

## Monthly Spotlight

### Geopolitical Tail Risks and Bank Capital Opportunities

While the conflict's evolution remains unpredictable, the outlook for specific segments remains resilient despite elevated tail risks, particularly in sectors supported by fundamental drivers.

With oil and gas at \$90/bbl and €50/MWh, Eurozone inflation is projected to reach 2.5%, a level unlikely to necessitate further ECB tightening. Strong household savings and government support should mitigate growth volatility; however, a prolonged closure of the Strait of Hormuz remains a primary risk that could lead to a more disorderly market reaction.

In this environment, focus is shifting toward sectors with structural support, specifically Bank AT1s. The asset class appears well-positioned due to favourable supply technicals, M&A activity, and robust regulatory frameworks. The recent contained sell-off has adjusted valuations to levels that offer an attractive relative value opportunity. (See chart on the right).

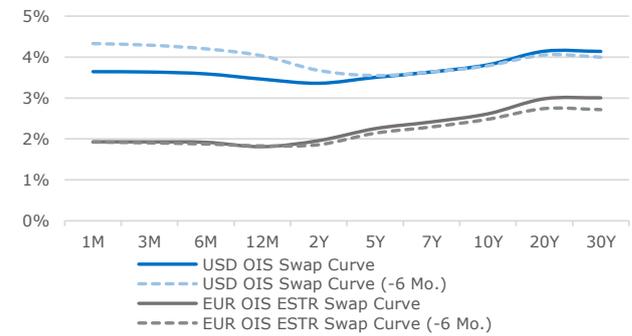
European Banks CoCo Tier 1 Segment	
Option-Adjusted Spread	268.5
Option-Adjusted Duration	3.73
Yield to Worst	6.06
Credit Rating (Moody's/S&P)	BAA3/BA1
Number of Issues	221
Total Market Value (m)	200,529
Amount Outstanding (m)	193,457

## Rates Perspective

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

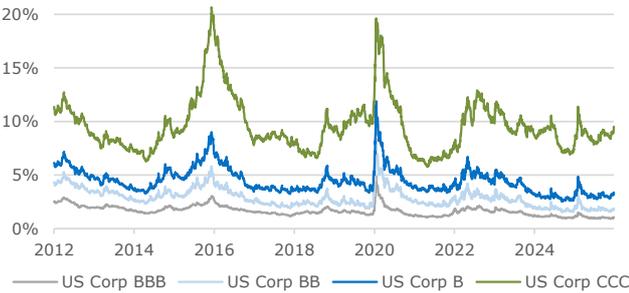


**2) Interest Swap Curve:** The USD curve remains inverted. EUR shows gradual steepening beyond 2Y.

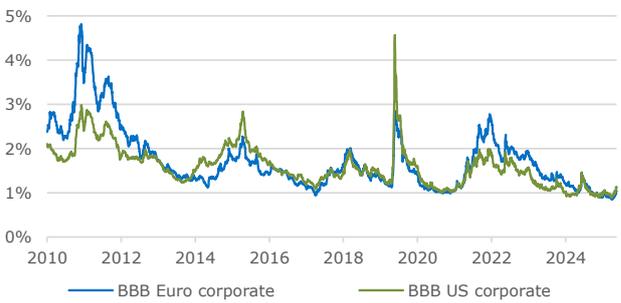


## Corporate Perspective

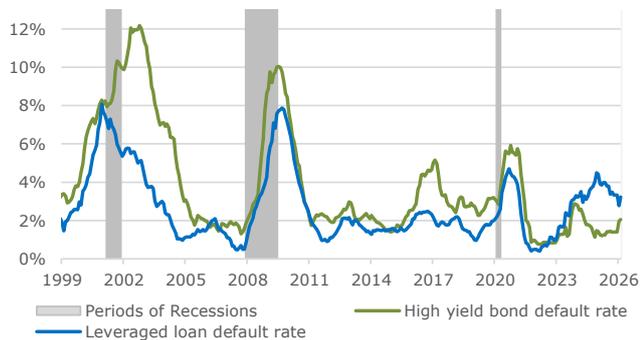
**3) US Corp. Rating:** Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



