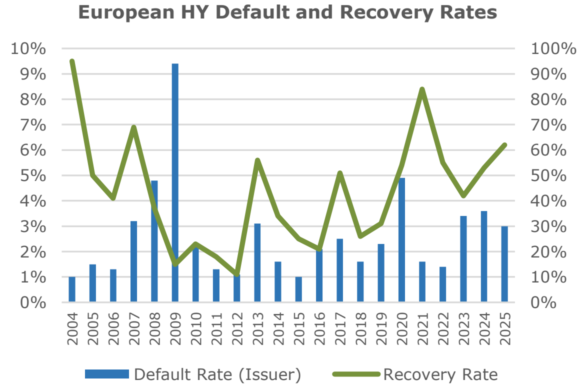
Monthly Spotlight

European HY: Default and Recovery Rates Summary

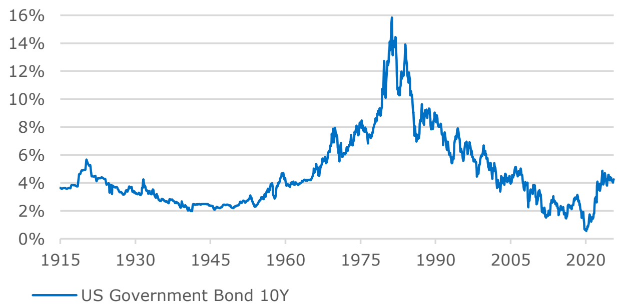
The European high yield market concluded 2025 with a notional default rate of 3.2%, representing a slight reduction compared to the previous year. A significant trend within the data is the robust recovery rate, which reached 62% in 2025, well above the long-term median of 41%. This high recovery level effectively limited the actual loss rate to 1.2%, demonstrating that even as defaults increased, the structural protection for creditors remained high. (See graph on the right; Left Axis: Default Rate; Right Axis: Recovery Rate).

For the second consecutive year, Financial Services emerged as the most distressed segment, posting a 17% default rate primarily attributed to the underperformance of debt servicing firms. While both Telecommunications and Construction & Materials registered default rates of 8%, the significantly larger market capitalization of the Telecommunications sector resulted in a disproportionately higher impact on the overall market default figures.

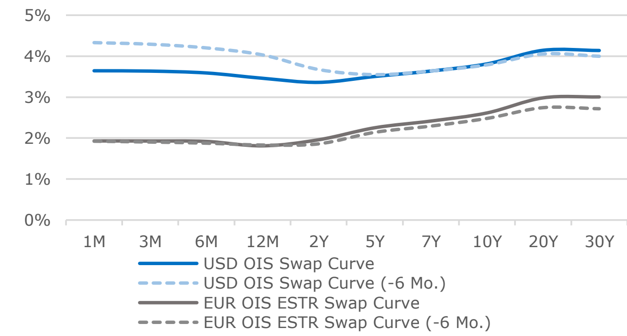


Rates Perspective

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

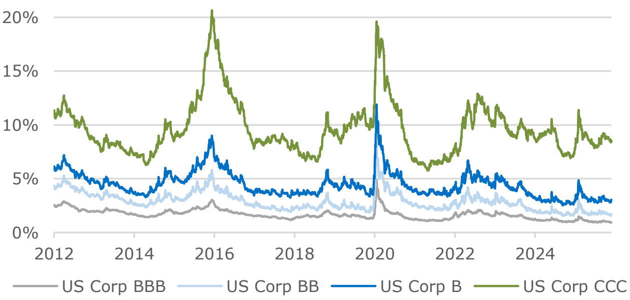


2) Interest Swap Curve: The USD curve remains inverted EUR shows gradual steepening beyond 2Y.

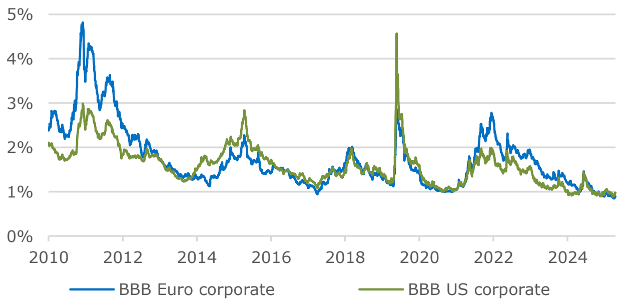


Corporate Perspective

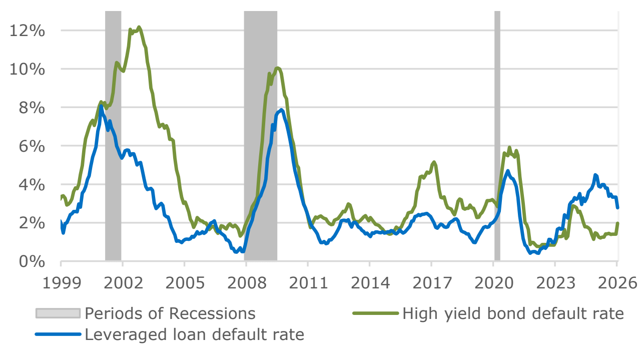
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



