



**ALTERNATIVE CREDIT LETTER**

**AUGUST 2025**

**AT1 reset spreads tightening  
increases the extension risk**



# MONTHLY SPOTLIGHT



Extension risk increases when the reset spread falls below the yield of new AT1 issues.

The reset spread is the extra yield added to a market rate if an issuer skips its call option.

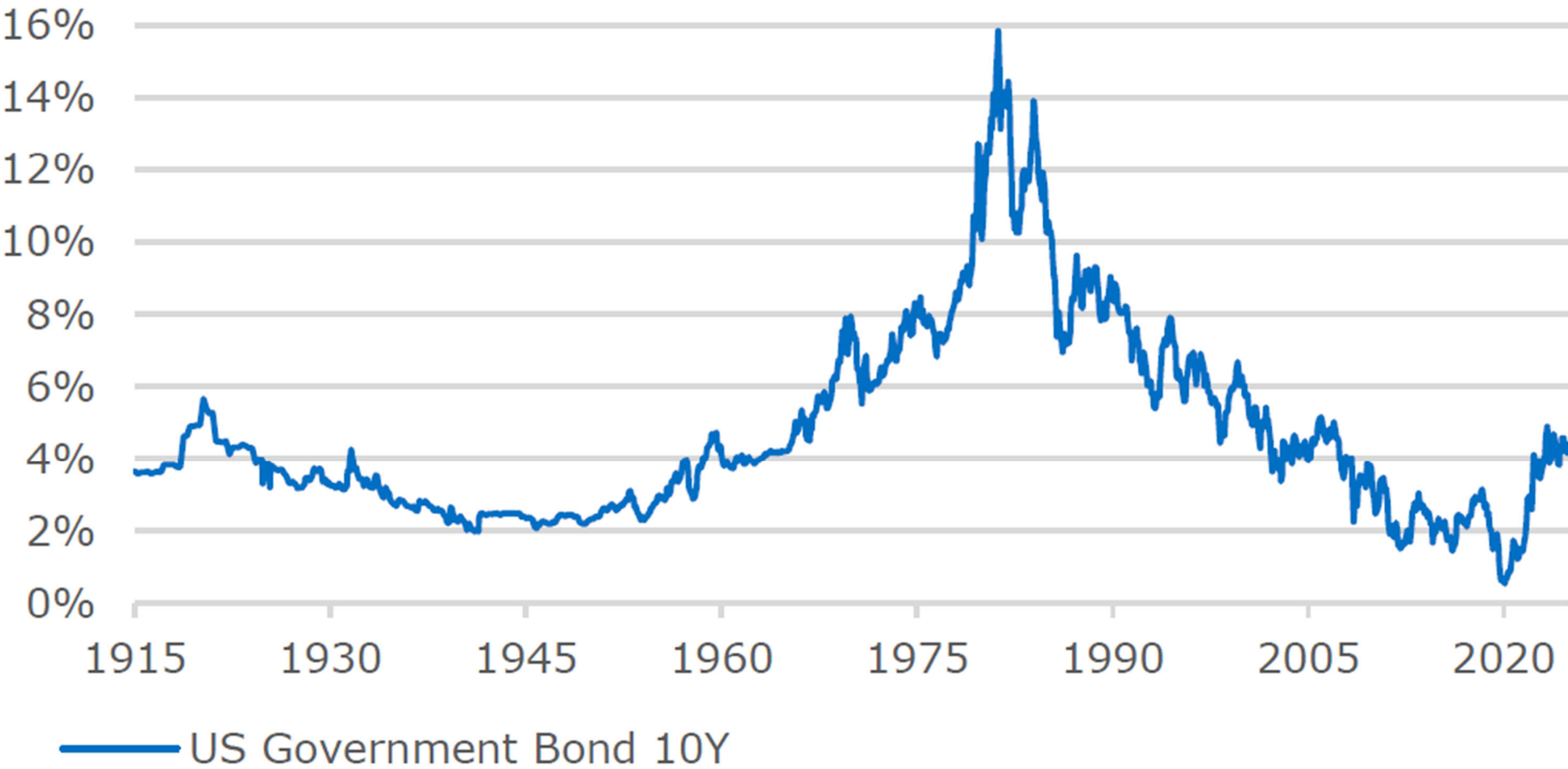
Overall yields remain high, but large orders for new AT1s have allowed banks to offer historically tight reset spreads.



