ALPINUM INVESTMENT MANAGEMENT

TURNKEY SOLUTIONS FOR WEALTH MANAGERS AND FUND MANAGERS

Alternative Credit Letter — **May 2025**

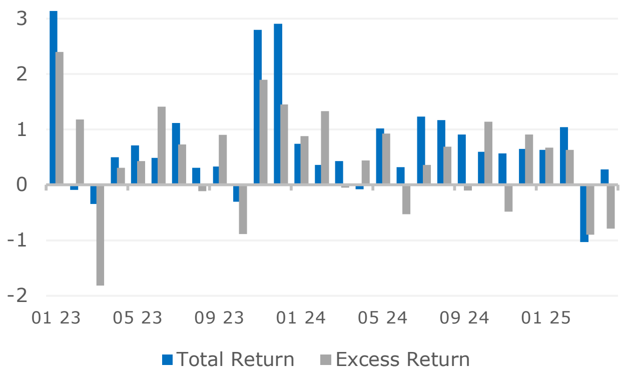
Monthly Spotlight

High Yield Carry Offsets Spread Widening

High Yield bonds delivered a modest total return of 0.28% in April. This was supported by a 30 basis points rally in Bunds and a solid 0.4% carry, which helped counterbalance a 36 basis points widening in spreads and a larger excess return loss of 0.8% (see graph on the right). The performance reflects a partial rebound from the early-April selloff, when spreads widened by 110 basis points. Primary issuance remained subdued at EUR 5.6 billion, while three major "rising stars" once again reduced the index par amount by EUR 3.6 billion, bringing the year-to-date par shrinkage to EUR 10.5 billion.

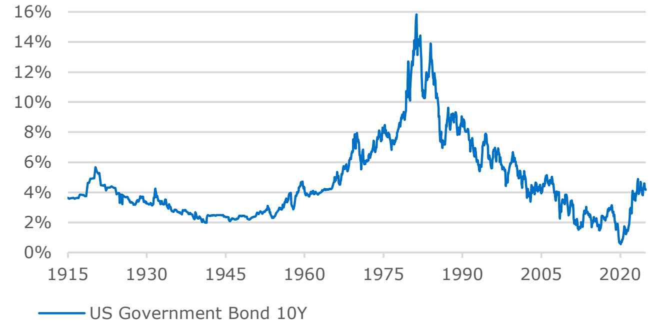
We anticipate that net supply in May will be positive but slightly below the historical average of EUR 2.5 billion. European High Yield spreads remain attractive and carry provides solid protection against potential trade-related volatility.

European High Yield Monthly Returns (%)

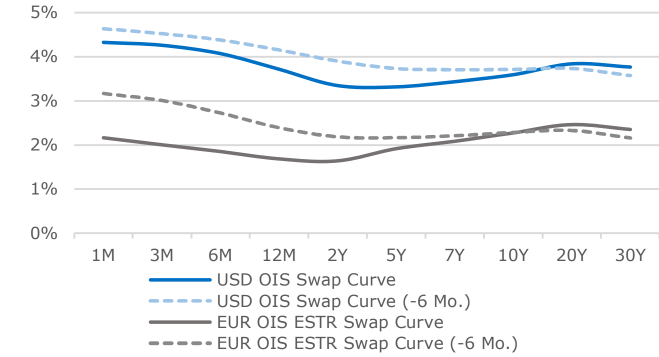


Rates Perspective

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

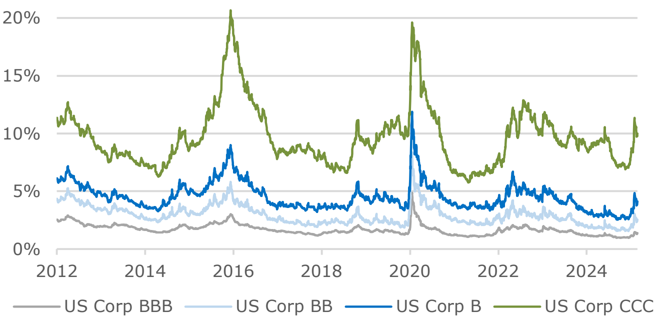


2) Interest Swap Curve: The USD and EUR curves are V-shaped with minima around 2Y maturities.

