ALPINUM INVESTMENT MANAGEMENT

TURNKEY SOLUTIONS FOR WEALTH MANAGERS AND FUND MANAGERS

Alternative Credit Letter

October 2024

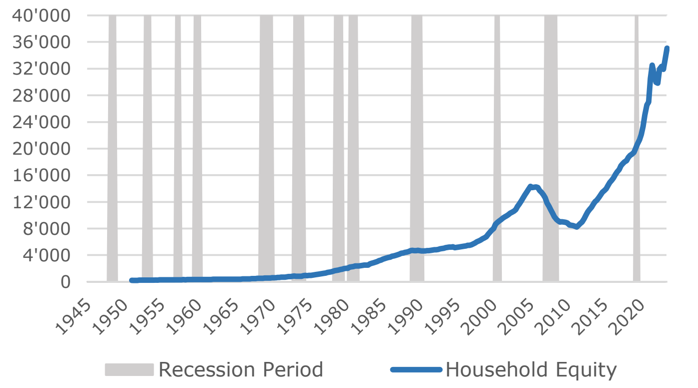
Monthly Spotlight

U.S. home owners' equity serves as backstop for economy

U.S. homeowners' equity has reached a historic high, with $ 35 trilion**,** serving as a substantial financial backstop for the economy in the event of a recession. In such a scenario, homeowners have the option to refinance their mortgages and tap into this equity as a financial cushion (vs. U.S. GDP value of $ 27 tr.).

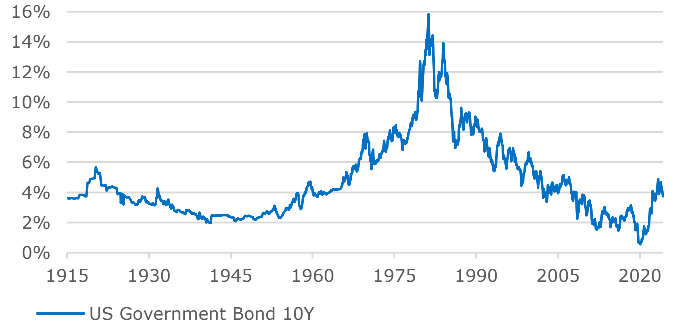
Thus, homeowners' equity acts as a valuable reserve for "bad days" - even more as the U.S. homeownership rate is ~65%. While refinancing is currently not economic, this will change once rates fall. Lower rates will also lead to an increase in housing starts, which provides further support to the economy, keeping in mind that almost 15% of the U.S. employees work direct or indirectly in the housing sector.

Households; Owners' Equity in Real Estate $ tn

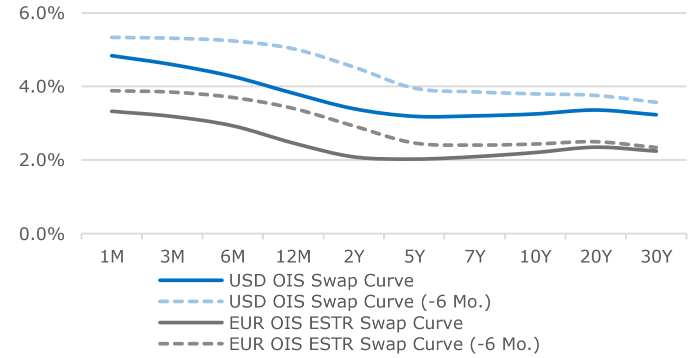


Rates Perspective

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

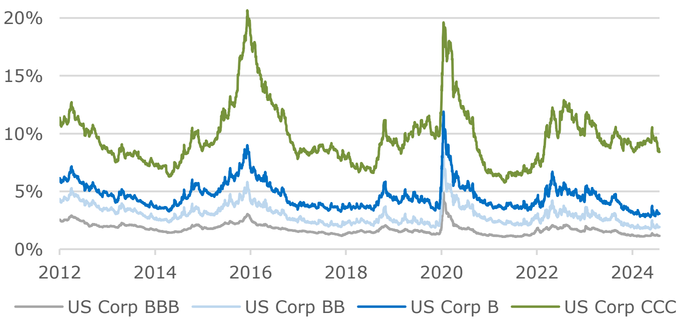


2) Interest Swap Curve: The USD and EUR curves remain inverted with shorter tenors continuously higher.



