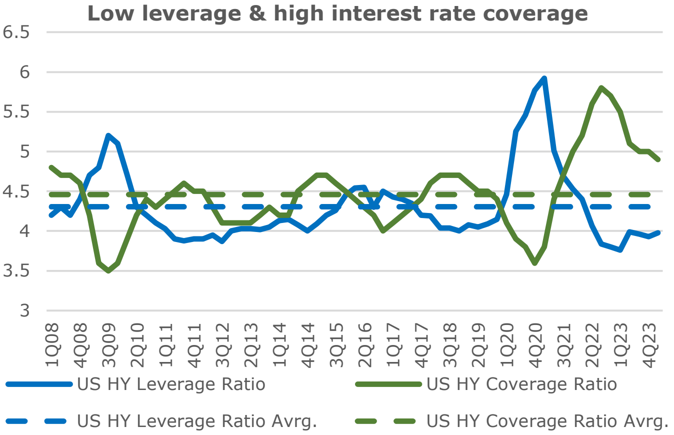
Monthly Spotlight

US High Yield maintains stable credit metrics

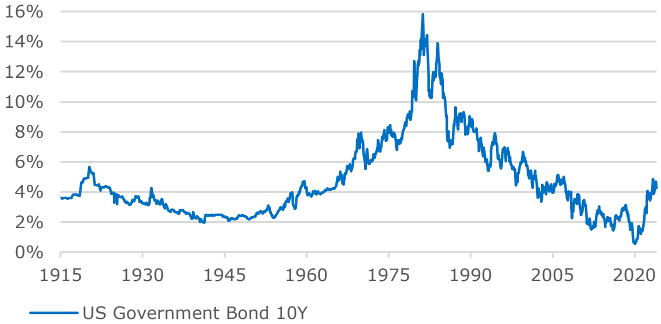
US High Yield corporates are delivering solid results following a first quarter of earnings beats and generally positive guidance. Although leverage ratios have seen a minor increase of 0.05x in 2024, leverage ratios remain well below the long-term average of 4.31x, currently standing at 3.98x. This ratio has been stable below 4x since the second quarter of 2022 (Blue line = Debt/EBITDA; a lower ratio indicates better credit quality).

Regarding the coverage ratio, the impact of high coupons has been more pronounced, causing a sharper decline over the last few quarters, aligned with rising interest rates. Nevertheless, the ratio remains comfortably above the historical average of 4.5x and is expected to stabilize as interest rates decrease over the next few quarters (Green line = EBIT/Interest expense; a higher ratio indicates better credit quality).

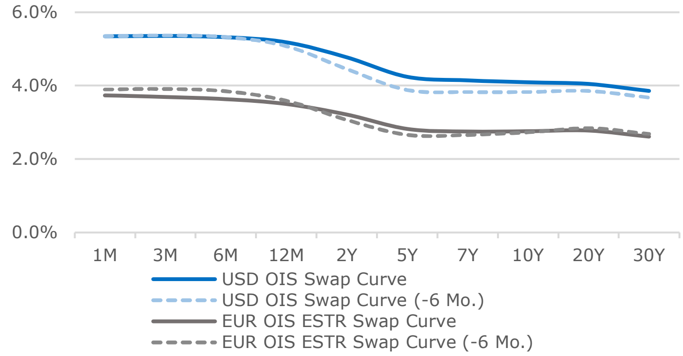


Rates Perspective

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

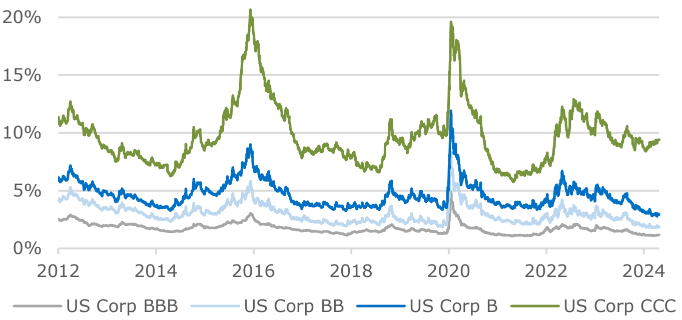


2) Interest Swap Curve: The USD and EUR curves remain inverted with shorter tenors continuously higher.

