due to relatively tight investment grade credit spreads, real yields of 3.5% on IG corporates only slightly exceed 5-year US treasury real rates of 2.1%.

On the other hand, at 6.2% and 7.7% respectively, the real yields on high yield bonds and syndicated loans comfortably exceed real yield on equities, even under optimistic earnings growth assumptions. In addition to relatively wide credit spreads, syndicated loans benefit from high short-term rates on an inverted nominal rate curve. These short-term rates serve as benchmarks in loans' floating-rate coupons.

High real rates, however, also mean rising refinancing risks for borrowers and require high quality active credit management.

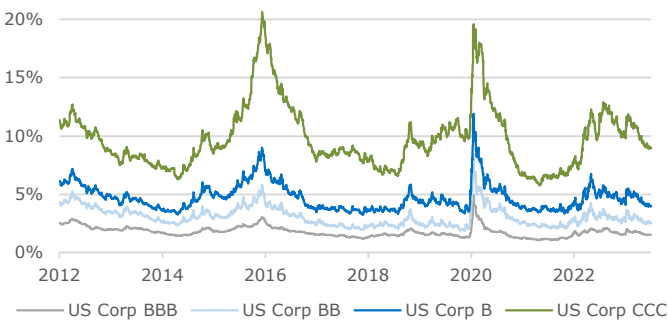
Rates Perspective

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

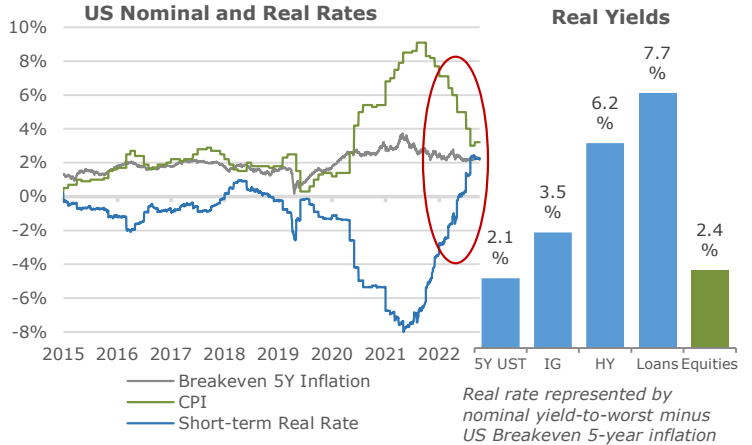
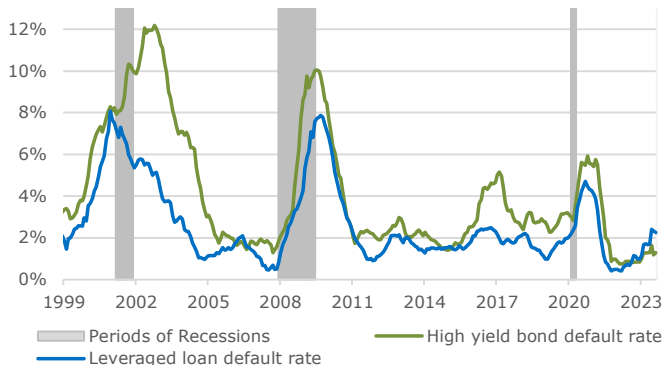


Corporate Perspective

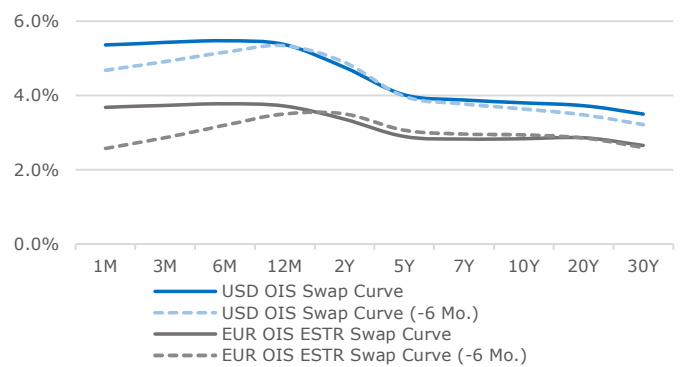
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



5) Default Rates: HY bond default rates are structurally higher (Ø4.1%) vs. loans (Ø2.6%).



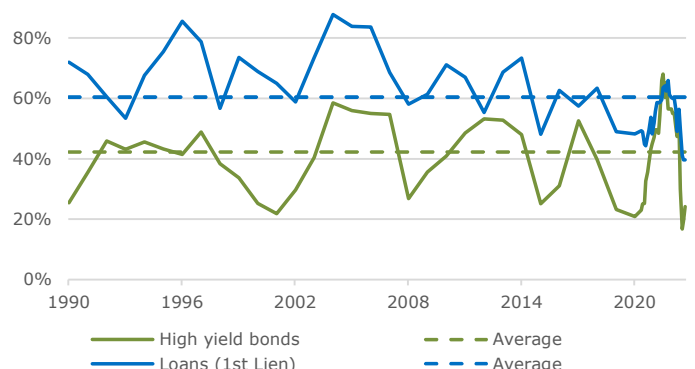
2) Interest Swap Curve: The USD and EUR curve further inverted as shorter tenors continued to increase.



