

Alternative Credit Letter

January 2026

Monthly Spotlight

European HY Resilient Issuance Amidst Sponsor Stagnation

The European High Yield market experienced an exceptional surge in activity throughout 2025, marking one of its most robust issuance periods of the decade. Annual volumes surged to an equivalent of EUR 132.1 billion, representing an 8.8% increase year on year. This activity comprised 263 tranches from 190 different issuers, a total surpassed only by the historic 2021 peak of EUR 151.5 billion during the era of zero interest rate policies. (see graph).

While M&A activity, specifically sponsor to sponsor transactions did not fully meet initial industry projections, the sector still demonstrated significant growth. Conversely, private equity exits have remained stagnant since 2021. A persistent valuation gap between buyers and sellers has discouraged PE funds from realizing returns at lower prices. Consequently, firms are holding portfolio companies for record durations or utilizing continuation funds to manage assets while waiting for more favourable market conditions to exit.

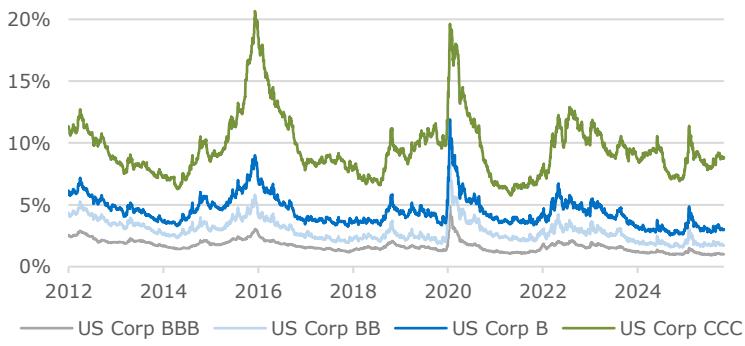
Rates Perspective

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

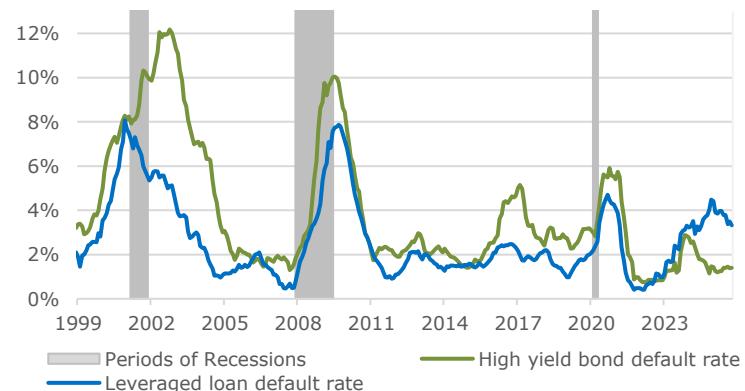


Corporate Perspective

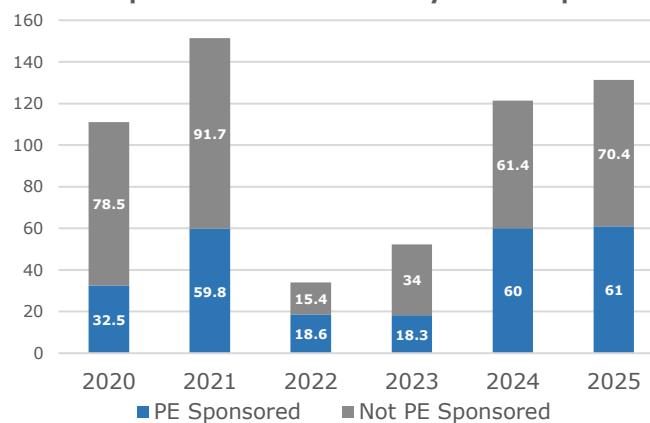
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



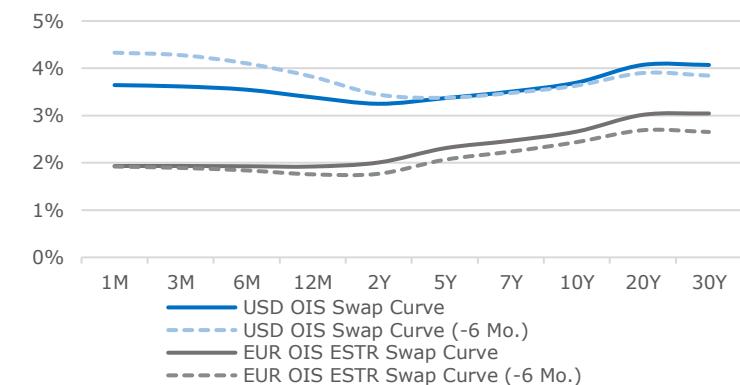
5) Default Rates: HY bond default rates are now for the first time lower vs. loans.



