

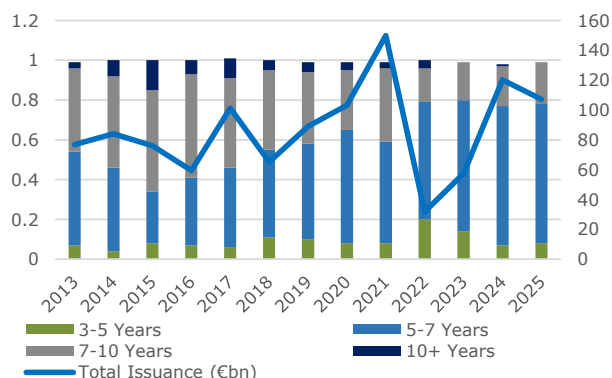
Monthly Spotlight

European High Yield Quality Evolution

The European High Yield bond market shows significant cyclical evolution. Issuances reached their historical peak in 2021 with €149.9 billion, driven by exceptional post-COVID liquidity conditions. However, the market experienced a dramatic contraction in 2022 (€31.8 billion), followed by gradual recovery in 2024 (€120.2 billion). Meanwhile, a notable transformation in maturity structure is observed: concentration in the 5-7-year segment has grown consistently from 26% in 2015 to 70% in 2024-2025. Stabilization in the medium segment: 7-10-year maturities remain around 20%. Drastic reduction of long-term issuances: 10+ year bonds practically disappeared (0% in 2023 and 2025) (see graph on the right).

This evolution reflects market shift toward conservative structures. Senior Secured exposure increased substantially, while BB-rated bonds consistently dominate 50-60% of issuances, demonstrating preference for higher-quality high yield credits.

European High Yield Issuance

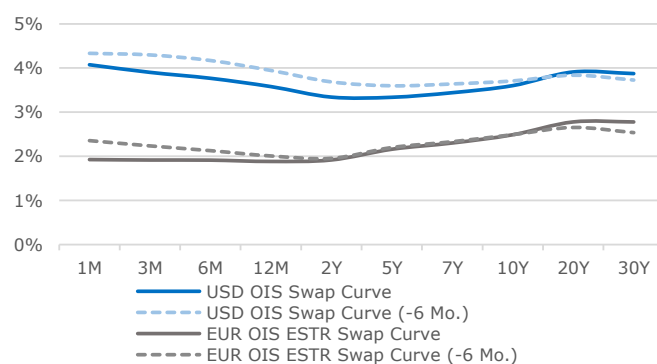


Rates Perspective

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

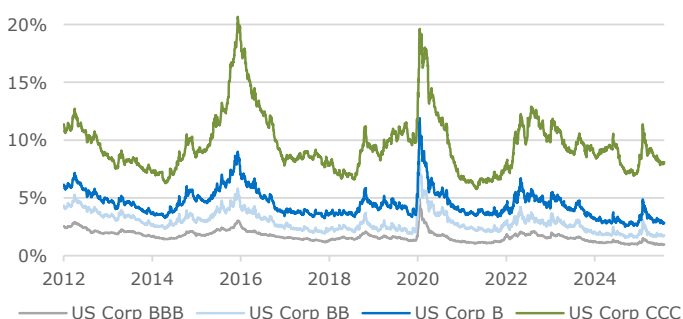


2) Interest Swap Curve: The USD and EUR curves are V-shaped with minima around 2Y maturities.

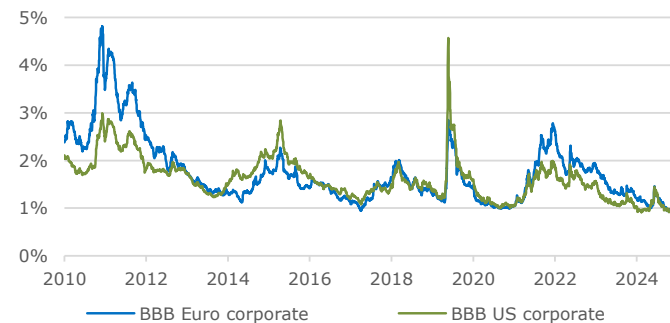


Corporate Perspective

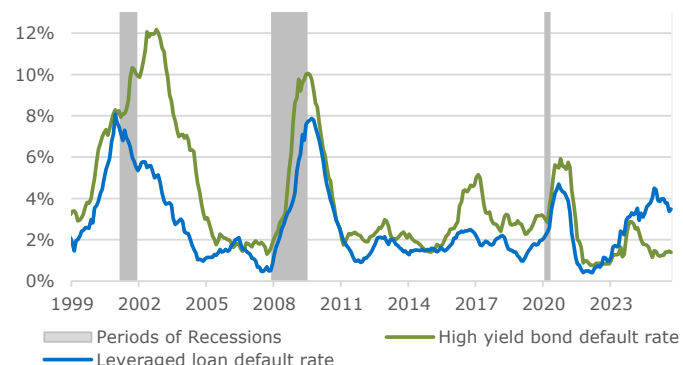
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



