ΛLPINUM INVESTMENT MANAGEMENT

TURNKEY SOLUTIONS FOR WEALTH MANAGERS AND FUND MANAGERS

Alternative Credit Letter

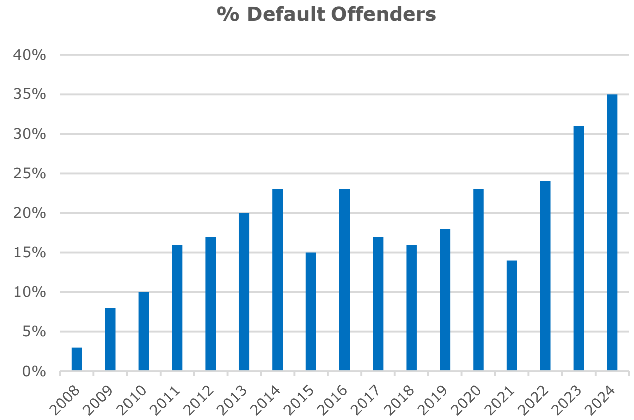
March 2025

Monthly Spotlight

Increase in the percentage of defaulting offenders

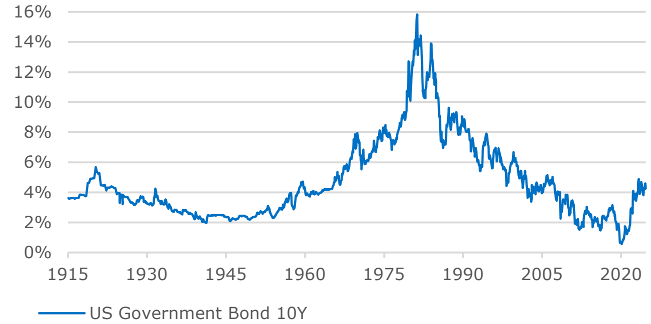
Despite relatively low overall default rates in the high-yield and syndicated loan market in 2024, a record-breaking 35% of defaults and distressed exchanges involved companies with prior defaults (see graph on the right). This surge in repeat defaults stems from several factors. Higher interest rates have significantly increased borrowing costs, especially for financially precarious firms. Many companies that underwent distressed exchanges failed to fully resolve their debt issues, leaving them vulnerable to future defaults.

For high-yield bond investors, careful credit selection has become paramount, as repeat defaults typically result in lower recovery rates, especially for senior unsecured bonds. This trend underscores the importance of thorough due diligence and risk assessment in the high-yield market, particularly in an environment of persistent economic uncertainty and elevated interest rates.

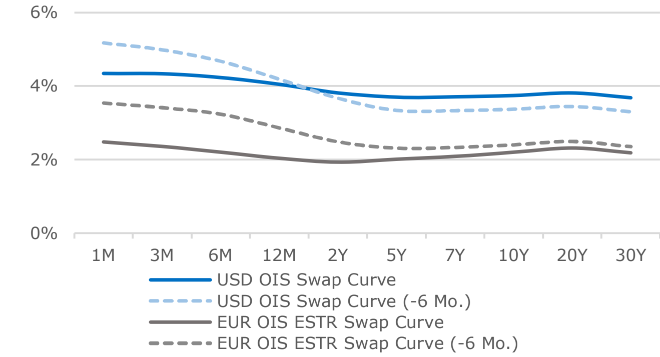


Rates Perspective

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

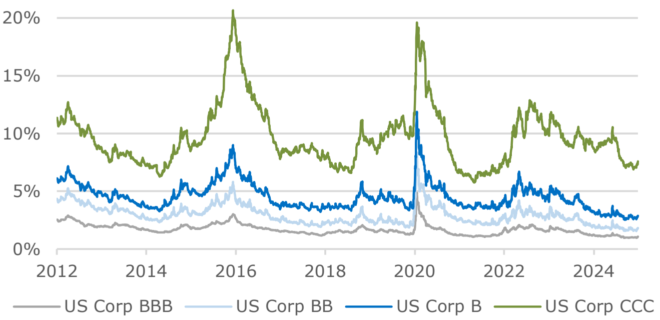


2) Interest Swap Curve: The USD and EUR curves remain inverted with shorter tenors continuously higher.

