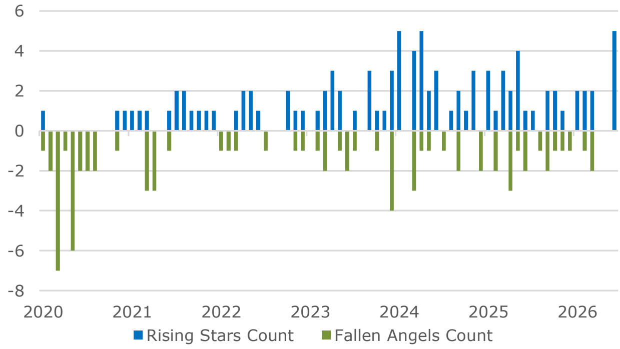
Monthly Spotlight

European Credit Quality: Rising Stars Maintain Q2 Lead

The European credit market continues to exhibit a positive rating migration trend, heavily skewed toward upgrades. Year-to-date, eleven rising stars (issuers whose credit ratings have been upgraded from high yield to investment grade), representing EUR 9.2 billion, crossed over into high grade. Conversely, only three companies suffered downgrades to fallen angels (issuers that lost their investment grade status and were demoted to high yield) due to deteriorating credit profiles (see chart on the right).

This performance extends the solid trajectory seen since 2022, when 20 rising stars with a volume of EUR 26 billion comfortably outpaced 14 fallen angels representing EUR 21 billion. Remarkably, the second quarter closed with a five-to-zero score in June alone. This data highlights the underlying strength of crossover credits against a volatile macroeconomic backdrop.

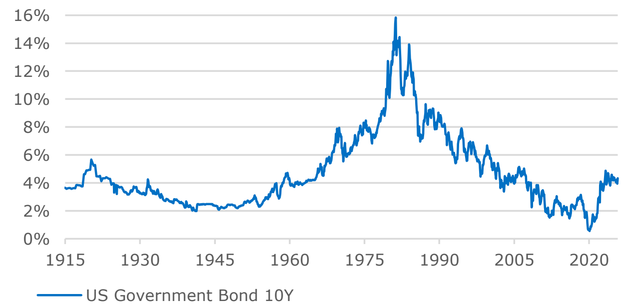
European Credit Rating Migration



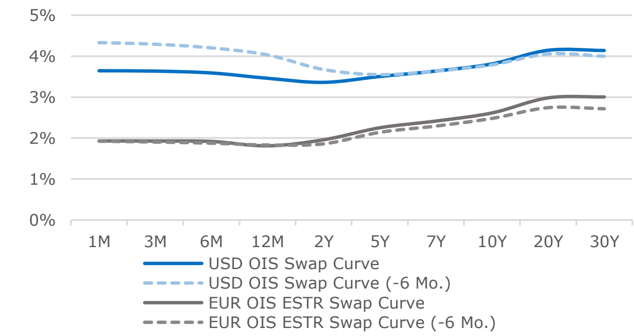
Source: Alpinum IM

Rates Perspective

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

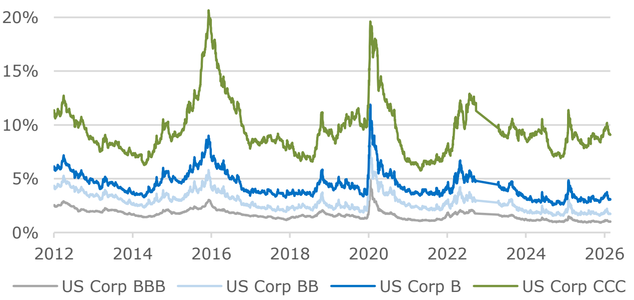


2) Interest Swap Curve: The USD curve remains inverted EUR shows gradual steepening beyond 2Y.

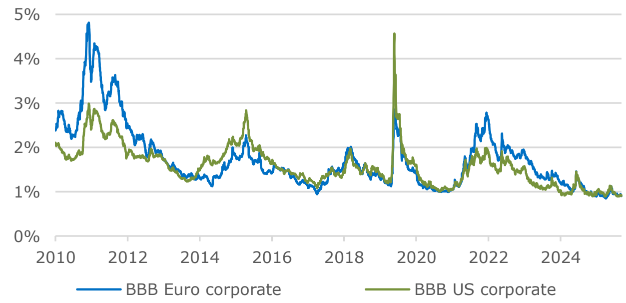


Corporate Perspective

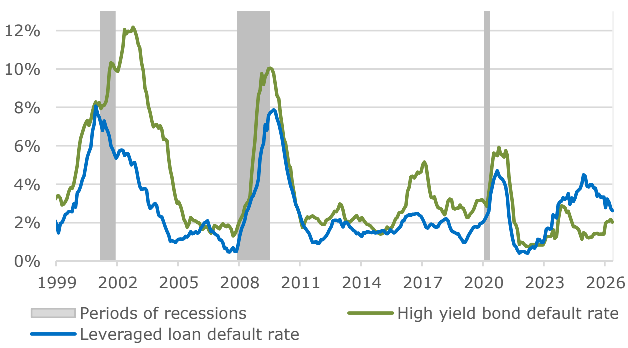
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