# RATES PERSPECTIVE



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

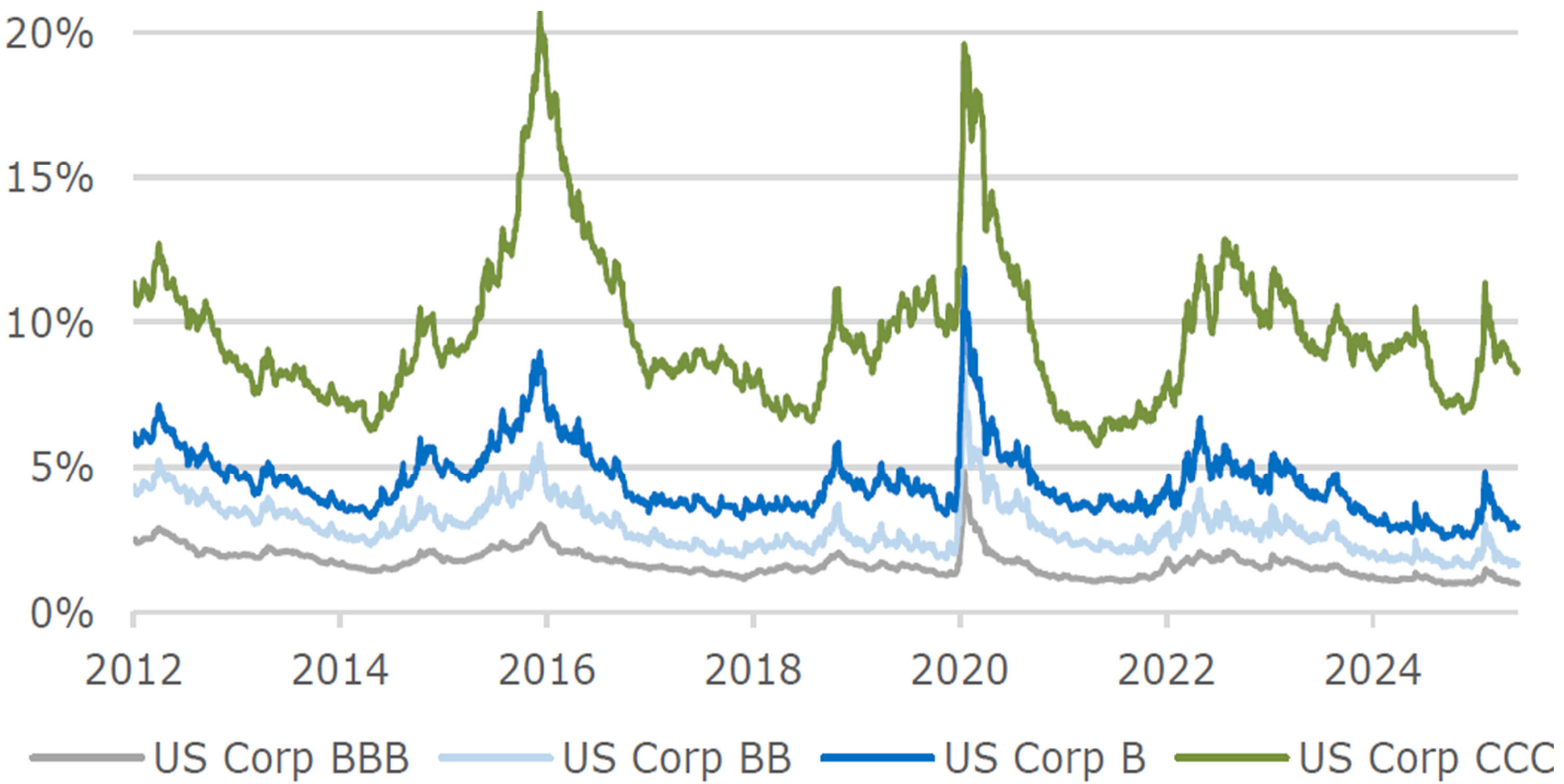


Source: FRED – US Federal Reserve Economic Data

# CORPORATE PERSPECTIVE



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