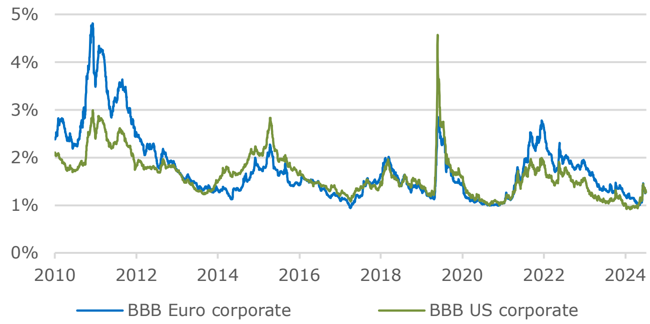


Corporate Perspective

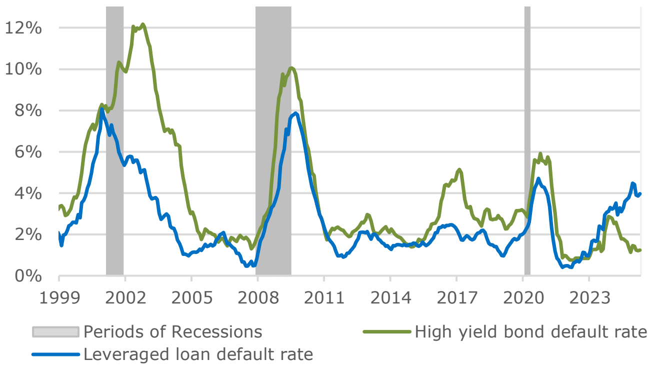
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



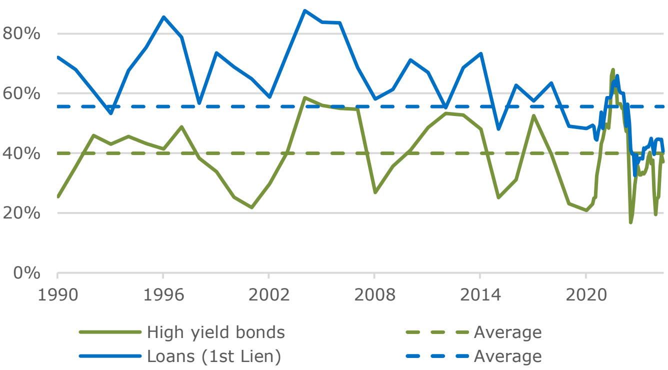
4) EU vs. US: EU credit spreads (OAS) are now at similar levels than in the US.



5) Default Rates: HY bond default rates have been structurally higher (Ø4.0%) vs. loans (Ø2.7%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø56%) vs. high yield bonds (Ø40%) 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	46	+2
AA	61	+5
A	90	+9
BBB	137	+17
BB	254	+30
B	411	+43
CCC	1000	+72

Global high yield (bps)

	curr	Δ month
US HY	394	+39
EU HY	370	+42
Asia HY	604	+129
EM HY	475	+32

CDS spreads (bps)

	curr	Δ month
CDX IG - US	67	+6
iTraxx IG - EU	68	+5
CDX HY - US	408	+31
iTraxx XO - EU	350	+22

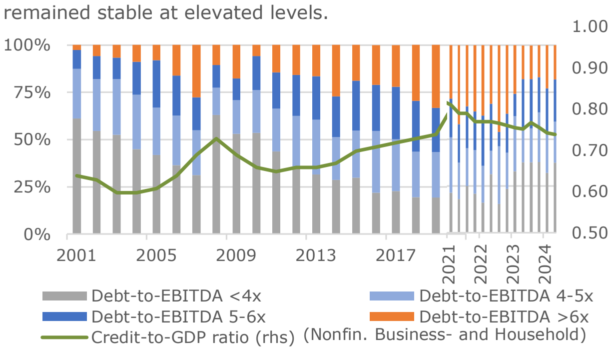
Loans and CLOs yields (bps)

	curr	Δ month
US Loan	815	+4
CLO AAA	569	-22
CLO BBB	796	-39
CLO BB	1096	-39

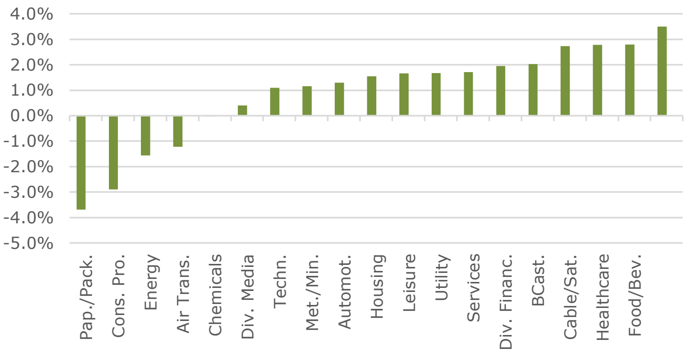
spread tightening (positive price action)

spread widening (negative price action)

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

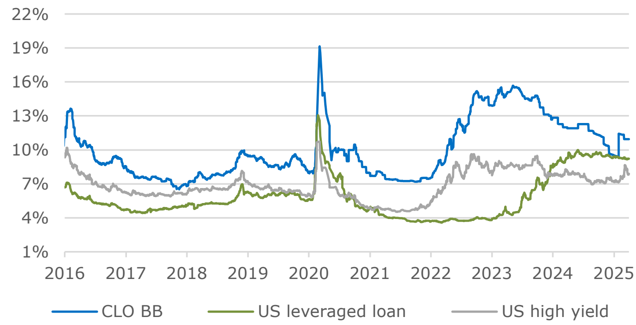


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.