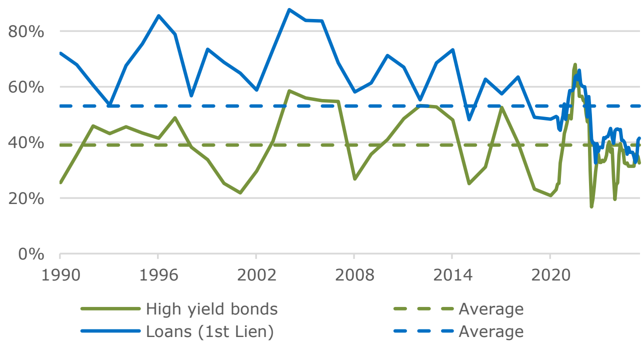
4) EU vs. US: EU credit spreads (OAS) are now at similar levels than in the US.



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)

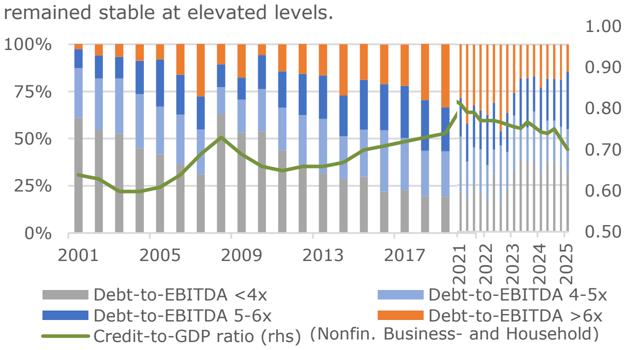
	curr	Δ month
CDX IG - US	54	-9
iTraxx IG - EU	59	-12
CDX HY - US	330	-55
iTraxx XO - EU	293	-60

Loans and CLOs yields (bps)

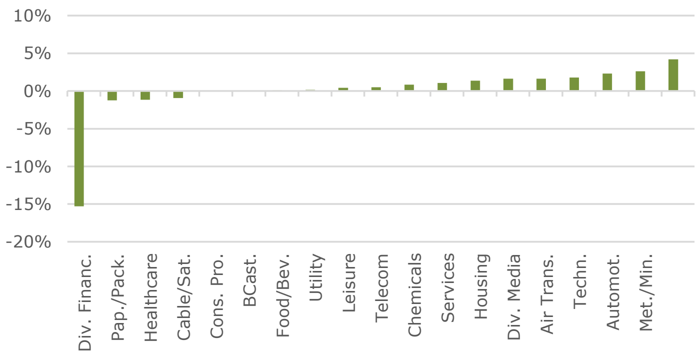
	curr	Δ month
US Loan	747	-11
CLO AAA	477	-16
CLO BBB	697	-41
CLO BB	987	-66

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.

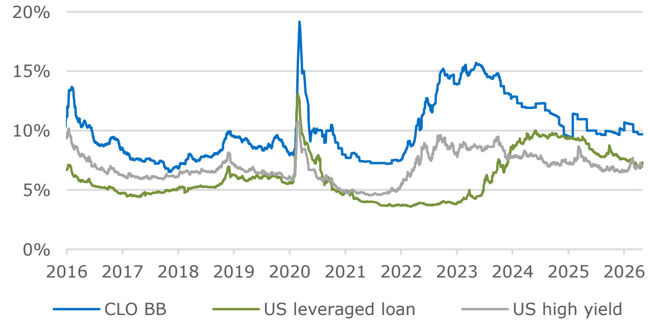


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.



Alternative Perspective

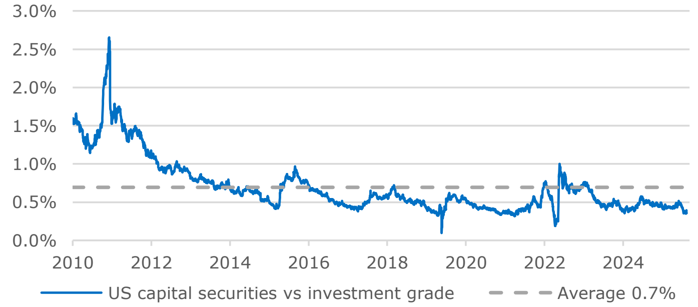
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs. loans and HY bonds.