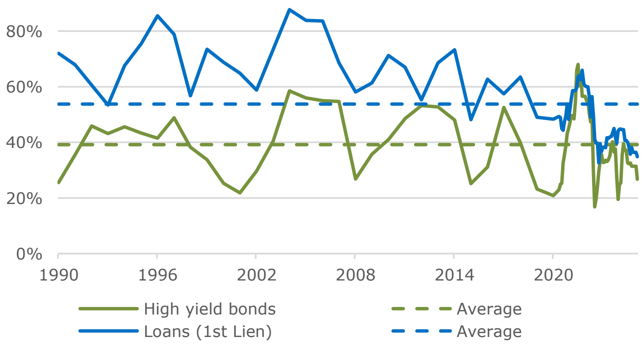
4) EU vs. US: EU credit spreads (OAS) are now at similar levels than in the US.



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 (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	33	-1
AA	45	-4
A	60	-5
BBB	94	-7
BB	171	+2
B	306	+5
CCC	855	-30

Global high yield (bps)

	curr	Δ month
US HY	280	-1
EU HY	263	-7
Asia HY	368	-51
EM HY	319	-20

CDS spreads (bps)

	curr	Δ month
CDX IG - US	49	-1
iTraxx IG - EU	51	+1
CDX HY - US	296	-20
iTraxx XO - EU	247	+3

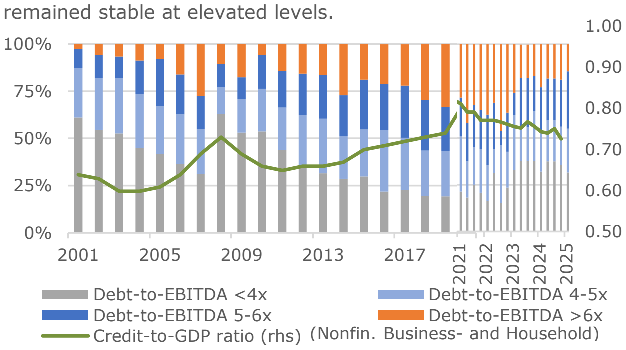
Loans and CLOs yields (bps)

	curr	Δ month
US Loan	725	+28
CLO AAA	489	-18
CLO BBB	704	+5
CLO BB	1001	+37

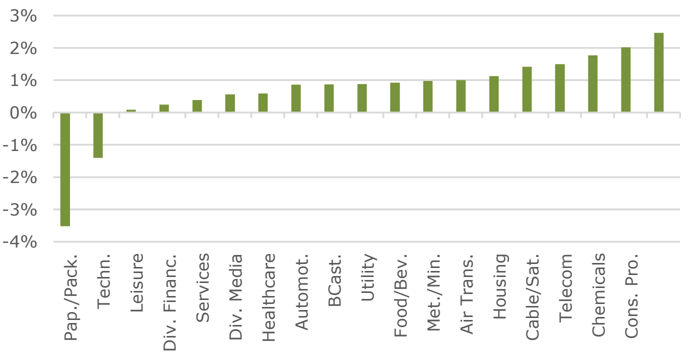
spread tightening (positive price action)

spread widening (negative price action)

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

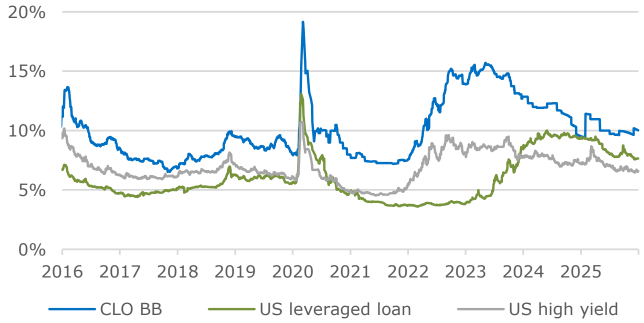


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.



Alternative Perspective

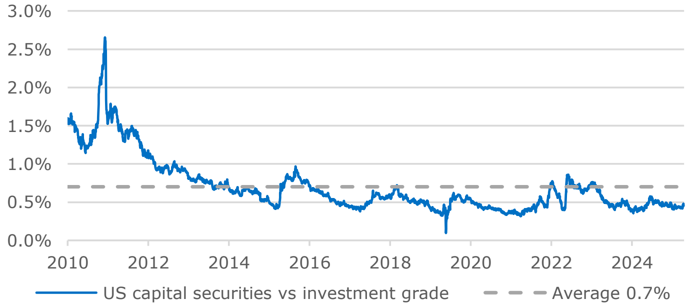
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs. loans and HY bonds.