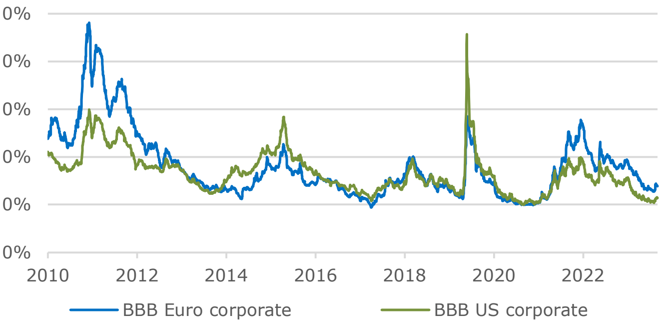


Corporate Perspective

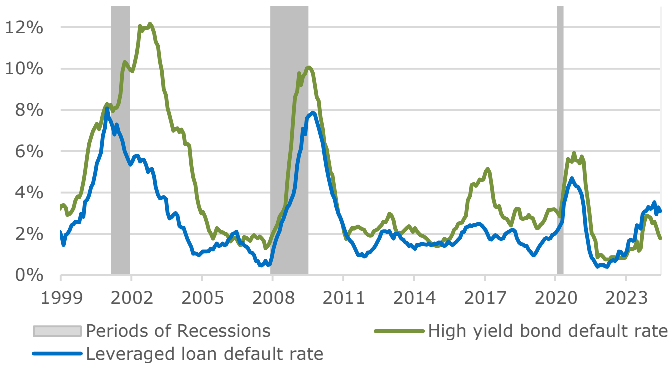
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



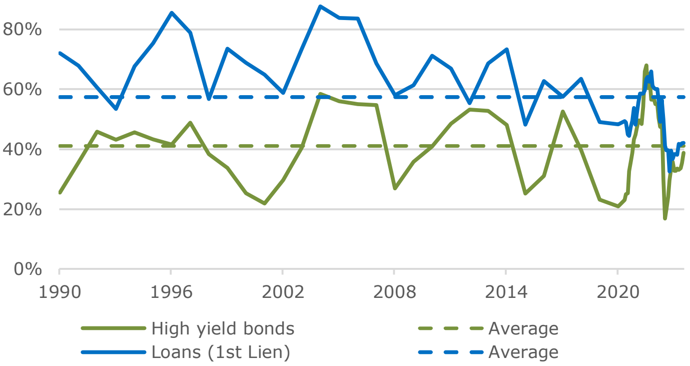
4) EU vs US: Since 2022 EU credit spreads (OAS) have remained wider than in the US.



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 (Ø57%) 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	42	+5
AA	56	+7
A	82	+8
BBB	118	+8
BB	188	-1
B	293	+2
CCC	944	+10

Global high yield (bps)

	curr	Δ month
US HY	321	+1
EU HY	349	+20
Asia HY	461	-11
EM HY	518	+12

CDS spreads (bps)

	curr	Δ month
CDX IG - US	53	+4
iTraxx IG - EU	61	+8
CDX HY - US	344	+11
iTraxx XO - EU	319	+23

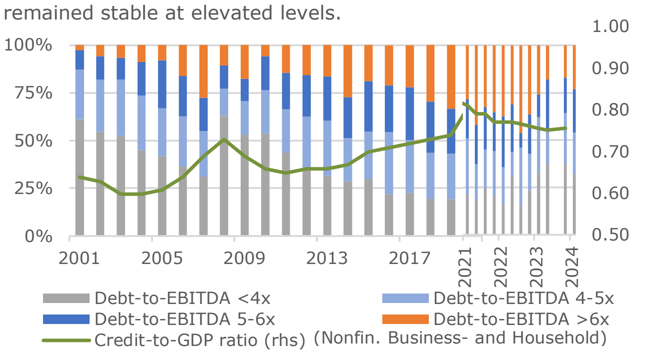
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	933	+5
CLO AAA	653	+0
CLO BBB	890	+0
CLO BB	1193	+0

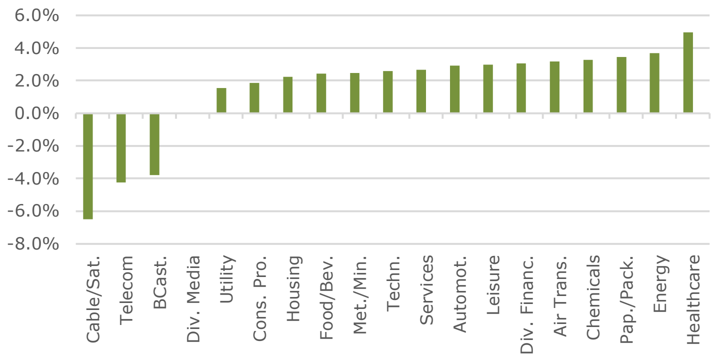
spread tightening (positive price action)

spread widening (negative price action)