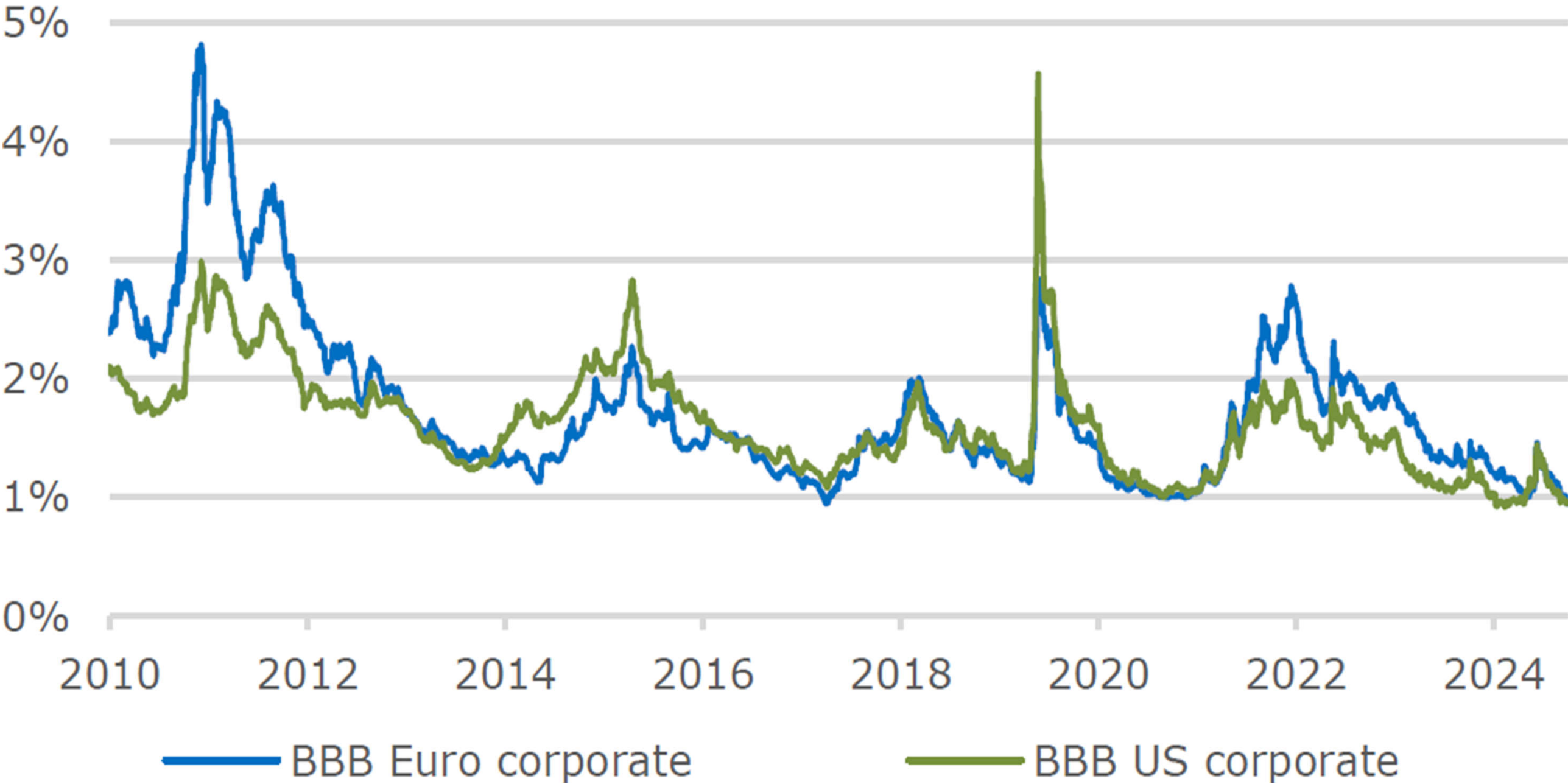
Source: Ice Data Indices, LLC



# CORPORATE PERSPECTIVE



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

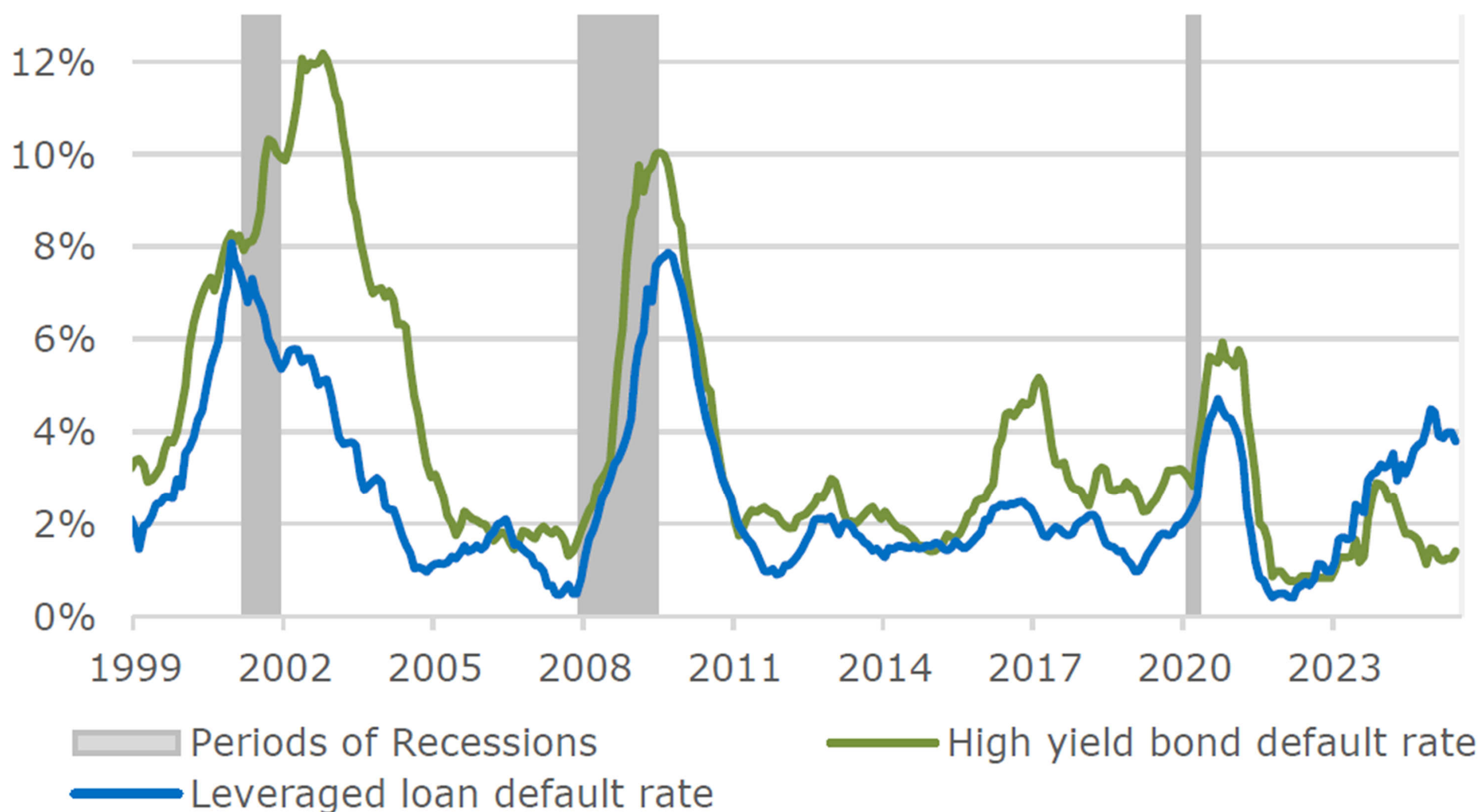


Source: Ice Data Indices, LLC

# CORPORATE PERSPECTIVE



**Default Rates:** High yield bond default rates have been structurally higher (Ø4%) vs. loans (Ø2.7%).



Source: J.P.Morgan Default Monitor



OAS spread change overview across major credit asset classes – as of month end.