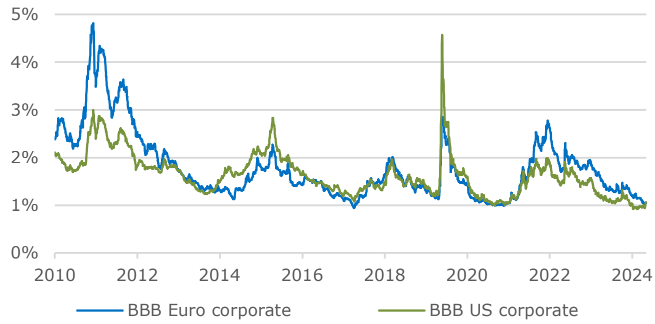


Corporate Perspective

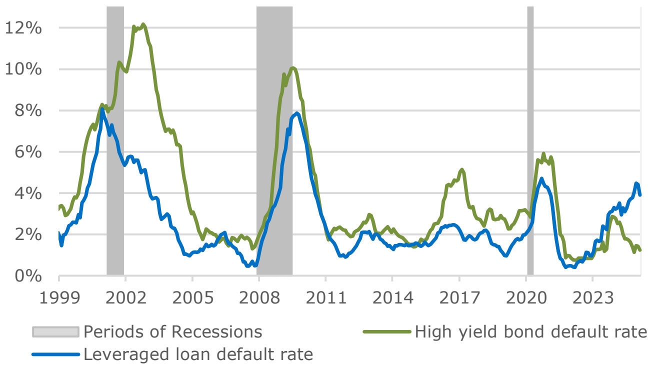
3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



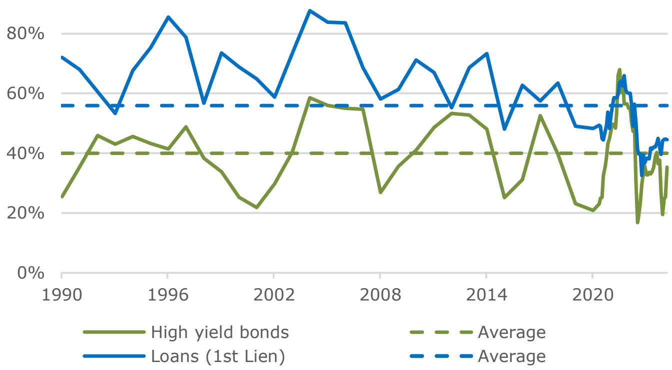
4) EU vs. US: Since 2022 EU credit spreads (OAS) have remained wider than in the US.



5) Default Rates: HY bond default rates have been structurally higher (Ø4.0%) vs. loans (Ø2.7%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø56%) vs. high yield bonds (Ø40%) 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	40	+5
AA	51	+5
A	75	+6
BBB	109	+7
BB	182	+16
B	288	+17
CCC	760	+61

Global high yield (bps)

	curr	Δ month
US HY	287	+19
EU HY	289	-13
Asia HY	441	-41
EM HY	407	+27

spread tightening (positive price action)

spread widening (negative price action)

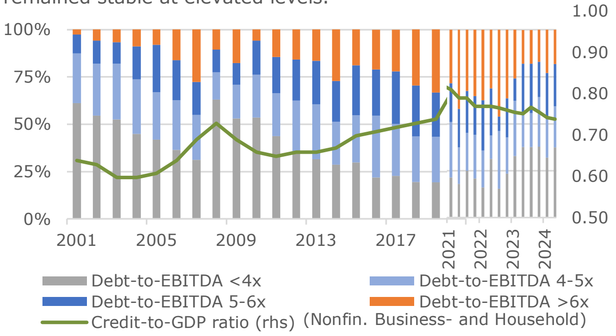
CDS spreads (bps)

	curr	Δ month
CDX IG - US	49	+1
iTraxx IG - EU	54	+1
CDX HY - US	309	+8
iTraxx XO - EU	289	+1

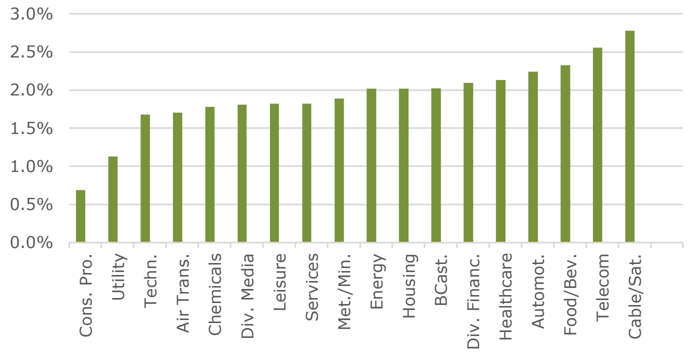
Loans and CLOs yields (bps)

	curr	Δ month
US Loan	783	+4
CLO AAA	555	-2
CLO BBB	707	-9
CLO BB	942	-9

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

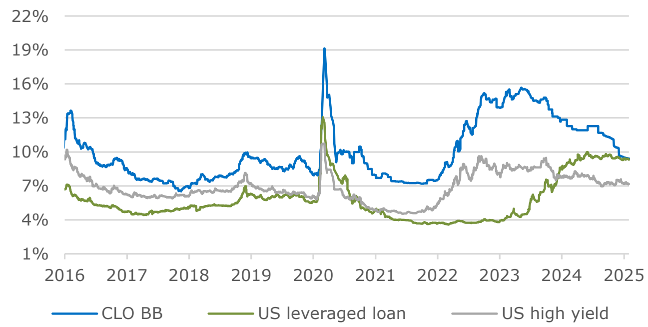


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors.