European HY bond issuance by ownership



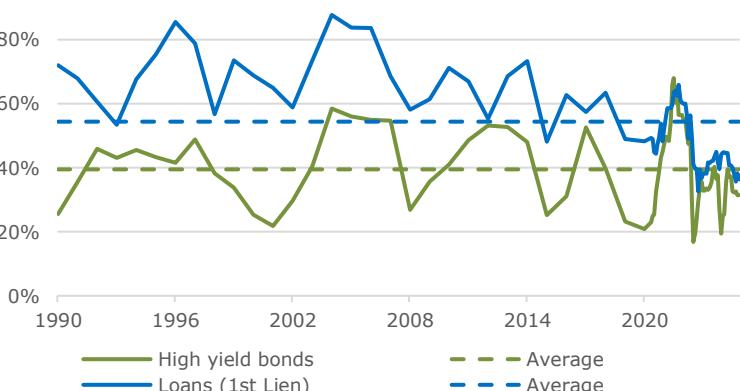
2) Interest Swap Curve: The USD and EUR curves are V-shaped with minima around 2Y maturities.



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



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø54%) vs. high yield bonds (Ø39%) 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	34	+1
AA	49	+2
A	65	-1
BBB	101	-3
BB	169	-4
B	301	-5
CCC	885	-32

Global high yield (bps)

	curr	Δ month
US HY	281	-14
EU HY	270	-13
Asia HY	418	-25
EM HY	339	-16

CDS spreads (bps)

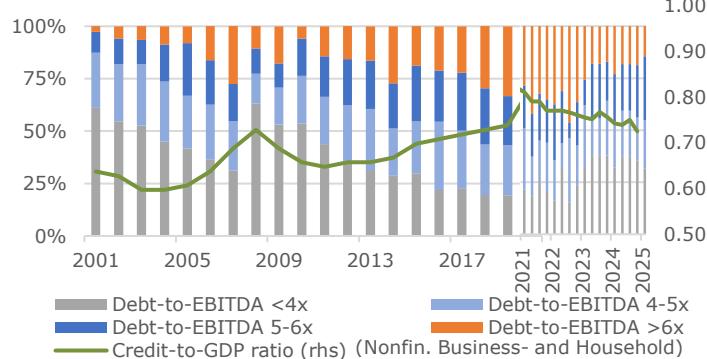
	curr	Δ month
CDX IG - US	50	-1
iTraxx IG - EU	51	-2
CDX HY - US	317	-6
iTraxx XO - EU	244	-11

Loans and CLOs yields (bps)

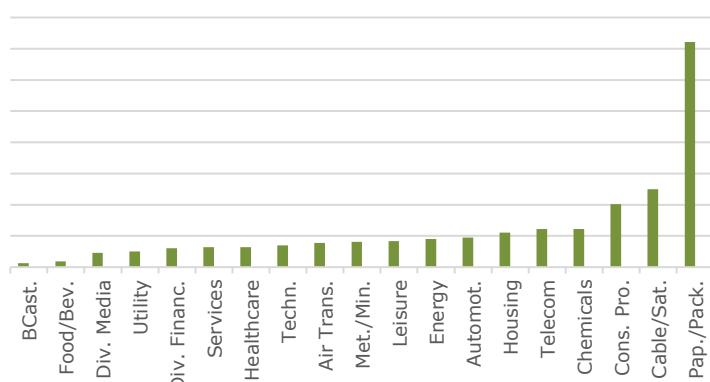
	curr	Δ month
US Loan	697	-33
CLO AAA	507	-18
CLO BBB	699	-18
CLO BB	964	-18

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.

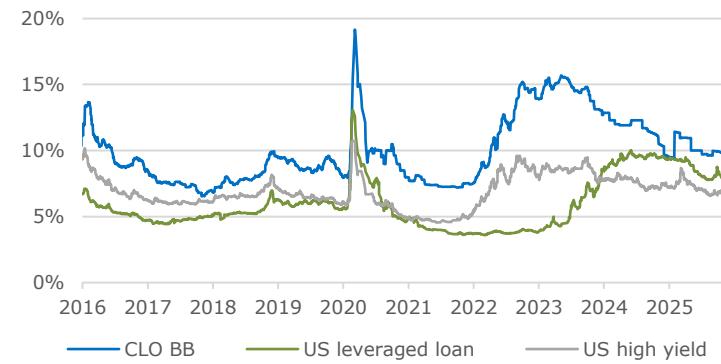


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.

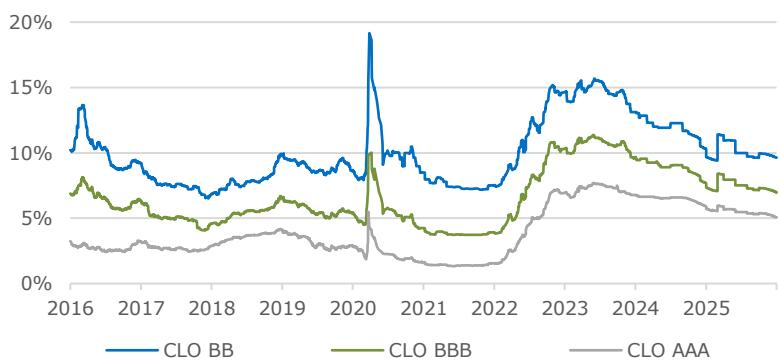


Alternative Perspective

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: Private Credit (#3)