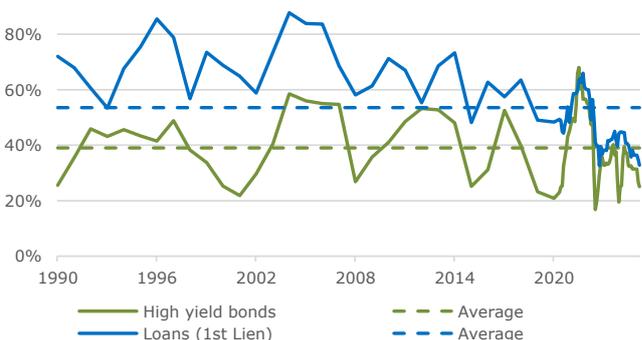
**4) EU vs. US:** EU credit spreads (OAS) are now at similar levels than in the US.



**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	41	+8
AA	54	+9
A	71	+11
BBB	107	+13
BB	189	+18
B	338	+32
CCC	950	+95

**Global high yield (bps)**

	curr	Δ month
US HY	310	+30
EU HY	269	+6
Asia HY	399	+31
EM HY	345	+26

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

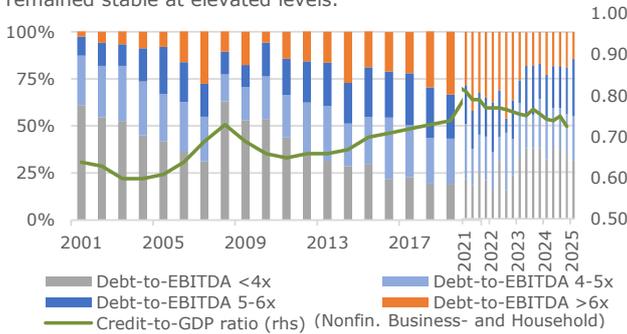
**CDS spreads (bps)**

	curr	Δ month
CDX IG - US	56	+7
iTraxx IG - EU	56	+4
CDX HY - US	332	+36
iTraxx XO - EU	260	+13

