

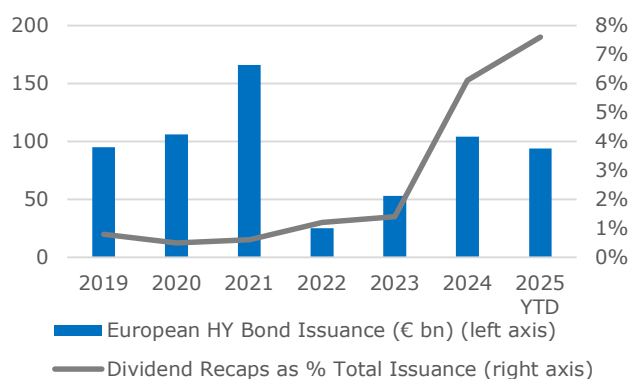
Monthly Spotlight

European High Yield Dividend Recaps Surge

The European High Yield market is experiencing a notable surge in issuances aimed at financing dividends, known as dividend recaps. In 2025, these transactions represent nearly 8% of total issued volume, compared to the 0-2% range observed between 2019 and 2023 and 6% in 2024 (see graph on the right). June recorded a record volume of €3.7 billion, equivalent to 15% of euro-denominated High Yield issuances in that month. Dividend recaps have re-emerged as a key strategic tool for private equity sponsors in an environment where exits (sales or IPOs) have slowed down. Historically, this type of transaction has generated reluctance among debt investors, as it increases leverage to compensate shareholders.

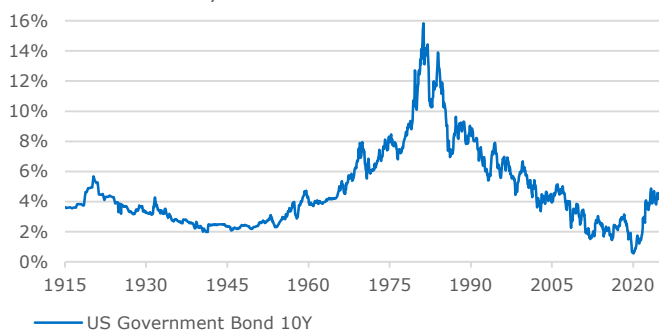
In parallel, issuances linked to leveraged buyouts have decreased, representing only 7% of the European High Yield market in 2024 and year-to-date 2025, compared to the 12-18% range between 2021 and 2023.

Dividend recaps in European HY

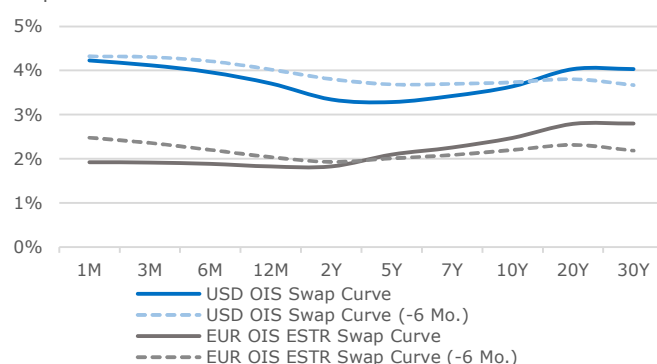


Rates Perspective

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

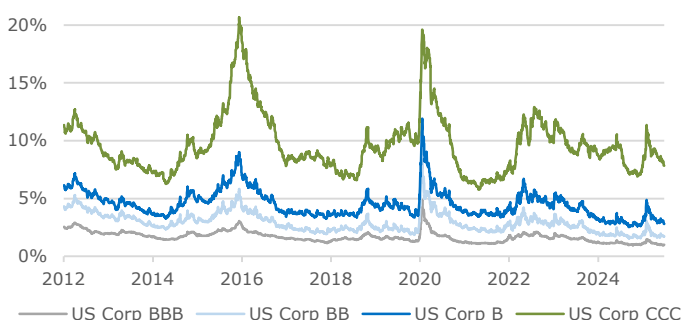


2) Interest Swap Curve: The USD and EUR curves are V-shaped with minima around 2Y maturities.