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.



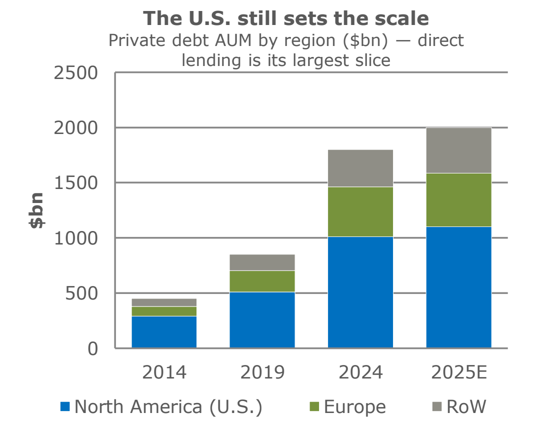
Education Corner - Series: Private Credit (#10)

In this edition, we compare U.S. and European direct lending. **Both markets are driven by the same secular tailwinds**: private equity growth, family-owned SME financing needs, and a gradual retrenchment of banks under tighter capital rules. They have also scaled in parallel — over the past two decades, direct lending AUM has compounded at roughly 39% in the U.S. and 43% in Europe.

Yet the two are not identical. Banks remain far more present in Europe, still providing around 50% of sponsor LBO financing, whereas U.S. private lenders now originate close to 80% of middle-market lending. The European market is also more concentrated — five managers account for nearly half of it — and less crowded by public loan markets. That structure shows up in how deals are underwritten: European transactions carry lower senior-secured leverage (4.5x vs 5.0x) and higher GP equity contributions (57% vs 47%), leaving lenders with more cushion.

Return profiles converge, even as their composition differs. The modest U.S. income-yield edge (9.7% vs 9.4%) reflects higher base rates rather than wider spreads; in fact, European private credit prices around 50 bps wider, a gap the higher U.S. base rate more than offsets over the period. On a total-return basis, Europe has edged ahead (roughly 9.0% vs 8.5% annualised since 2019), with modestly lower volatility.

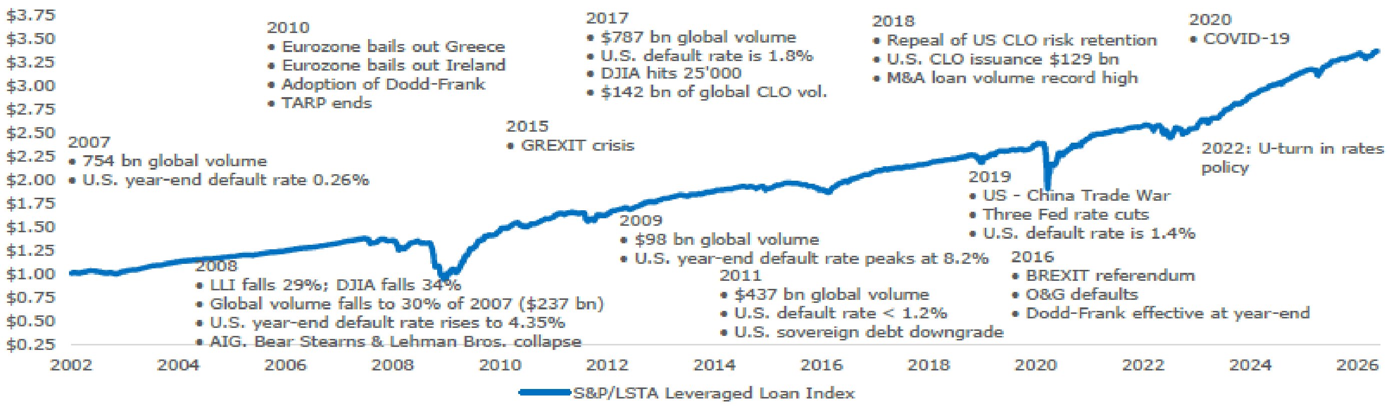
The conclusion is that **the two are better held together** than chosen between. A balanced allocation broadens origination and diversifies regional, rate and currency risk. One prevailing rule in both markets: **careful manager selection remains the decisive driver of performance.**



Source: Generali AM / Preqin, Private Debt Report 2025.

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		

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