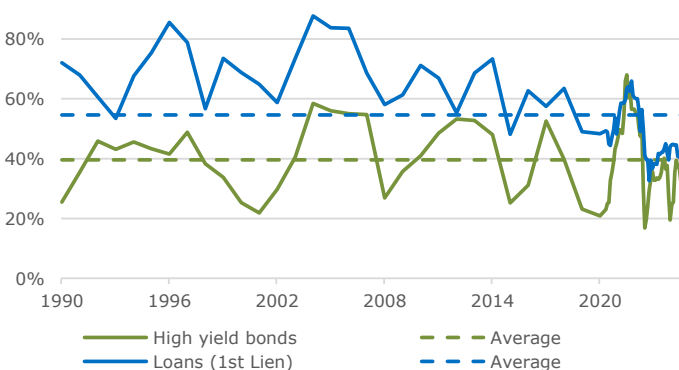
4) EU vs. US: EU credit spreads (OAS) are now at similar levels than in the US.



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	31	+0
AA	43	-2
A	63	-4
BBB	97	-4
BB	177	+0
B	283	-8
CCC	807	+19

Global high yield (bps)

	curr	Δ month
US HY	280	-2
EU HY	272	-11
Asia HY	365	-33
EM HY	394	+18

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

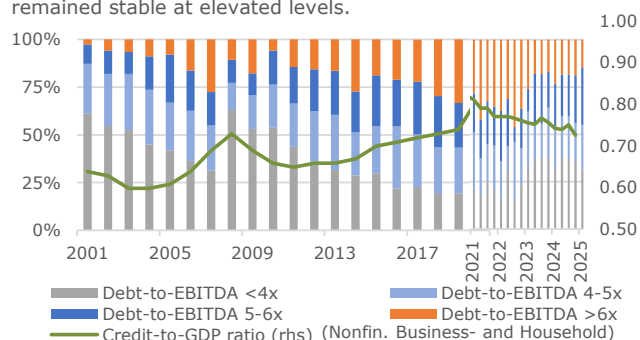
CDS spreads (bps)

	curr	Δ month
CDX IG - US	52	+1
iTraxx IG - EU	56	+0
CDX HY - US	321	-0
iTraxx XO - EU	262	-6

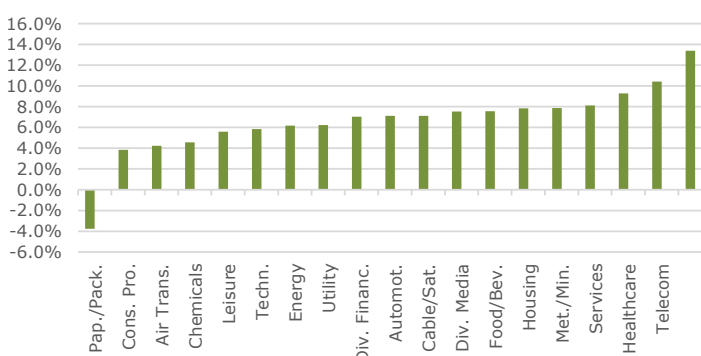
Loans and CLOs yields (bps)

	curr	Δ month
US Loan	744	-14
CLO AAA	530	-8
CLO BBB	715	-13
CLO BB	962	-11

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

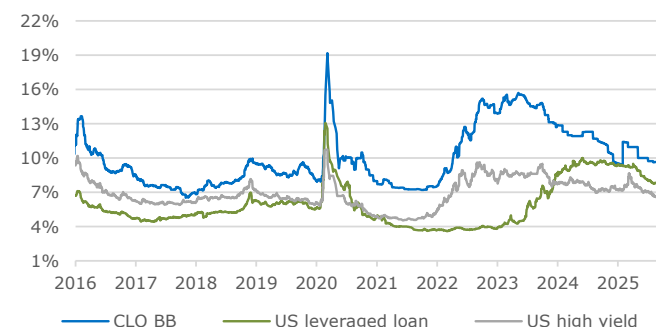


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.

