

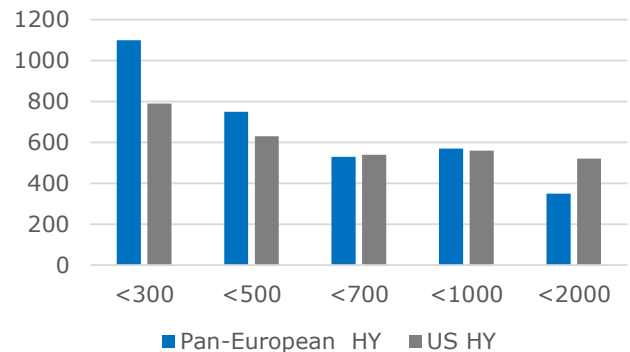
## Monthly Spotlight

## European credit offers an attractive risk reward opportunity

Small and medium-sized bond issues in Europe offer higher spreads than their U.S. equivalents (see graph on the right). This premium reflects the unique structure of the European market, where investors are often rewarded for navigating less liquid and more complex securities. Europe's bond market is fragmented due to different tax systems, legal frameworks and bankruptcy regimes across countries. This fragmentation results in greater price inefficiencies compared to the more unified U.S. market.

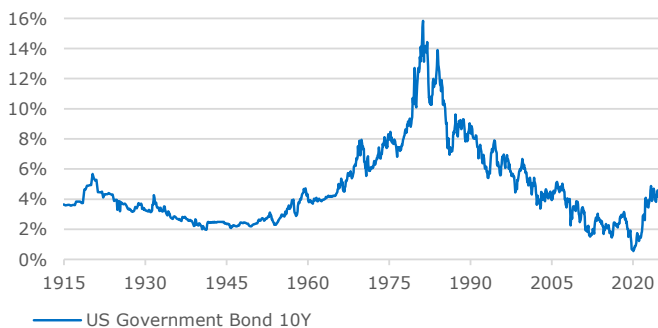
Furthermore, the European High Yield market has a larger share of BB-rated bonds—the strongest segment within High Yield—while the U.S. market is more exposed toward B and CCC ratings. As a result, credit ratios are generally better in Europe. Additionally, supportive fiscal policy in Europe is providing a fundamental boost to the economy, further enhancing the outlook for European High Yield bonds.