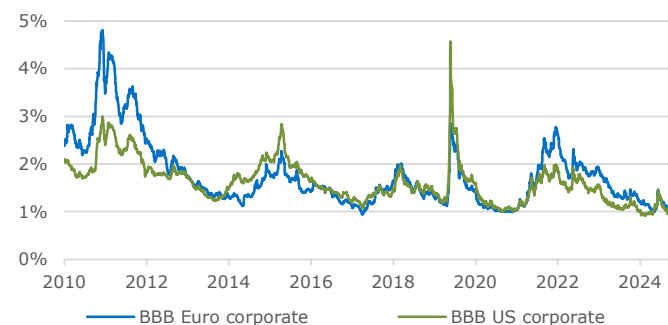


Corporate Perspective

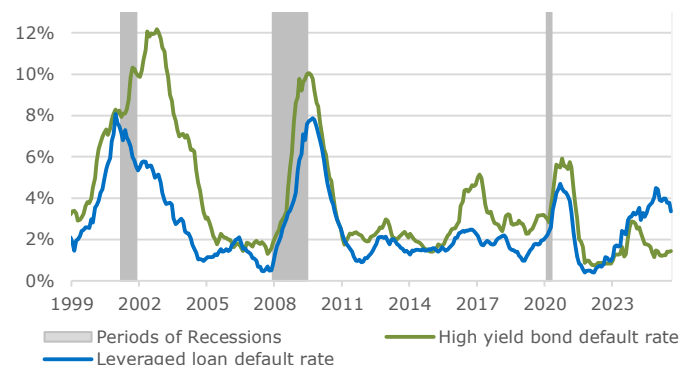
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



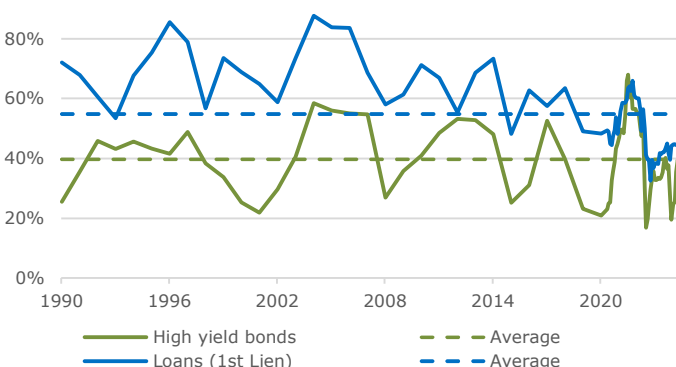
4) EU vs. US: EU credit spreads (OAS) are now at similar levels than in the US.



5) Default Rates: HY bond default rates are now for the first time lower vs. loans.



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	30	-2
AA	44	+0
A	65	+0
BBB	99	+0
BB	172	+1
B	281	-17
CCC	783	-56

Global high yield (bps)

	curr	Δ month
US HY	275	-14
EU HY	282	+11
Asia HY	399	-10
EM HY	376	+8

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

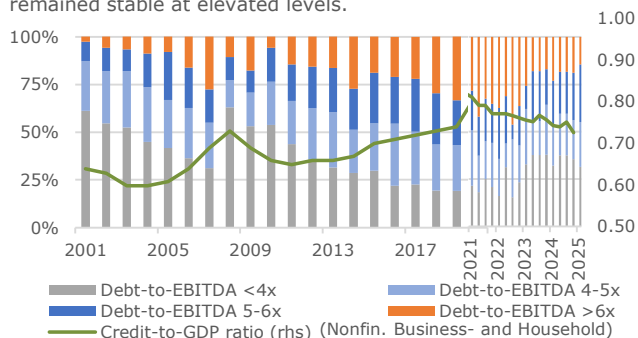
CDS spreads (bps)

	curr	Δ month
CDX IG - US	51	+0
iTraxx IG - EU	56	+3
CDX HY - US	322	+1
iTraxx XO - EU	268	+2

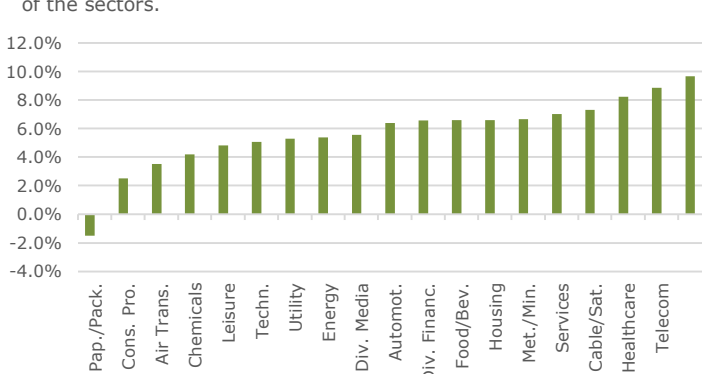
Loans and CLOs yields (bps)