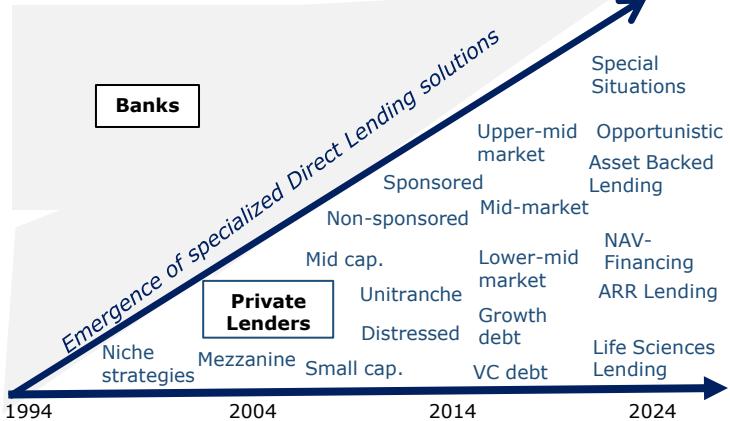
In this series, we look at the historical evolution of Direct Lending, which initially emerged as a niche strategy providing capital to companies with limited access to traditional bank financing.

Following the Global Financial Crisis, tighter banking regulation and a more risk-averse stance led banks to retrench from large parts of the middle market and bespoke lending, concentrating on larger, highly rated borrowers and capital-light activities - creating structural financing gaps.

Direct lenders stepped in and have since evolved into sophisticated, institutional platforms. The asset class now offers tailored solutions across company size, sponsorship profile, and sectors - from senior and unitranche lending to growth debt, asset-backed lending, NAV financing, and special situations.

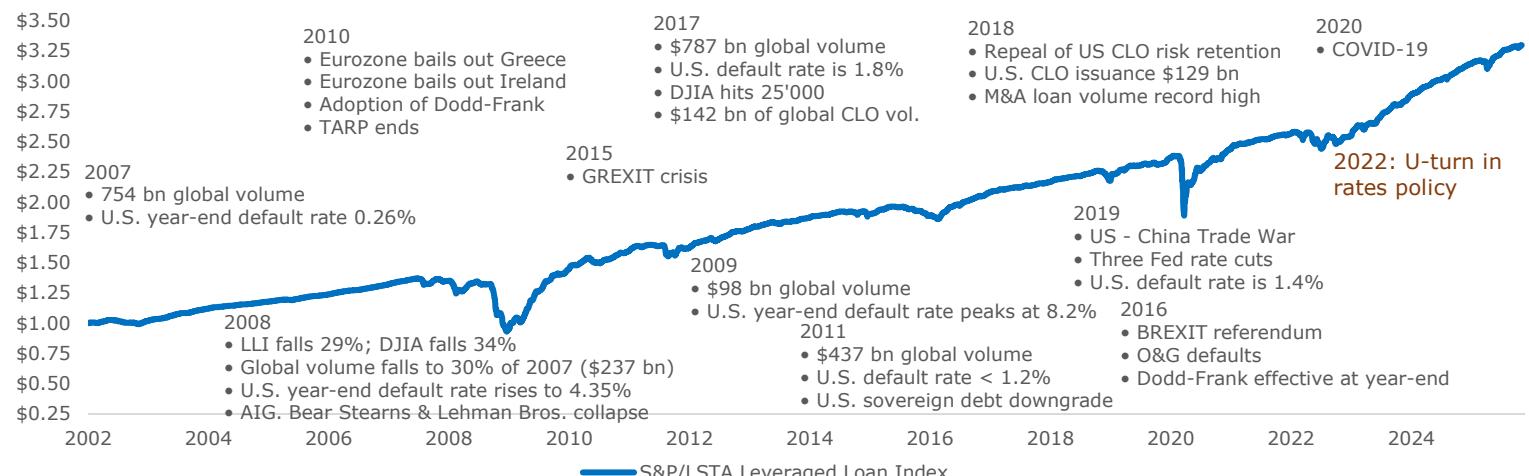
Beyond filling this gap, direct lending provides borrowers with greater flexibility, faster execution, and long-term, relationship-driven capital. Unlike banks constrained by regulation and balance-sheet considerations - and often focused on originate-to-distribute models - direct lenders apply rigorous underwriting, deep sector expertise, and a true buy-and-hold mindset, making the asset class a compelling long-term allocation for investors.

Direct lenders have diversified and became more sophisticated, taking away market shares from banks



For illustrative and educational purposes only. The chart provides a simplified and indicative representation of the evolution of direct lending strategies and may vary across geographies. Source: 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 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

Federal Reserve Bank of St. Louis

Palmer Square indices

Bank of America Merrill Lynch indices

Markit CDS indices

Prequin

Bloomberg

Moody's Investors Service

S&P

The Federal Reserve

J.P. Morgan

Federal Housing Finance Agency

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