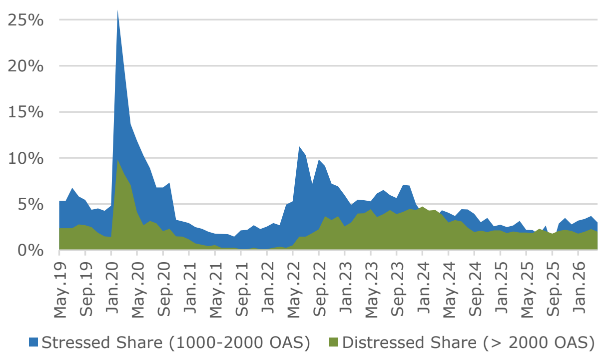
Monthly Spotlight

Continued Compression in Distressed Ratios.

The recent tightening reflects improving risk sentiment following the still fragile ceasefire and reduced geopolitical risk premium. If we look specifically at the most vulnerable tier of the high-yield market, the share of distressed high yield securities, defined as those with an OAS (Option-Adjusted Spread: the yield premium over risk-free rates accounting for embedded options) exceeding 2,000 bps, fell to 2% in May. This compression followed a 47-bp tightening triggered by a geopolitical rally.

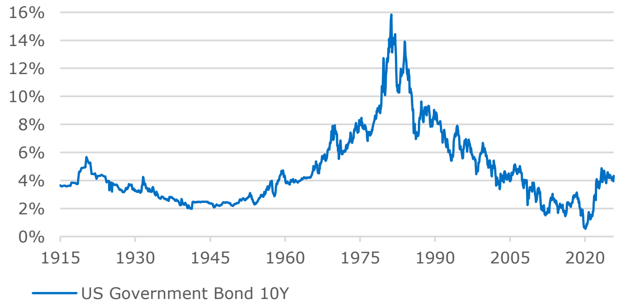
While this segment highlights potential credit events, the 2026 default rate is projected to remain below 3% (including Liability Management Exercises). The share of stressed securities, those with an OAS between 1,000 and 2,000 bps, also declined to 3%. This marks a steady reduction from March's 3.7% and represents a significant improvement compared to the 4.5% level seen in 2024. (See chart on the right).

Euro HY Stressed/Distressed Share

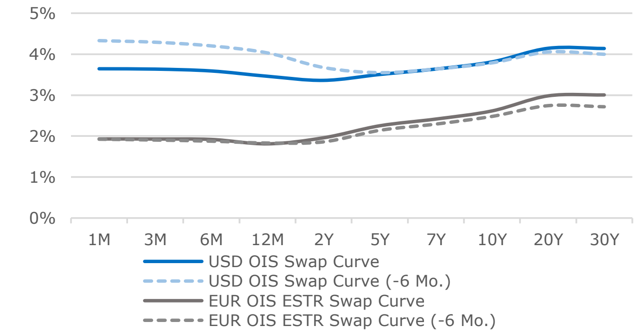


Rates Perspective

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

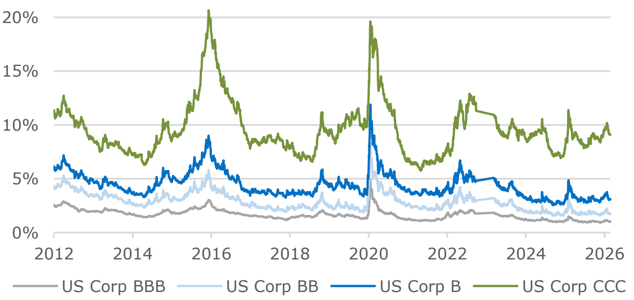


2) Interest Swap Curve: The USD curve remains inverted EUR shows gradual steepening beyond 2Y.