## Option Adjusted Spread (bps) by Issue Size

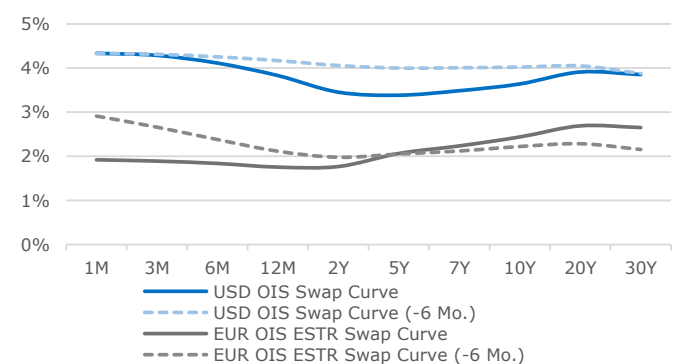


## Rates Perspective

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

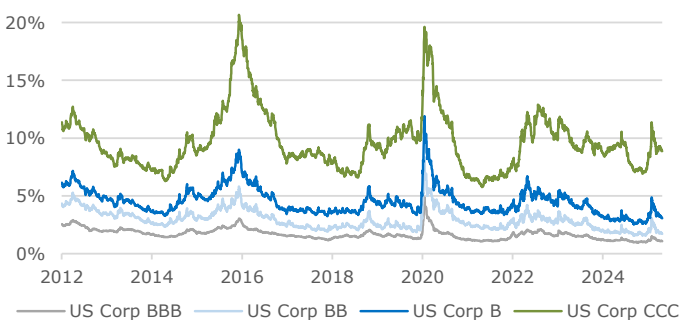


**2) Interest Swap Curve:** The USD and EUR curves are V-shaped with minima around 2Y maturities.

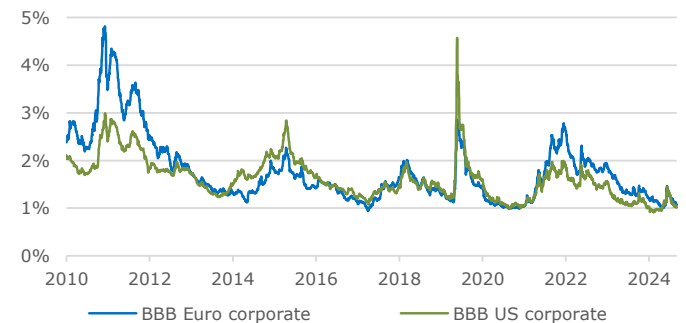


## Corporate Perspective

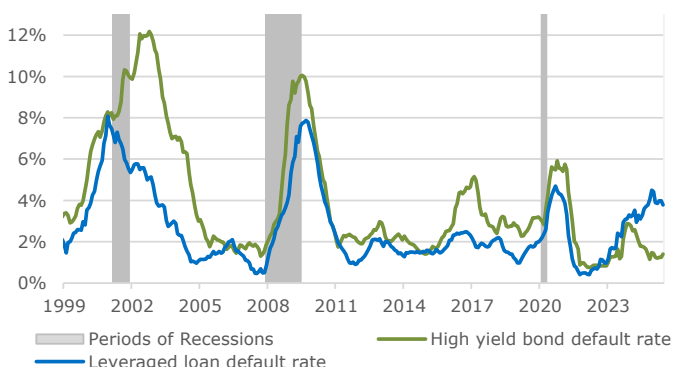
**3) US Corp. Rating:** Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



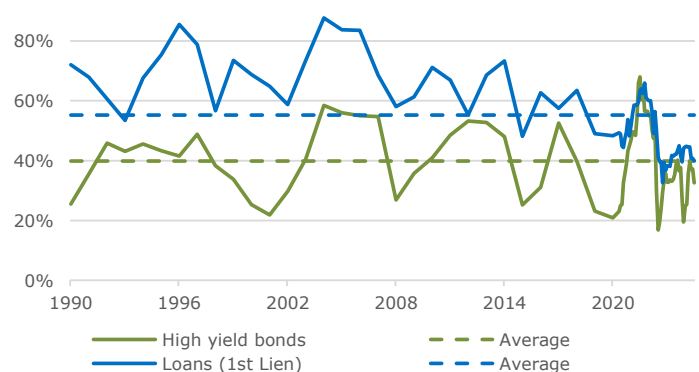
**4) EU vs. US:** EU credit spreads (OAS) are now at similar levels than in the US.



**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 (Ø55%) 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	35	-2
AA	49	+0
A	73	-3
BBB	108	-7
BB	171	-26
B	305	-44
CCC	886	-10

### Global high yield (bps)

	curr	Δ month
US HY	296	-35
EU HY	310	-16
Asia HY	537	-39
EM HY	405	-14

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

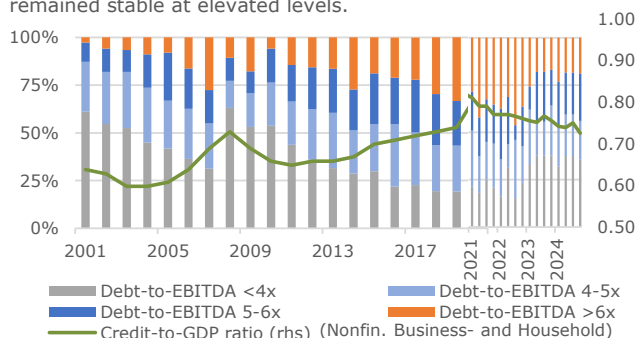
### CDS spreads (bps)

	curr	Δ month
CDX IG - US	51	-5
iTraxx IG - EU	55	-3
CDX HY - US	318	-33
iTraxx XO - EU	283	-18

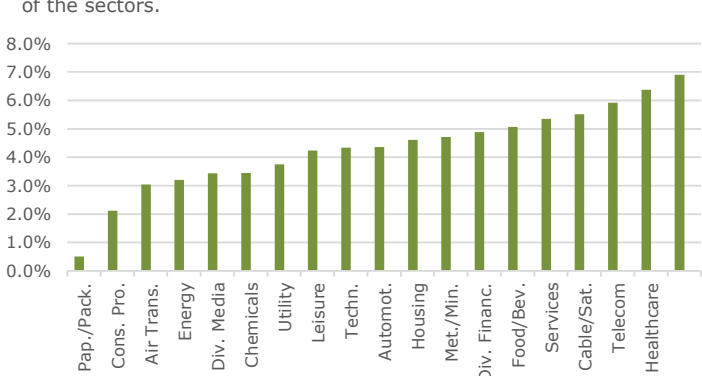
### Loans and CLOs yields (bps)