	curr	Δ month
US Loan	758	-4
CLO AAA	538	-8
CLO BBB	728	-23
CLO BB	973	-26

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

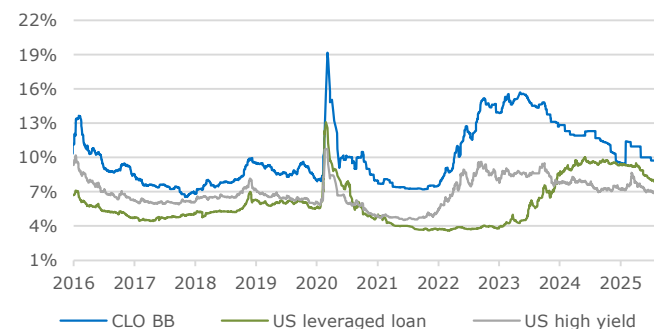


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.

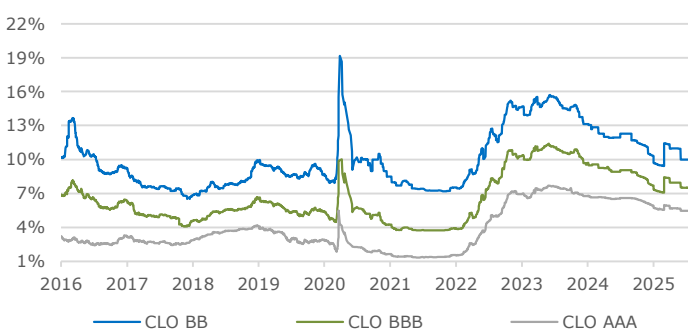


Alternative Perspective

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 (18)

PIK: Payment-in-kind Bonds

When issuing companies face financial stress, they can employ various strategies to conserve cash and buy time for their financial health to recover. One such strategy is converting cash-interest debt into payment-in-kind (PIK) obligations.

Payment-in-kind (PIK) interest provides borrowers with the option to capitalize interest payments rather than paying them in cash, effectively increasing the outstanding loan principal by the amount of accrued interest. This structure preserves borrower liquidity for operational needs while ensuring lenders benefit from compound growth in their loan exposure and enhanced yield premiums.

The PIK payment structure can vary in form, each option carrying different consequences for borrowers and lenders. The accompanying chart illustrates how these structures compare with standard interest-bearing debt.

PIK vs Cash Bonds

Cash Coupon:
8% Cash

8% Cash +
100% Principal

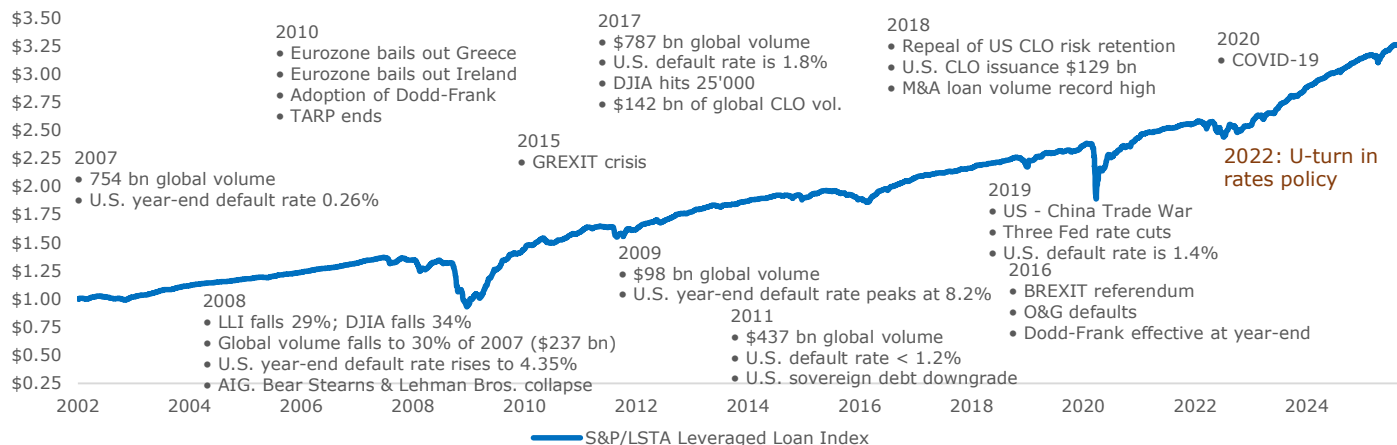
Partial PIK:
5% Cash / 3% PIK

5% Cash +
103% Principal

Full PIK:
0% Cash / 8% PIK

0% Cash +
108% Principal

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

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