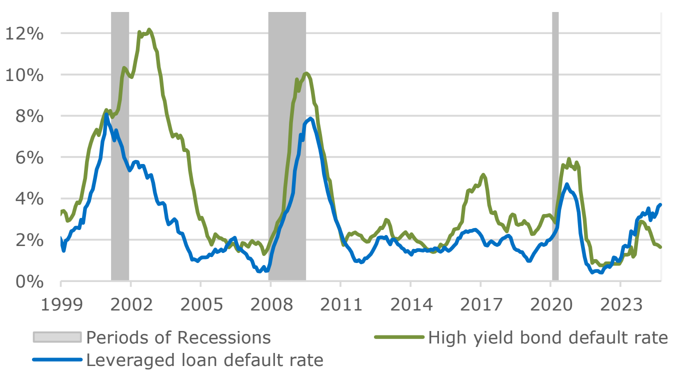
Corporate Perspective

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

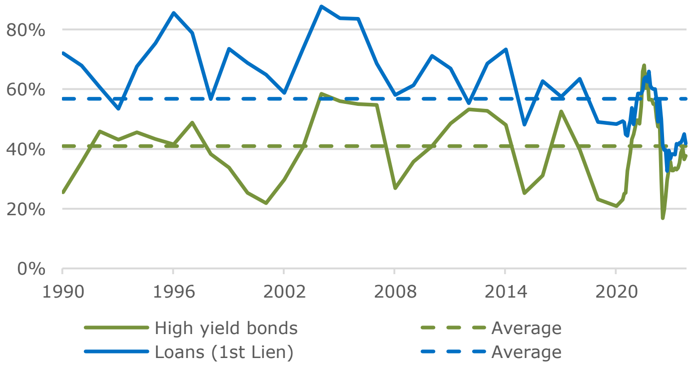


4) EU vs US: Since 2022 EU credit spreads (OAS) have remained wider than in the US.

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	34	-3
AA	52	-1
A	76	-5
BBB	115	-3
BB	191	+9
B	307	+21
CCC	840	-97

Global high yield (bps)

	curr	Δ month
US HY	314	+1
EU HY	347	-1
Asia HY	429	-4
EM HY	479	-43

CDS spreads (bps)

	curr	Δ month
CDX IG - US	53	+3
iTraxx IG - EU	59	+6
CDX HY - US	329	+7
iTraxx XO - EU	311	+22

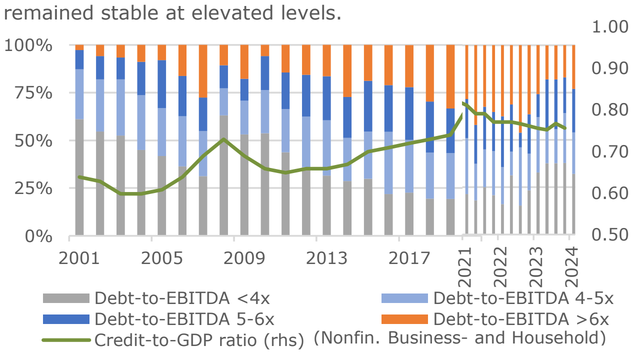
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	887	-33
CLO AAA	649	-10
CLO BBB	881	-26
CLO BB	1163	-66

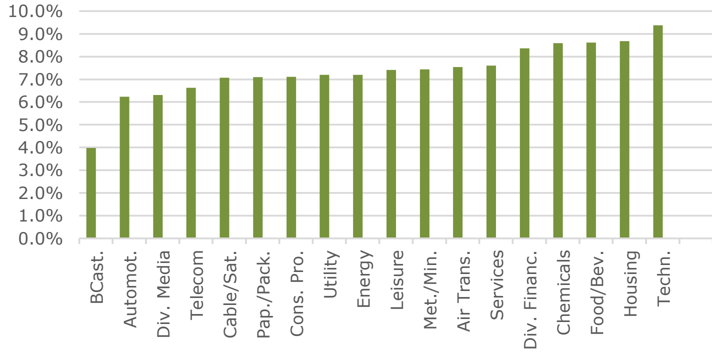
spread tightening (positive price action)

spread widening (negative price action)

