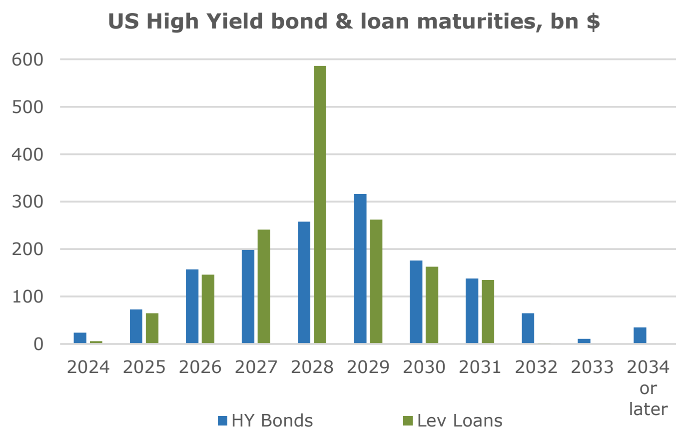
Monthly Spotlight

High Yield maturity wall for 2024 & 2025 largely cleared

The remaining maturities for high yield bonds and leveraged loans for 2024 account for only around 1% of the total market. The significant volume of bond refinancings in 2024 and 2023 after a year of record lows in 2022 has led to this accelerated debt absorption.

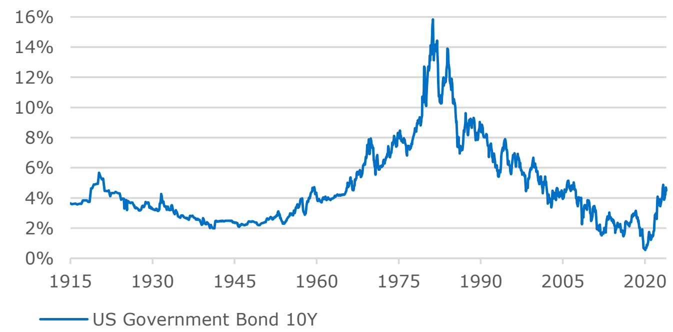
The USD 30 billion of outstanding bonds and loans maturing this year involve 66 issuers. The credit risk in the market is much higher for loans vs. bonds, as the outstanding loan issuers seeking refinancing are mainly CCC-rated loans. We therefore expect some of them to default.

Nevertheless, given the low volume, this will only lead to a slight increase in the expected default rate. Potential challenges are more likely to arise in the future when refinancing activities for the 2027 and 2028 maturities begin.

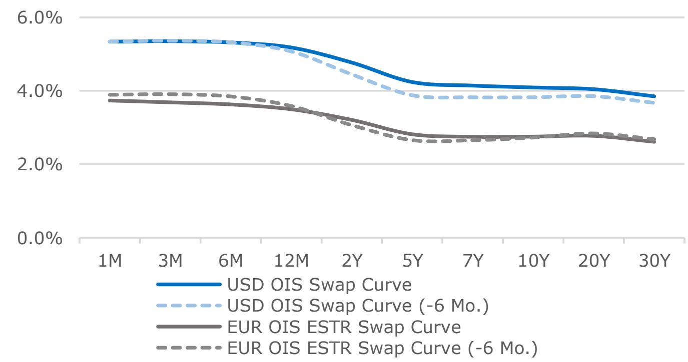


Rates Perspective

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

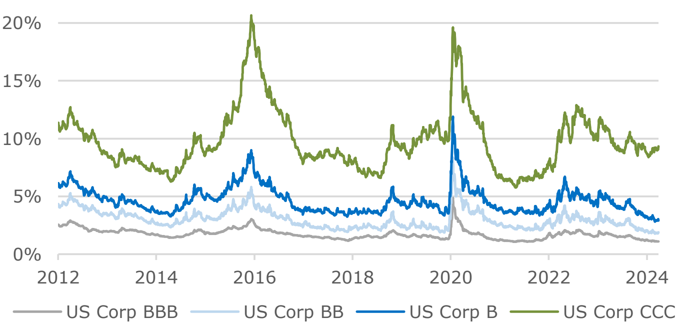


2) Interest Swap Curve: The USD and EUR curves remain inverted with shorter tenors continuously higher.