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

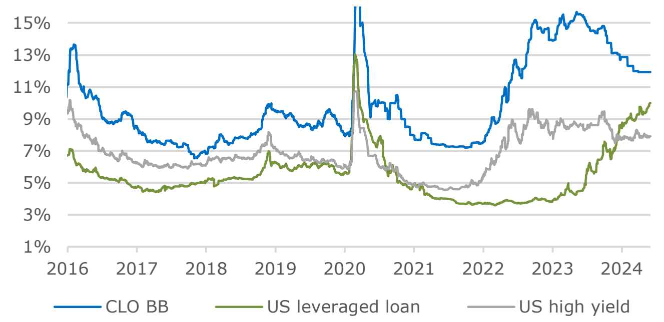


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors, with leisure outperforming significantly.

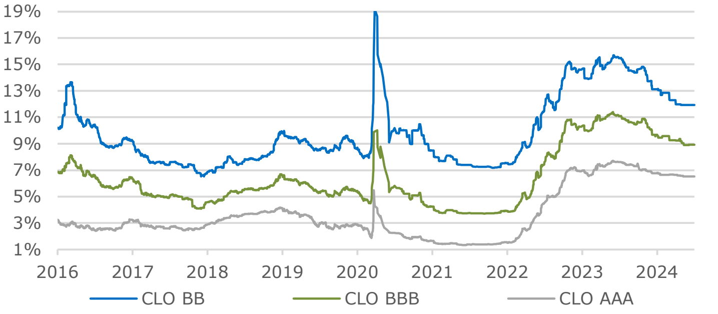


Alternative Perspective

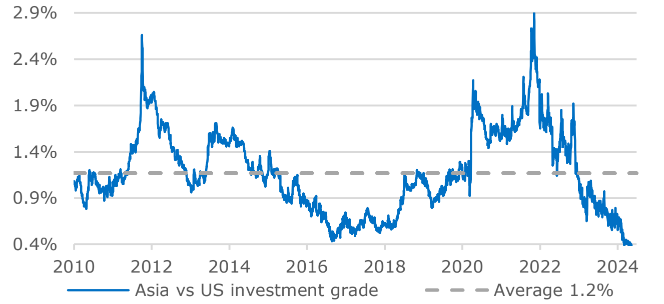
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs Loans and HY bonds.



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 (5)

Calculating leverage in each debt tranche

Last month, we focused on calculating ratios to contextualize a company's leverage. Generally, companies issuing debt in public markets have various tranches of capital, each offering yields adjusted to their respective risks.

It is common to find companies issuing collateralized debt to reduce risk in case of default (e.g., Secured Loans), uncollateralized debt but with a higher priority ranking than other debt (e.g., Senior Bonds), unsecured debt (e.g., Senior Unsecured bonds), hybrid debt (with perpetuity features in some cases but with priority over equity), and finally, preferred equity and common stock.

Therefore, it is important to understand both the overall leverage and the leverage specific to each debt tranche. A common way to express this is through a debt waterfall ranked by seniority and the leveraged EBITDA multiple associated. This allows for a straightforward analysis of how leverage varies and increases depending on the capital structure.

LTM EBITDA (m €)	**375**	LTM = Last Twelve Months
Cash & cash equivalents (m €)	**150**	RCF = Revolving Credit Facility

	m €	**Leverage**
Term Loan A & RCF 2026	250	0.7x
Term Loan B 2028	250	0.7x
Senior Secured Bond 2029	300	0.8x
Total Secured Debt	**800**	**2.1x**
Total Secured Net Debt	**650**	**1.7x**
Senior Unsecured Bond 2027	500	1.3x
Senior Unsecured Bond 2031	500	1.3x
Total Gross Debt	**1800**	**4.8x**
Total Net Debt	**1650**	**4.4x**

NOTE: Secured Lenders bear a 1.7x Net Leverage: 800m (Secured Debt) - Cash and Cash Equivalent (150m) / 375 (LTM EBITDA) = 1.7x **Unecured Lenders bear 4.4x Net Leverage**: 1800m (Secured + Unsecured Debt) - Cash and Cash Equivalent (150m) / 375 (LTM EBITDA) = 4.4x

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