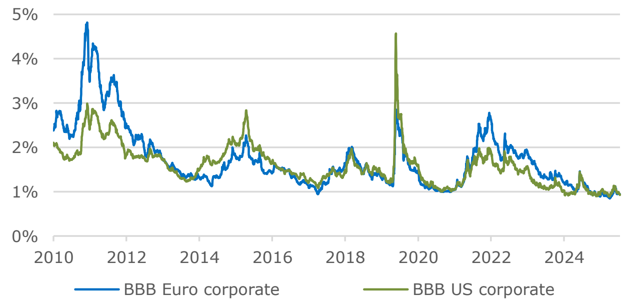


Corporate Perspective

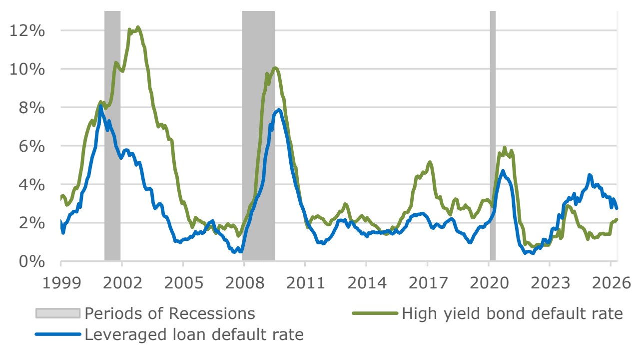
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



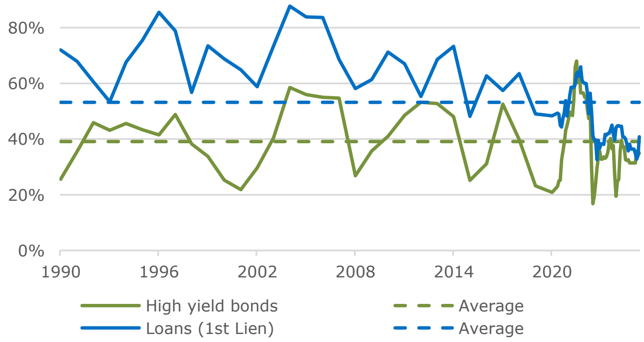
4) EU vs. US: EU credit spreads (OAS) are now at similar levels than in the US.



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



6) Recovery Rates including LMEs: Leveraged Loans (Ø53%) 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	37	-3
AA	52	-4
A	68	-7
BBB	102	-11
BB	174	-34
B	311	-50
CCC	909	-85

Global high yield (bps)

	curr	Δ month
US HY	283	-45
EU HY	280	-57
Asia HY	454	-56
EM HY	323	-65

CDS spreads (bps)

	curr	Δ month
CDX IG - US	54	-9
iTraxx IG - EU	59	-12
CDX HY - US	330	-55
iTraxx XO - EU	293	-60

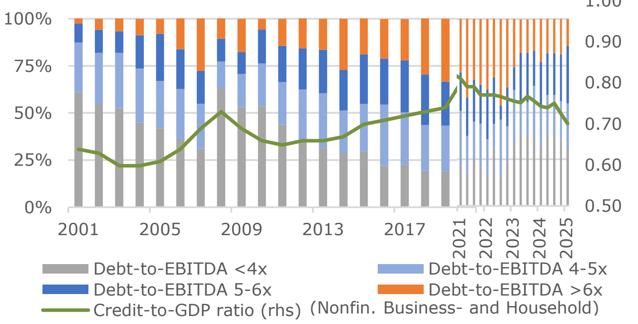
Loans and CLOs yields (bps)

	curr	Δ month
US Loan	747	-11
CLO AAA	477	-16
CLO BBB	697	-41
CLO BB	987	-66

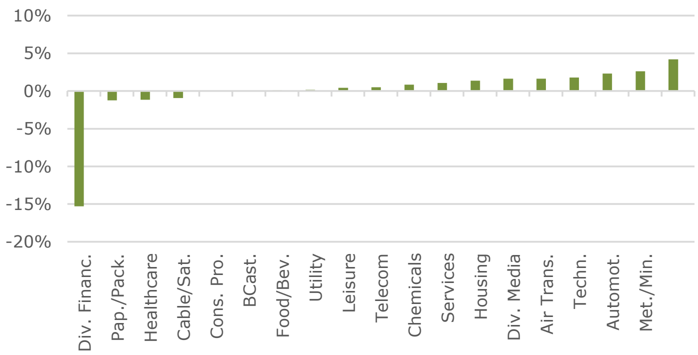
spread tightening (positive price action)

spread widening (negative price action)