4) EU vs US: Credit spreads (OAS) between the US and EU have narrowed since the start of 2023.



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø60%) vs. high yield bonds (Ø42%) 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	47	-1
AA	65	+0
A	103	+3
BBB	151	+4
BB	256	+11
B	397	+1
CCC	900	-6

Global high yield (bps)

	curr	Δ month
US HY	385	+6
EU HY	450	+12
Asia HY	796	-5
EM HY	465	+11

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

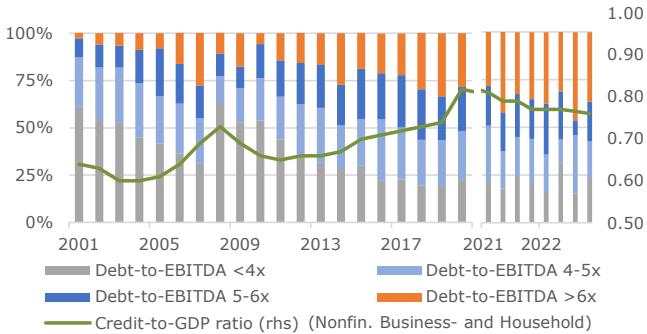
CDS spreads (bps)

	curr	Δ month
CDX IG - US	64	+1
iTraxx IG - EU	70	+3
CDX HY - US	425	+16
iTraxx XO - EU	396	+16

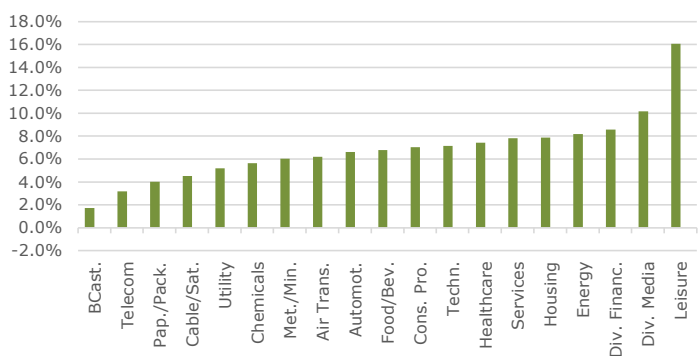
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	953	-5
CLO AAA	604	-7
CLO BBB	853	-21
CLO BB	1322	-34

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

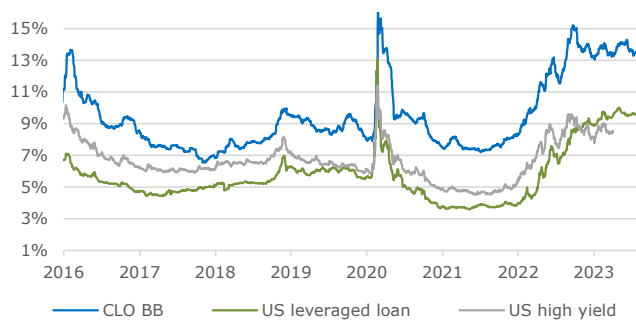


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors, with leisure outperforming significantly.



Alternative Perspective

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



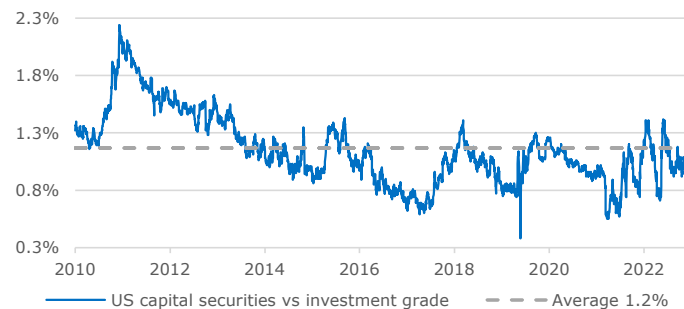
10) CLO Yields: CLOs offer an attractive yield premium over bonds and loans.



11) Asia vs. US: Asian IG spreads have tightened thanks to gradual post-COVID recovery 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

First lien loans keep outperforming other high yield credit markets

After a difficult 2022, first lien syndicated loans have been generating exceptional performance so far this year, returning 8.5% YTD as of August.

Thanks to floating-rate coupons and consequently short duration, the senior first lien loans have benefited from rising benchmark rates. They have also outperformed fixed-rate HY bonds, which have exhibited higher return volatility, partly due to their longer duration, i.e. sensitivity to rate changes throughout the year, mainly in 2- to 5-year tenors.