US corporates by rating (bps)

	curr	Δ month	
AAA	35	-2	<div></div>
AA	49	+0	
A	73	-3	<div></div>
BBB	108	-7	<div></div>
BB	171	-26	<div></div>
B	305	-44	<div></div>
CCC	886	-10	<div></div>

Global high yield (bps)

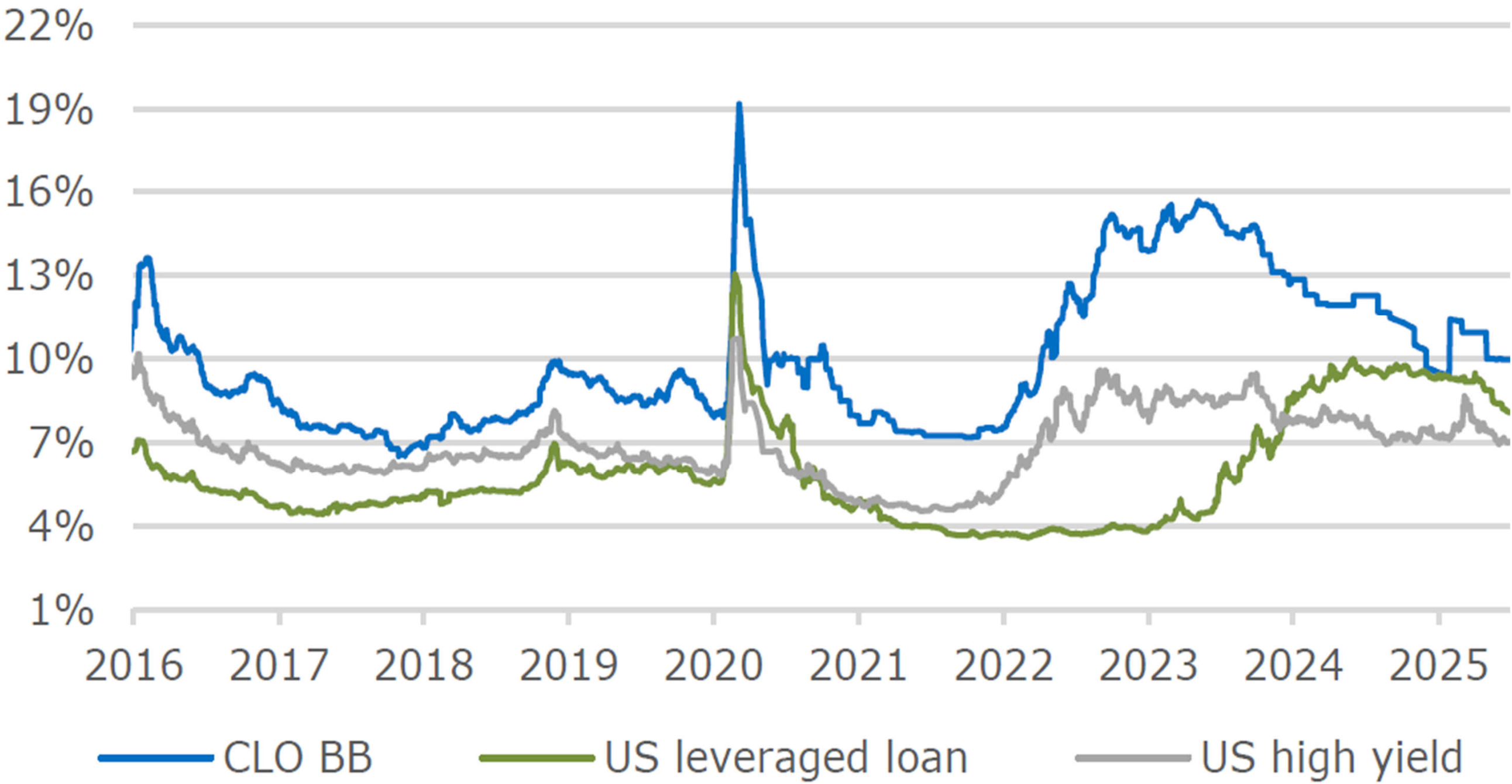
	curr	Δ month	
US HY	296	-35	<div></div>
EU HY	310	-16	<div></div>
Asia HY	537	-39	<div></div>
EM HY	405	-14	<div></div>

- spread tightening  
(positive price action)
- spread widening  
(negative price action)