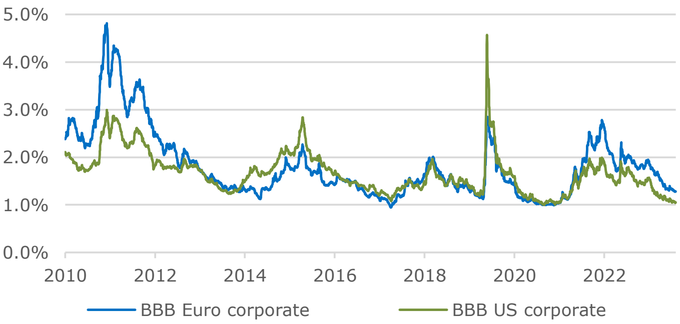


Corporate Perspective

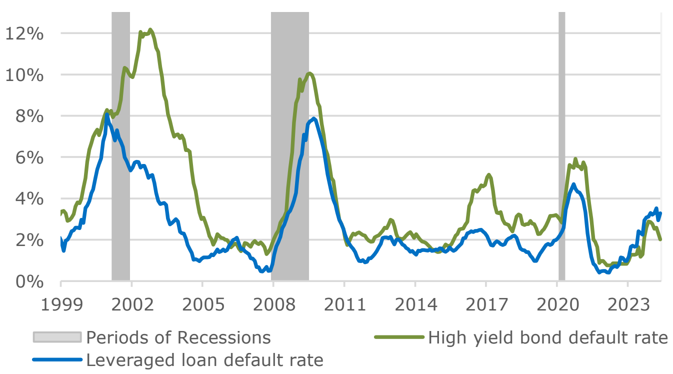
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



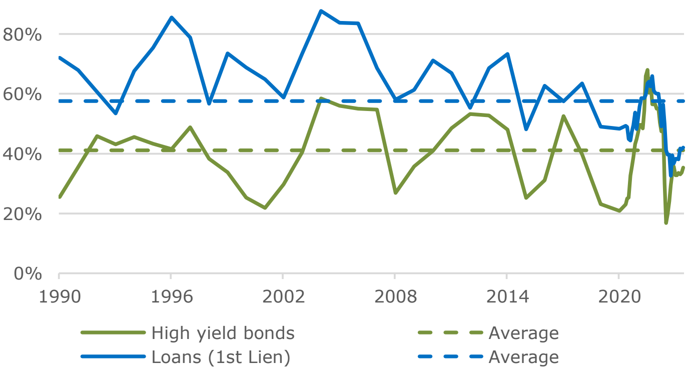
4) EU vs US: Since 2022 EU credit spreads (OAS) have remained wider than in the US.



5) Default Rates: HY bond default rates are structurally higher (Ø4.1%) vs. loans (Ø2.7%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø58%) vs. high yield bonds (Ø41%) 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	+1
AA	49	+0
A	74	-3
BBB	110	-4
BB	189	+0
B	291	-8
CCC	934	+18

Global high yield (bps)

	curr	Δ month
US HY	320	+2
EU HY	329	-21
Asia HY	472	-124
EM HY	507	-2

CDS spreads (bps)

	curr	Δ month
CDX IG - US	50	-4
iTraxx IG - EU	53	-3
CDX HY - US	333	-24
iTraxx XO - EU	296	-22

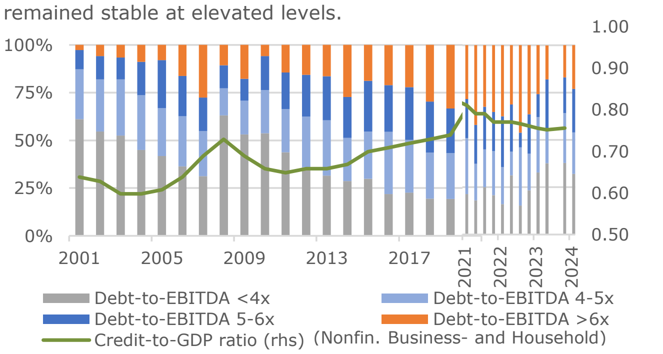
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	928	-10
CLO AAA	652	-5
CLO BBB	890	-30
CLO BB	1192	+0

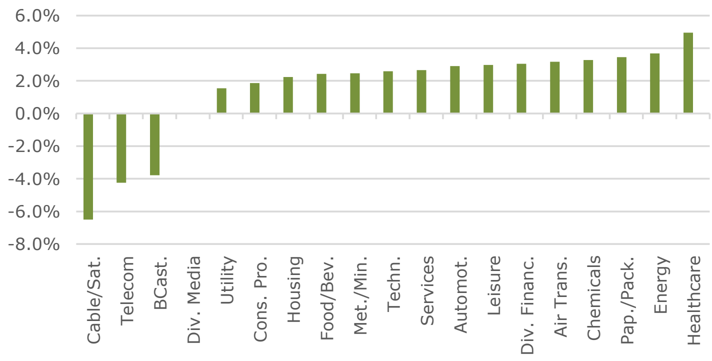
spread tightening (positive price action)

spread widening (negative price action)

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

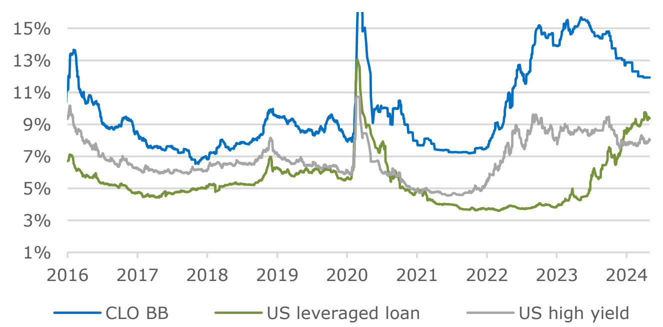


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors, with leisure outperforming significantly.