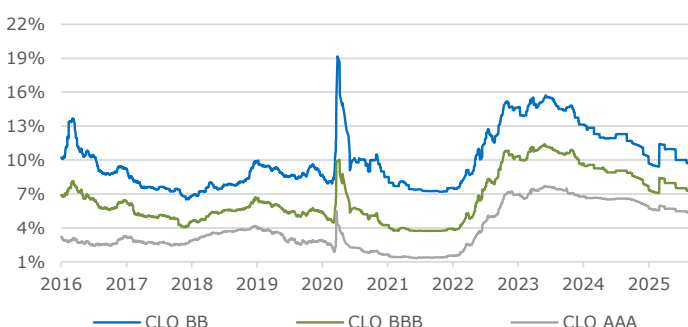


Alternative Perspective

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: Private Credit (1)

We start this Series discussing the main components of private/direct loan yields - i.e. the base rate, the spread and the original issue discount (OID).

Private loans generate income through regular interest payments, calculated as the sum of a base rate and a loan-specific spread, applied to the outstanding loan amount.

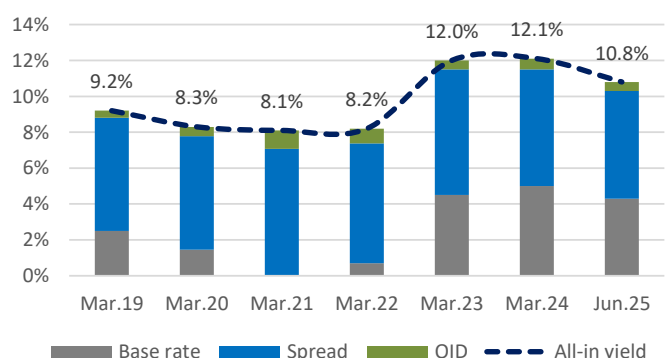
The base rate is a short-term benchmark (e.g. SOFR or EURIBOR), tied to the loan's currency, that reflects prevailing interest levels and helps mitigate interest rate volatility risk.

The spread is set to compensate lenders for the credit, illiquidity, and structural risks associated with the loan.

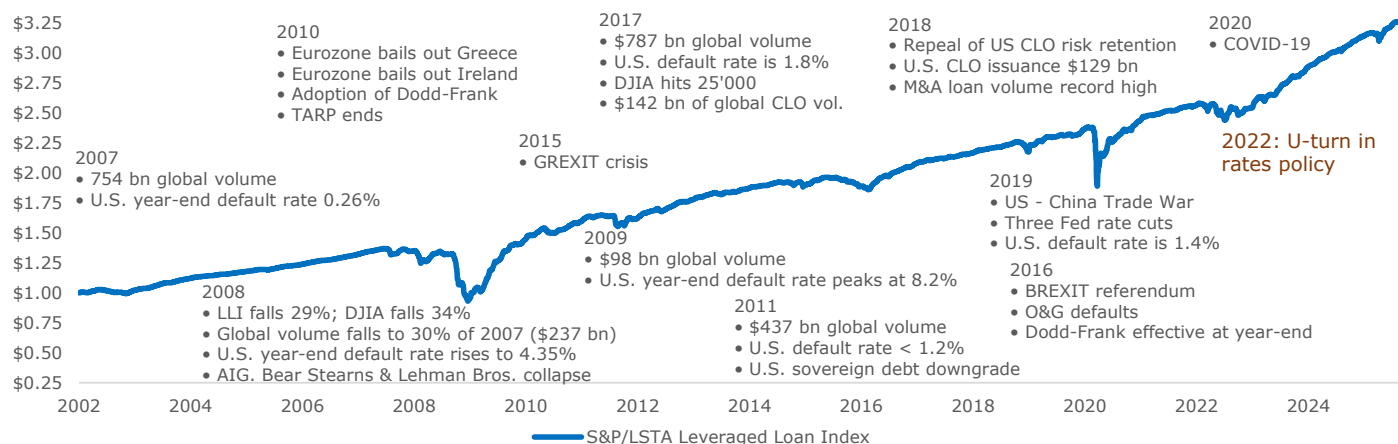
The OID represents an upfront fee paid by the borrower at issuance of the loan.

While spreads historically dominated loan returns, today's higherrate environment has reshaped the picture - with elevated base rates boosting overall loan yields and creating an attractive income profile for the asset class.

All-in yield new private loans (USD)



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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