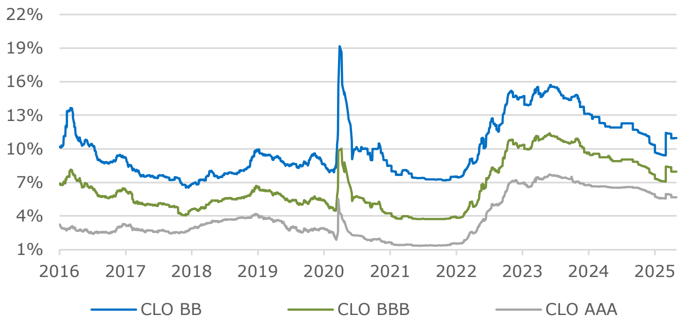


Alternative Perspective

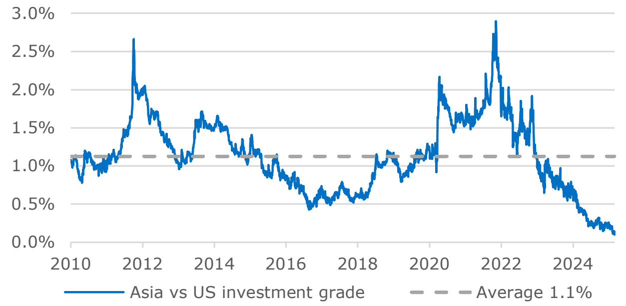
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs. Loans and HY bonds.



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.

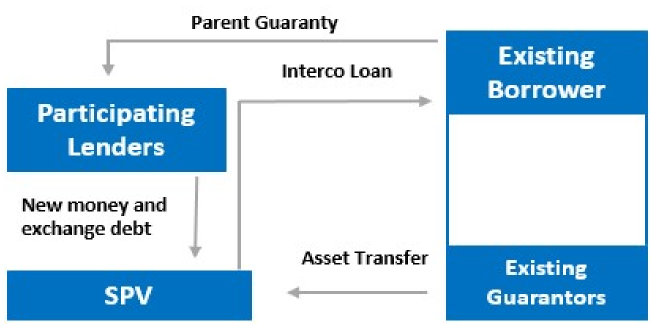
Education Corner - Series: AIM Credit Analysis (13)

Liability Management Exercises: Double-Dips

Last month, we covered some moderately coercive approaches to LMEs, such as Amend-and-Extend agreements and Voluntary Discounted Buybacks, which are often used to manage debt obligations and extend maturities. This month, we'll go a step further and focus on a type of liability management exercise that has become increasingly popular in recent years, thanks to high-profile transactions like Wheel Pros and At Home: Double-Dip structures.

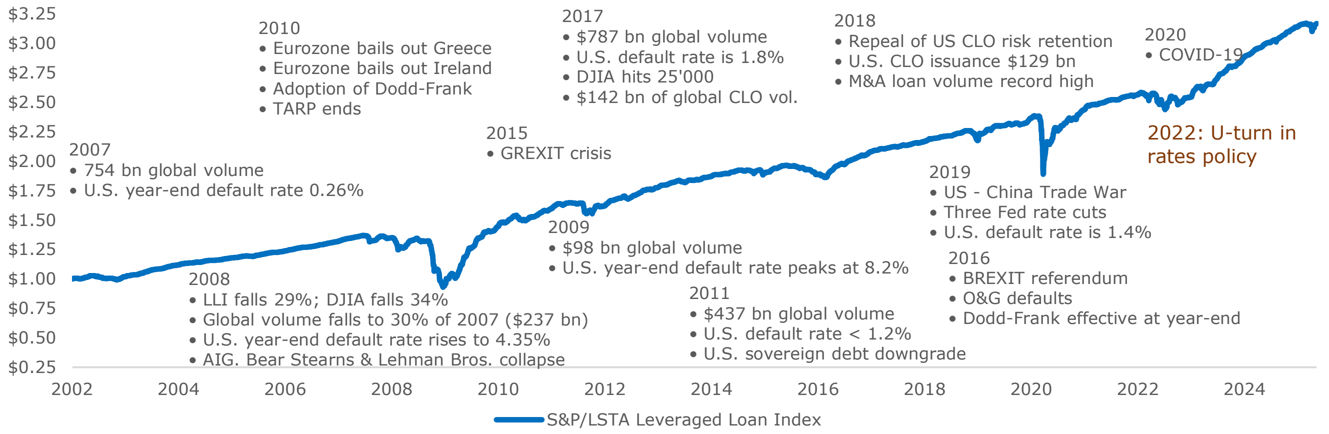
Double Dips typically occur when a non-guarantor subsidiary takes on new debt, guaranteed by members of the restricted group. The subsidiary then makes an intercompany loan to the original issuer, creating collateral for the new secured debt and giving lenders a dual claim on the restricted group's assets. This structure helps protect double-dip lenders from downside risk, but often comes at the expense of nonparticipating lenders, who may see their recovery prospects diminished.

Double Dip Example



Alpinum Investment Management

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		

Disclaimer

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