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

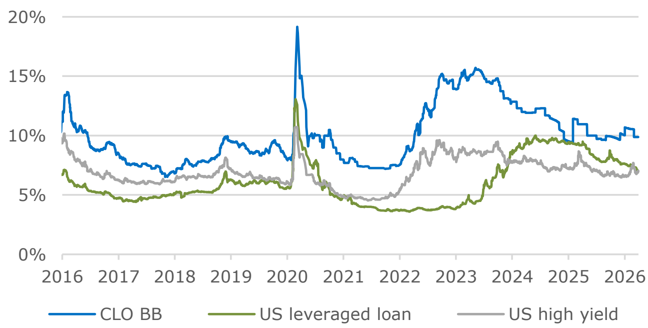


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.



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 (#7)

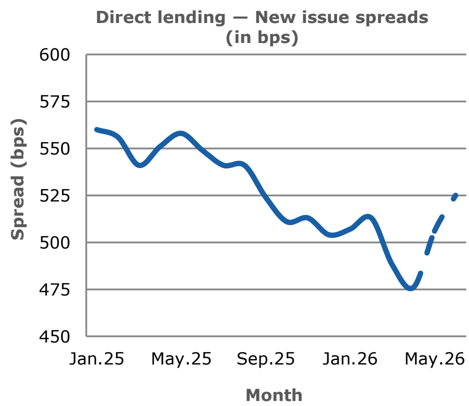
In this edition, we look at recent dynamics in direct lending. After more than two years of spread compression the market appears to have reached an inflection point.

According to Kroll / StepStone Private Credit Benchmark (a loan-level dataset that aggregates terms from direct lending transactions across the U.S. and Europe), the average contractual spread on newly issued direct loans — i.e. the margin charged over the floating reference rate (typically SOFR) — has since partially recovered to ~504 bps as of early May 2026, consistent with a broader repricing at the margin: new transactions are now pricing wider, and lender protections are improving.

New sponsor-backed transactions are reportedly pricing ~50–100 bps wider than late-2025 / early 2026 lows. Several factors are driving the repricing. Concerns around AI's impact on software valuations — the largest single sector exposure across most direct lending books — triggered a broad mark-down and forced a reassessment of risk pricing. Elevated redemption pressure on retail-oriented BDCs compelled managers to revisit cost of capital and liquidity positioning. The 2023–2025 wave of capital inflows that compressed pricing to cycle lows has eased, restoring a more balanced supply/demand dynamic. Geopolitical volatility added to the risk-off backdrop and weighed on deal activity.

Terms have tightened alongside pricing. Managers report stricter EBITDA add-back regimes, the return of maintenance covenants on larger transactions, enhanced lender protections, fewer PIK requests, and better upfront fees and call protection.