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

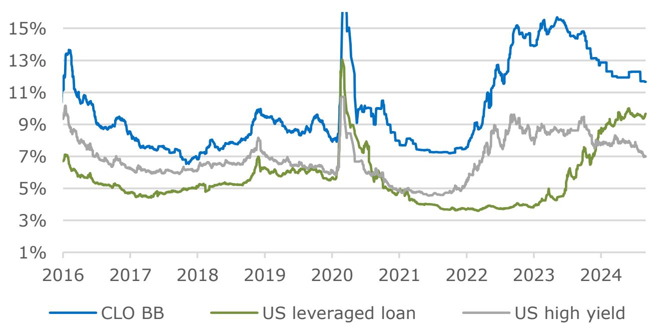


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors, with leisure outperforming significantly.

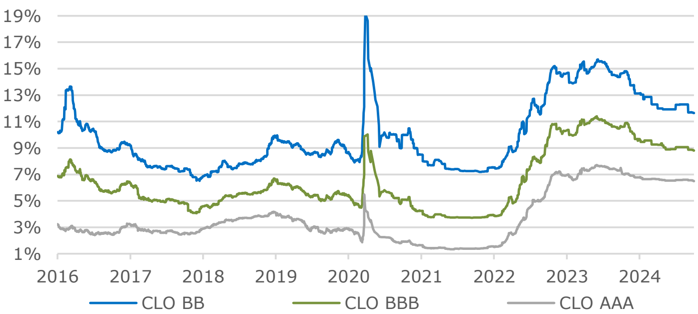


Alternative Perspective

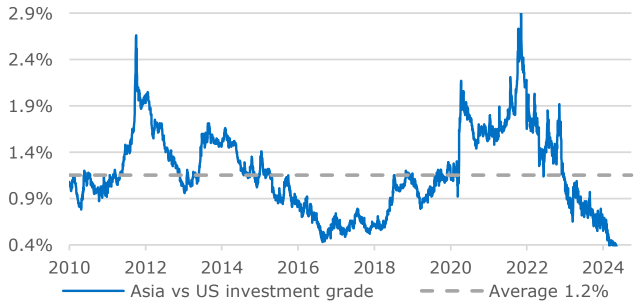
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs Loans and HY bonds.



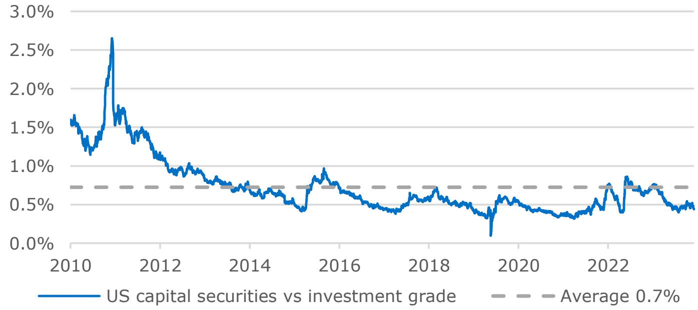
10) CLO Yields: CLOs offer an attractive yield premium over bonds and Loans.



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 (8)

Liquidity: Sources of cash

Companies Liquidity refers to the readily available cash and access to bank lines that allow the company to manage daily operations and meet its financial obligations.

Liquidity = Cash & equivalents + Available amounts under Revolving Credit Facility

When considering cash, we include both the cash held in the bank account and other sources of liquidity, such as short-term liquid investments, which companies often use to optimize excess funds, and we subtract the cash that may be restricted (pledge as collateral) or otherwise unavailable for debt repayment.

Revolving Credit Facilities are loans "committed" by one or multiple banks to provide funding if the company needs to cover fluctuations in working capital. These Loans are generally Super Senior Secured, and for liquidity assumptions we need to take into account the committed undrawn portion of the loan.

Company A Liquidity (m)	
+ Committed Revolving Credit Facility *	500
- Revolving Credit Facility Drawn **	120
Available Revolving Credit Facility	**380**
+ Cash & Equivalents	200
- Restricted Cash	-60
Available Cash	**140**
Total Liquidity	**520**

* Uncommitted Capital of Revolving Credit Facility is not considered.

** Revolving Credit Facility can be Drawn as Cash or as guarantees.

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

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