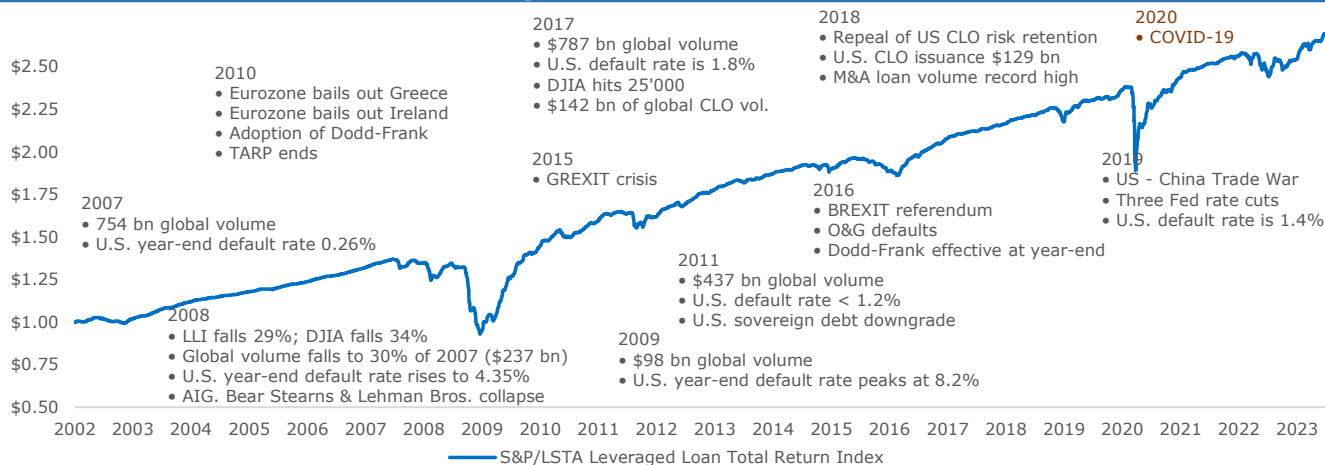
In terms of credit spreads, at 495 bps discount margin, the first lien loans are still priced roughly 130 bps cheaper than HY bonds. While this is partially caused by lower average rating, large portion of syndicated loans remain cheaper also within identical double- and single-B rating buckets. Among the reasons are liquidity premia and slightly higher near-term default rates expected by the market

Active credit portfolio management and understanding of quality of creditor protection are key to successfully navigate current loan market. An effect of lower creditor's protection on portfolio is evidenced by underperformance of subordinated second lien loans (-1.3% YTD loss).

YTD Returns on Syndicated Loans and HY Bonds



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

Disclaimer

This is an advertising document. This document does not constitute an offer to anyone, or a solicitation by anyone, to make any investments in securities. Such offer will only be made by means of a personal, confidential memorandum. This document is for the intended recipient only and may not be transmitted or distributed to third parties.

Past performance is not a guide to future performance and may not be repeated. You should remember that the value of investments can go down as well as up and is not guaranteed. The actual performance realized by any given investor depends on, amongst other things, the currency fluctuations, the investment strategy invested into and the classes of interests subscribed for the period during which such interests are held. Emerging markets refer to the markets in countries that possess one or more characteristics such as certain degrees of political instability, relative unpredictability in financial markets and economic growth patterns, a financial market that is still at the development stage, or a weak economy. Respective investments may carry enhanced risks and should only be considered by sophisticated investors.

Nothing contained in this document constitutes financial, legal, tax, investment or other advice, nor should any investment or any other decisions be made solely based on this document. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness and no liability is accepted for any direct or indirect damages resulting from or arising out of the use of this information. All information as well as any prices indicated is subject to change without notice. Any information on asset classes, asset allocations and investment instruments is only indicative. Before entering into any transaction, investors should consider the suitability of the transaction to their own individual circumstances and objectives. We strongly suggest that you consult your independent advisors in relation to any legal, tax, accounting and regulatory issues before making any investments.

This publication may contain information obtained from third parties, including but not limited to rating agencies such as Standard & Poor's, Moody's and Fitch. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Alpium Investment Management AG and the third-party providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and will not be responsible for any errors or omissions (negligent or otherwise), or for the results obtained from the use of such content. Third-party data are owned by the applicable third parties and are provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products, or any indices. Such data are provided without any warranties of any kind.

If you have any enquiries concerning the document please contact your Alpium Investment Management AG contact for further information. The document is not directed to any person in any jurisdiction which is prohibited by law to access such information. All information is subject to copyright with all rights reserved. Any communication with Alpium Investment Management AG may be recorded.

Alpium Investment Management AG is incorporated in Switzerland and is FINMA licensed and regulated.

Contact Information:
Alpium Investment Management AG
Talstrasse 82
CH-8001 Zurich
Tel: +41 43 888 79 30
Fax: +41 43 888 79 31
alpiumim.com