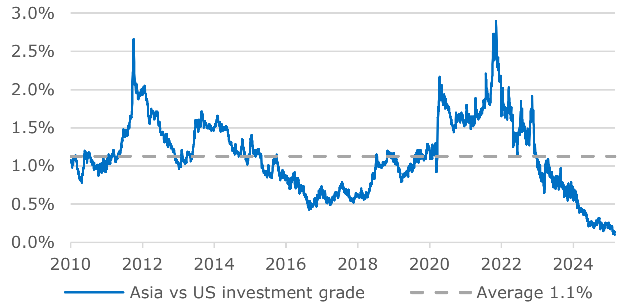
Alternative Perspective

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.

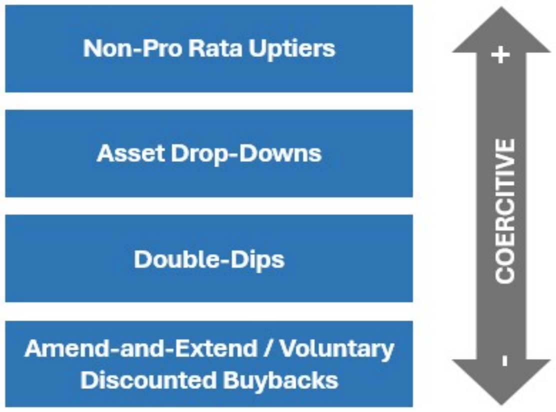
Education Corner - Series: AIM Credit Analysis (12)

Liability Management Exercises (LMEs)

Liability Management Exercises (LMEs) are among the most common methods for restructuring companies today. These strategies allow opportunistic funds, management teams, and company sponsors to influence the restructuring process to their advantage, often at the expense of other investors that could face significant loses. This practice is particularly prevalent in the United States, where larger-scale transactions have been observed, though it is also gaining traction in Europe.

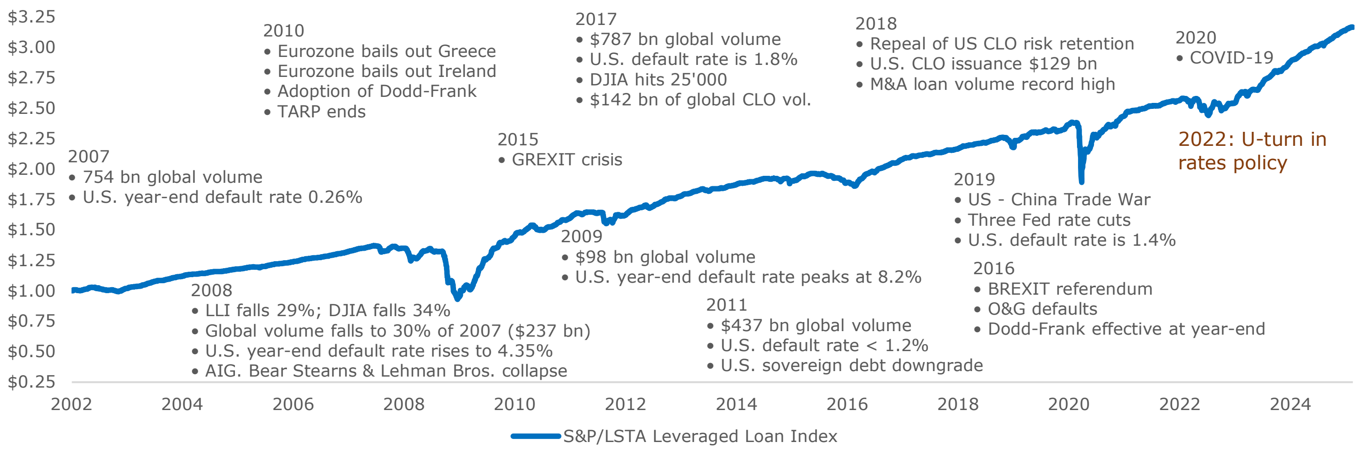
There are numerous ways to execute LMEs, and they are often combined to achieve a more efficient restructuring outcome. The main types of LMEs, ranked from most to least coercive, include Non-Pro Rata Uptiers, Asset Drop-Downs, Double-Dips, as well as various forms of amend-and-extend agreements or voluntary discounted buybacks. These methods are tailored to meet specific restructuring needs. This is why reviewing key provisions in credit agreements that safeguard lenders is paramount.

Liability Management Exercises (LMEs)



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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