# ALTERNATIVE PERSPECTIVE



**Loans vs. CLO vs. HY:** CLO BB yields are wider vs. loans and high yield bonds.



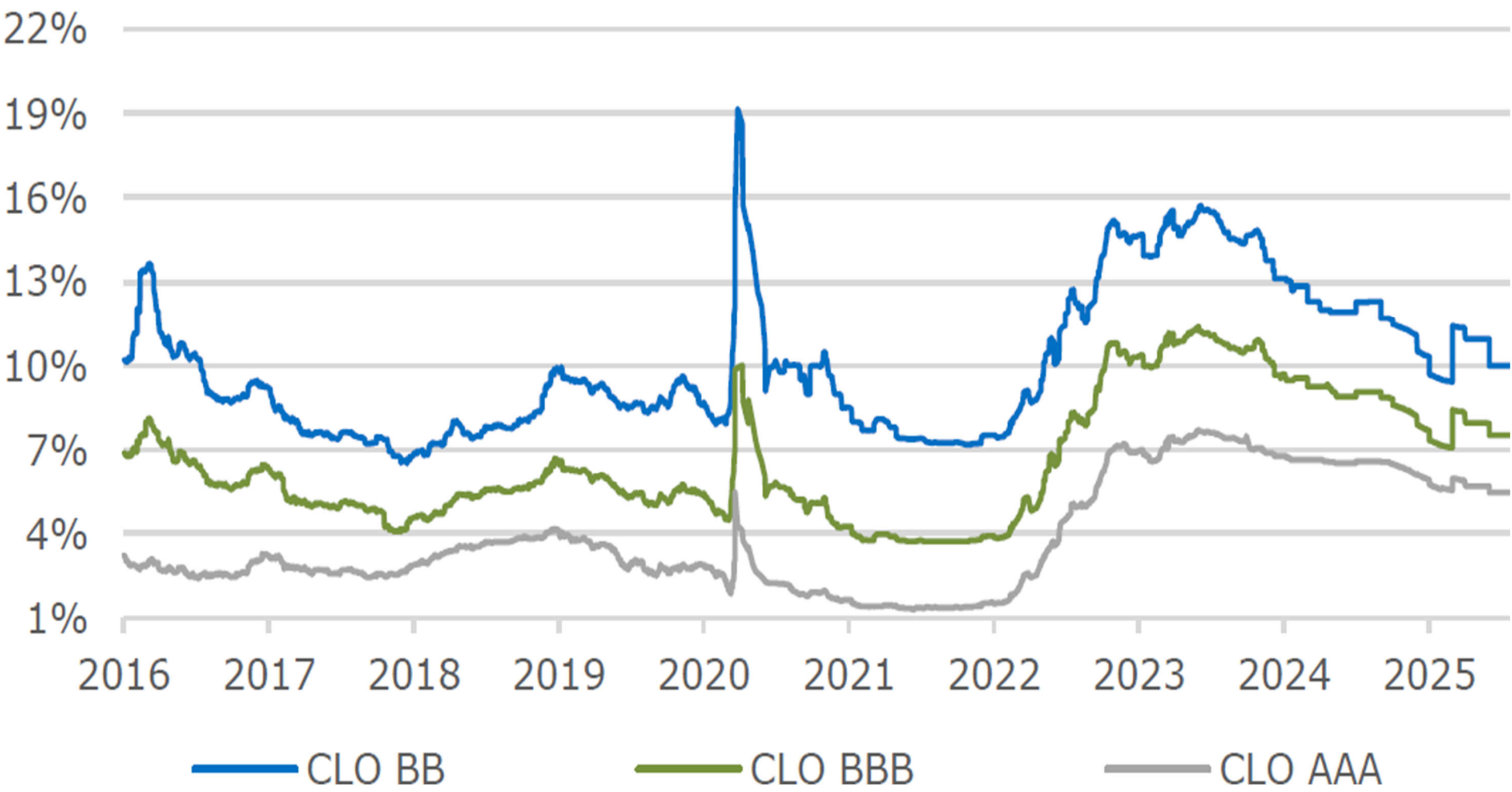
Source: Bloomberg



# ALTERNATIVE PERSPECTIVE



**CLO Yields:** CLOs offer an attractive yield premium over bonds and loans.

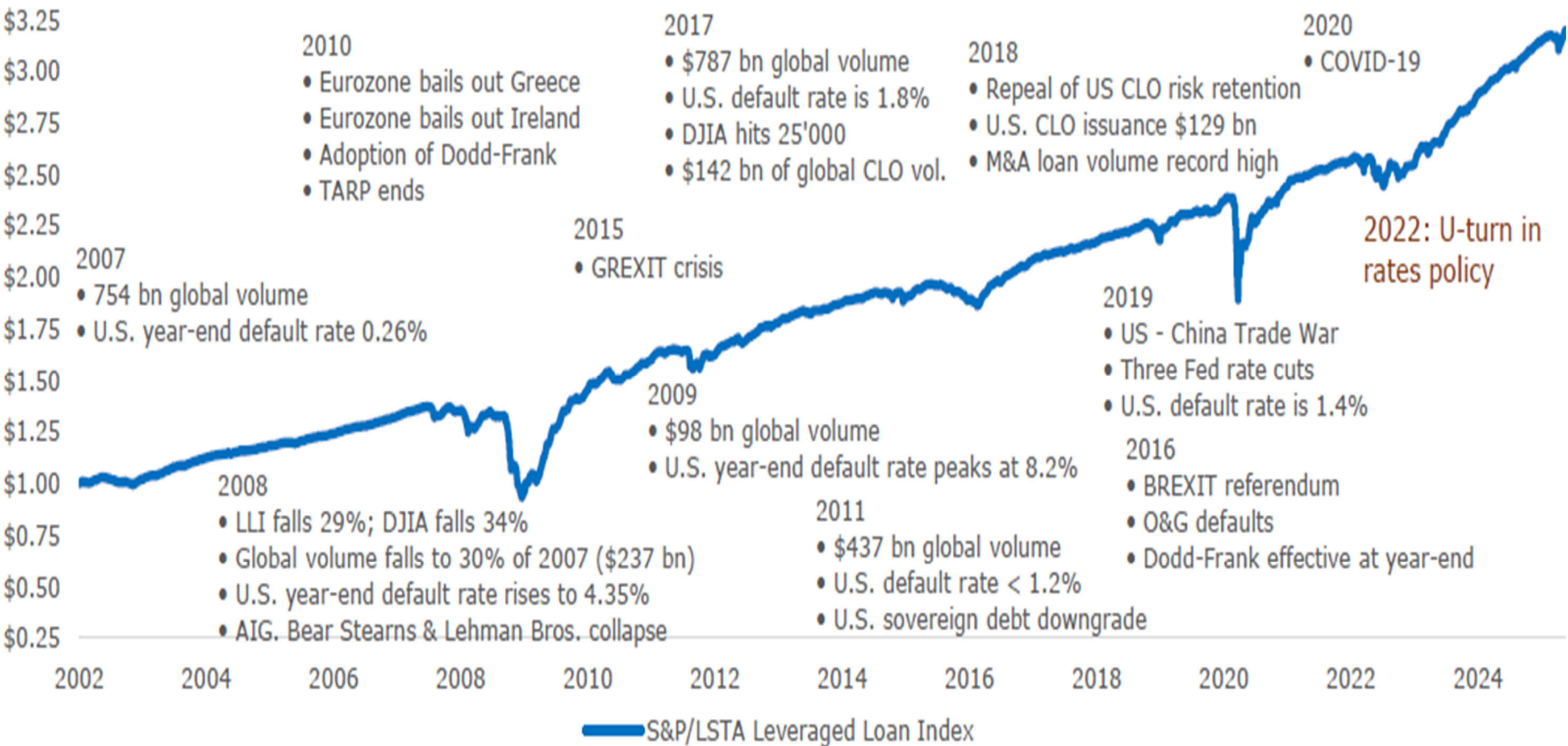


Source: Bloomberg

# US LOAN INDEX TOTAL RETURN



## Attractive Long Term Yield Generation



Source: Bloomberg



# EDUCATION CORNER



## Creditor Protection: Covenant types

Covenants are legally binding clauses in bond agreements protecting bondholders.

- Affirmative covenants require actions, such as submitting financial reports
- Negative covenants restrict activities, such as incurring more debt.
- Financial covenants set limits on leverage ratios. Non-compliance leads to a default event.



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