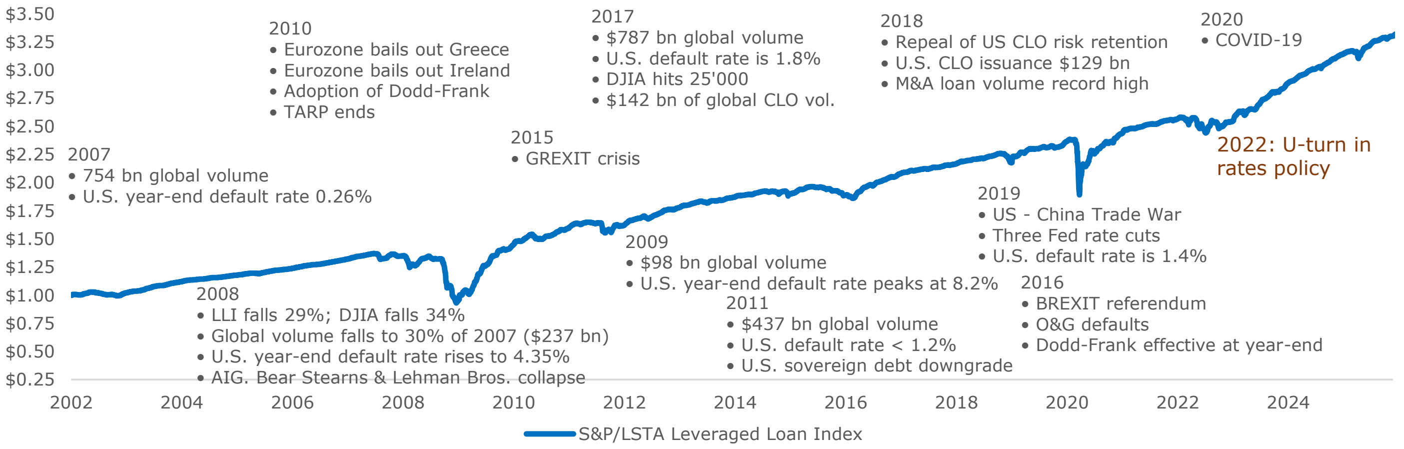
For new investors, the opportunity set has structurally improved: wider spreads, better terms, and more lender-friendly documentation.



Source: Kroll / StepStone Private Credit Benchmarks — New Issues, contractual spread (bps), as of May 2026.

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 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

This is an advertising document. This document does not constitute an offer to anyone, or a solicitation by anyone, to make any investments in securities. Such offer will only be made by means of a personal, confidential memorandum. This document is for the intended recipient only and may not be transmitted or distributed to third parties.

Past performance is not a guide to future performance and may not be repeated. You should remember that the value of investments can go down as well as up and is not guaranteed. The actual performance realized by any given investor depends on, amongst other things, the currency fluctuations, the investment strategy invested into and the classes of interests subscribed for the period during which such interests are held. Emerging markets refnoter to the markets in countries that possess one or more characteristics such as certain degrees of political instability, relative unpredictability in financial markets and economic growth patterns, a financial market that is still at the development stage, or a weak economy. Respective investments may carry enhanced risks and should only be considered by sophisticated investors.

Nothing contained in this document constitutes financial, legal, tax, investment or other advice, nor should any investment or any other decisions be made solely based on this document. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness and no liability is accepted for any direct or indirect damages resulting from or arising out of the use of this information. All information as well as any prices indicated is subject to change without notice. Any information on asset classes, asset allocations and investment instruments is only indicative. Before entering into any transaction, investors should consider the suitability of the transaction to their own individual circumstances and objectives. We strongly suggest that you consult your independent advisors in relation to any legal, tax, accounting and regulatory issues before making any investments.

This publication may contain information obtained from third parties, including but not limited to rating agencies such as Standard & Poor’s, Moody’s and Fitch. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Alpinum Investment Management AG and the third-party providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and will not be responsible for any errors or omissions (negligent or otherwise), or for the results obtained from the use of such content. Third-party data are owned by the applicable third parties and are provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products, or any indices. Such data are provided without any warranties of any kind.

If you have any enquiries concerning the document please contact your Alpinum Investment Management AG contact for further information. The document is not directed to any person in any jurisdiction which is prohibited by law to access such information. All information is subject to copyright with all rights reserved. Any communication with Alpinum Investment Management AG may be recorded.

Alpinum Investment Management AG is incorporated in Switzerland and is FINMA licensed and regulated.

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