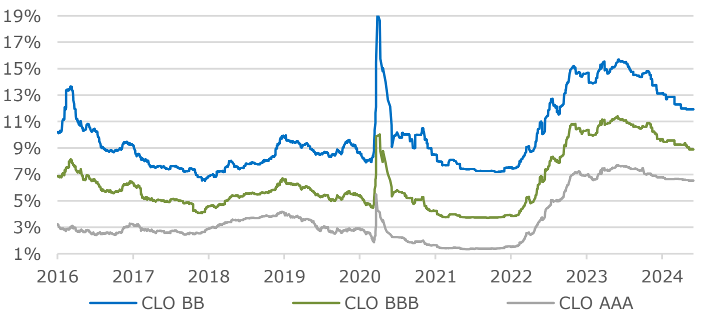


Alternative Perspective

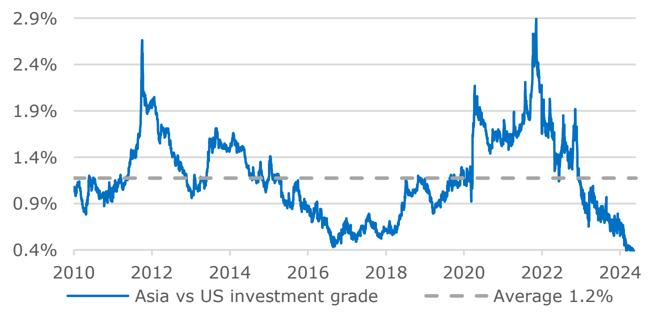
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs Loans and HY bonds.



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: AIM Credit Analysis (4)

Measuring leverage through Credit Ratios

So far in our series "AIM Credit Analysis", we have focused on cash generation capacity, working capital and Capex. While generating returns for shareholders is the primary goal of any business, these absolute measures alone tell us little about a company's financial health and its ability to service debt.

To achieve this, we need to contextualize it within the capital structure and there are three widely utilized ratios in the industry:

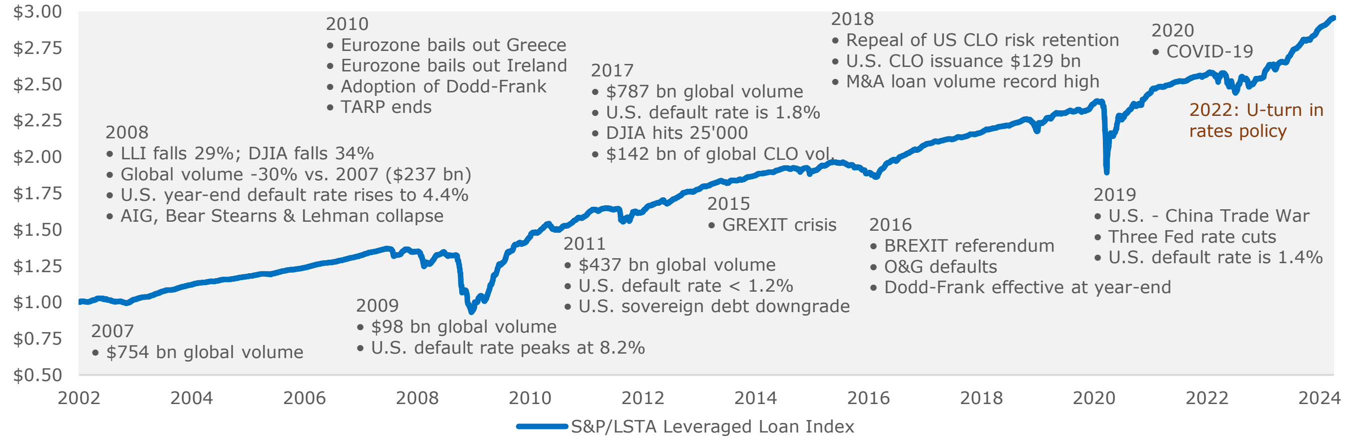
- Leverage Ratio: Net Debt / Adjusted EBITDA
- Loan to Value Ratio: Debt / Enterprise Value
- Interest Coverage Ratio: Operating Income / Interest Expense

These metrics should be compared with historical values, competitors and, above all, future forecasts. Certain sectors, such as real estate, utilities or infrastructure, can sustain a higher leverage ratio. In contrast, sectors such as oil & gas, automotive or some industrial companies generally require lower leverage multiples.

Credit Ratios

Leverage Ratio:	$\frac{\text{Debt - Cash \& Equivalent}}{\text{Adjusted Ebitda}}$
Loan to Value Ratio:	$\frac{\text{Debt}}{\text{Market Cap. + Minority Interest + Debt - Cash \& Equivalent}}$
Interest Coverage Ratio:	$\frac{\text{Operating Income}}{\text{Interest Expense}}$

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.

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. 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