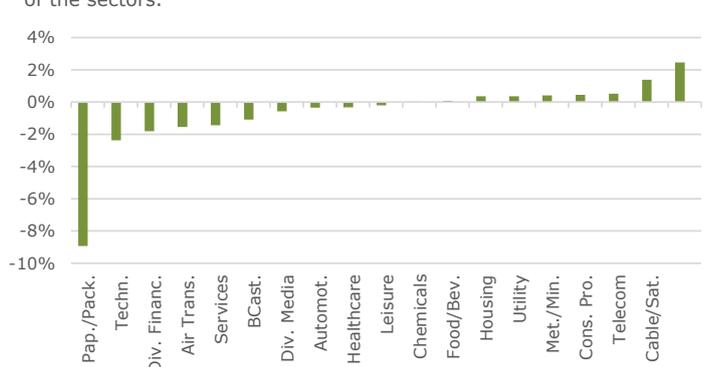
**Loans and CLOs yields (bps)**

	curr	Δ month
US Loan	779	+54
CLO AAA	488	-0
CLO BBB	741	+37
CLO BB	1058	+57

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

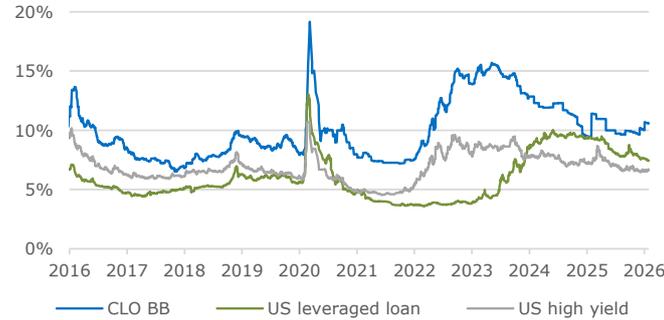


**8) YTD Sector High-Yield Returns:** Positive YTD results across most of the sectors.

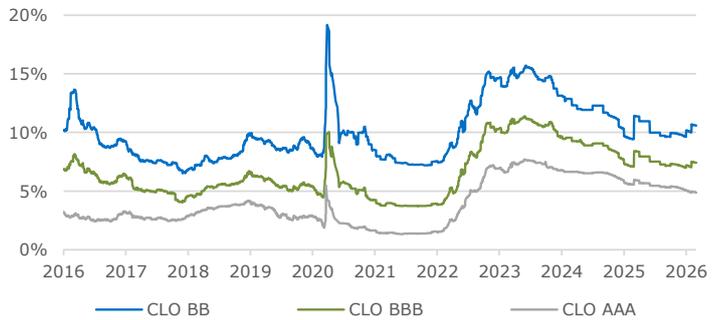


**Alternative Perspective**

**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.

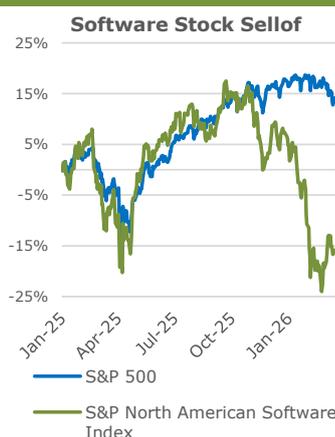


**12) Capital vs. IG:** Capital Securities structurally earn a premium vs. US IG bonds. Capital Securities are dominated by the financial sector.



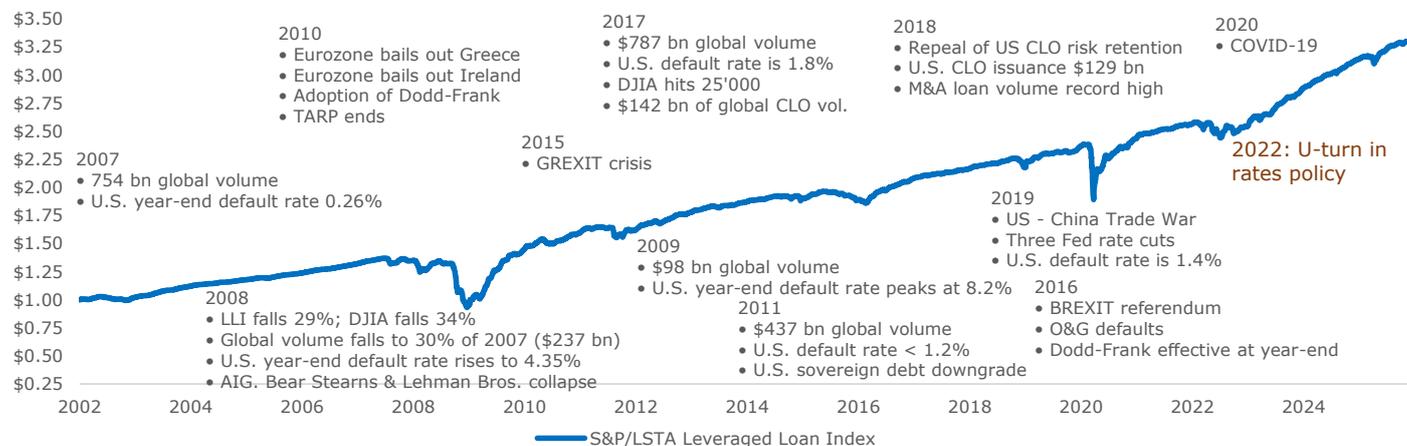
**Education Corner - Series: Private Credit (#5)**

In this edition, we assess AI disruption risk following the recent volatility and investor redemptions in parts of the direct lending market. Despite rapid progress in AI, there is limited evidence of structural credit stress in underlying portfolios. To date, adoption has primarily focused on productivity gains, product enhancement, and efficiency improvements rather than displacement of core systems. AI risk appears business-model specific rather than sector-wide. Mission-critical, deeply embedded software providers remain relatively resilient, while more peripheral or lightly integrated solutions face increasing competitive pressure as barriers to entry decline. Second-order effects may also emerge in service sectors exposed to automation. Market reactions, however, have been broader. Equity markets—particularly in software—have corrected significantly, and much more meaningfully than liquid loan markets, where selling has been more measured. Overall, AI impact is likely to materialize gradually, driving dispersion over time rather than immediate credit deterioration. In this context, senior lending strategies remain well positioned, with returns anchored in contractual cash flows and downside protection supported by capital structure seniority.



Note: Data is normalized beginning December 31, 2024. As of March 17, 2026.

## 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%;*

*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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