	curr	Δ month
US Loan	777	-19
CLO AAA	547	-21
CLO BBB	752	-43
CLO BB	999	-96

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

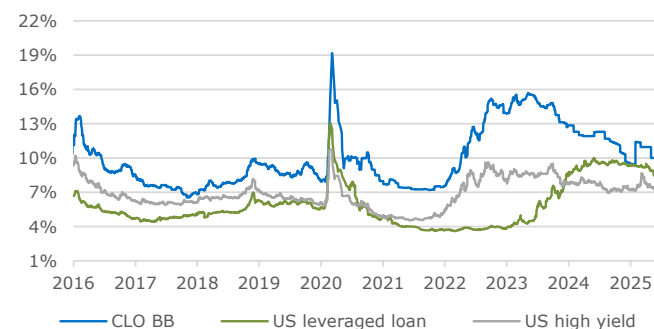


**8) YTD Sector High-Yield Returns:** Positive YTD results across most of the sectors.

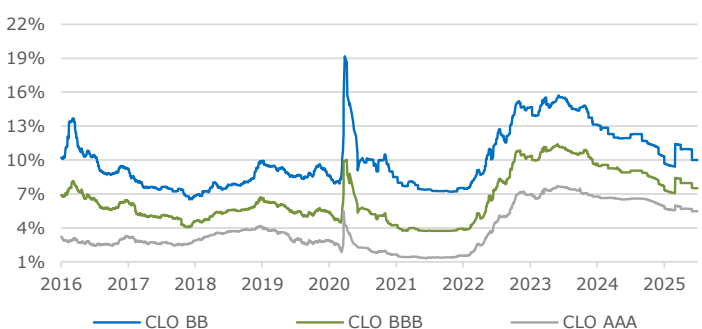


## Alternative Perspective

**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 (16)

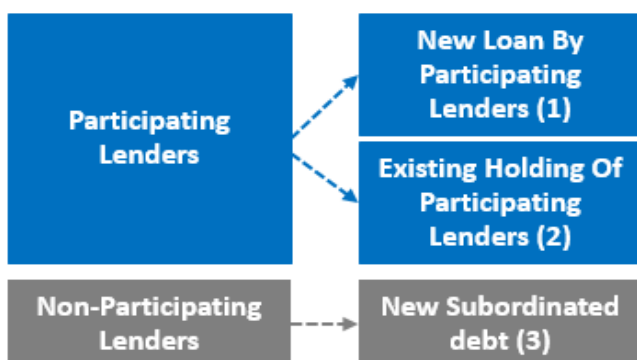
### Liability Management Exercises: Uptier Transactions

Last month, we explored a widely used tool in high-profile restructurings: Asset Drop-Downs. This month, we conclude by examining another coercive measure employed by distressed companies: Uptier Transactions, featured in the Serta and Envision restructurings.

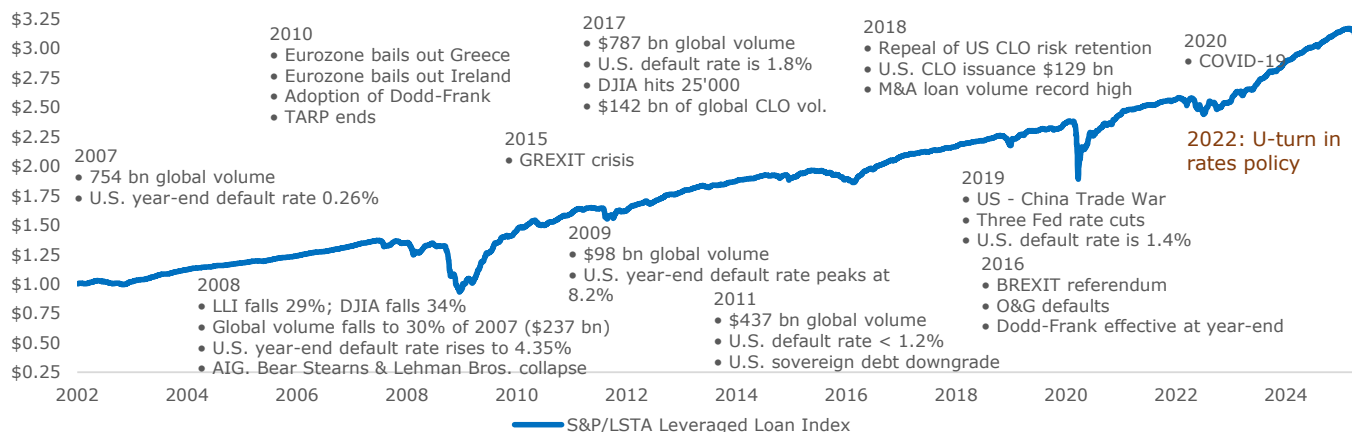
Uptier Transactions create a new super-priority loan that ranks ahead of existing debt but is not extended to all lenders. As a result, non-participating lenders face lien and payment subordination, losing their previous priority.

Typically, this involves amending the credit agreement with consent from a majority or super-majority (50% or 66.7%) of lenders to permit new debt issuance in a higher-priority tranche. Lenders excluded from the Uptier lose their senior position in the capital structure, significantly altering the debt hierarchy and their recovery prospects.

### Uptier Transactions Example



## 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

Alpinum 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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