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 (#5)

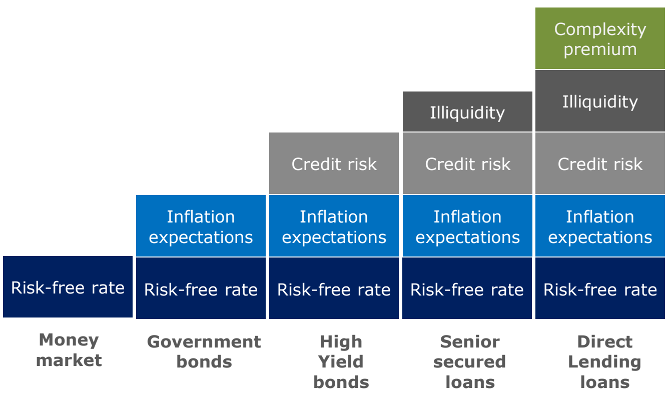
In this edition, we examine the building blocks of credit yields. Credit yields can be understood as a stack of premia. The foundation is the risk-free rate and inflation expectations, which largely explain government bond yields. Corporate credit adds a spread for default risk and issuer-specific uncertainty. Senior secured loans introduce an additional illiquidity premium, reflecting longer holding periods given limited secondary market depth.

Direct lending extends this framework with a complexity premium driven by the asset class' barriers to entry, requiring established sourcing networks, structuring expertise, scale, and loan workout expertise. The complexity premium rewards access and execution capability.

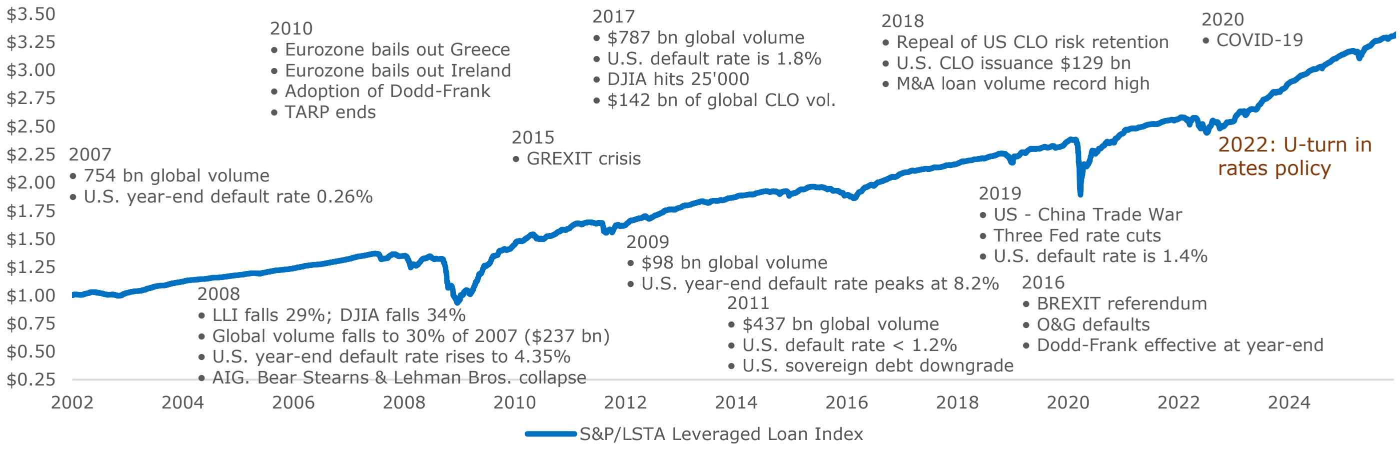
In practice, isolating the true drivers of yield in direct lending is difficult, as similar headline figures can arise from fundamentally different sources. Higher returns may reflect strong structural advantages and execution capabilities—or increased risk.

Selecting managers in direct lending requires a granular assessment of the sourcing strategy, underwriting rigor, and consistency of investment approach. Dispersion between managers is high. Rigorous due diligence is essential to distinguish durable risk-adjusted performance from returns primarily driven by greater underlying risk.

Investment factors driving yield of credit strategies



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

Contact Information:
Alpinum Investment Management AG
Talstrasse 82
CH-8001 Zurich
Tel: +41 43 888 79 30
Fax: +41 43 888 79 31
alpinumim.com