



ALTERNATIVE CREDIT LETTER

FEBRUARY 2026

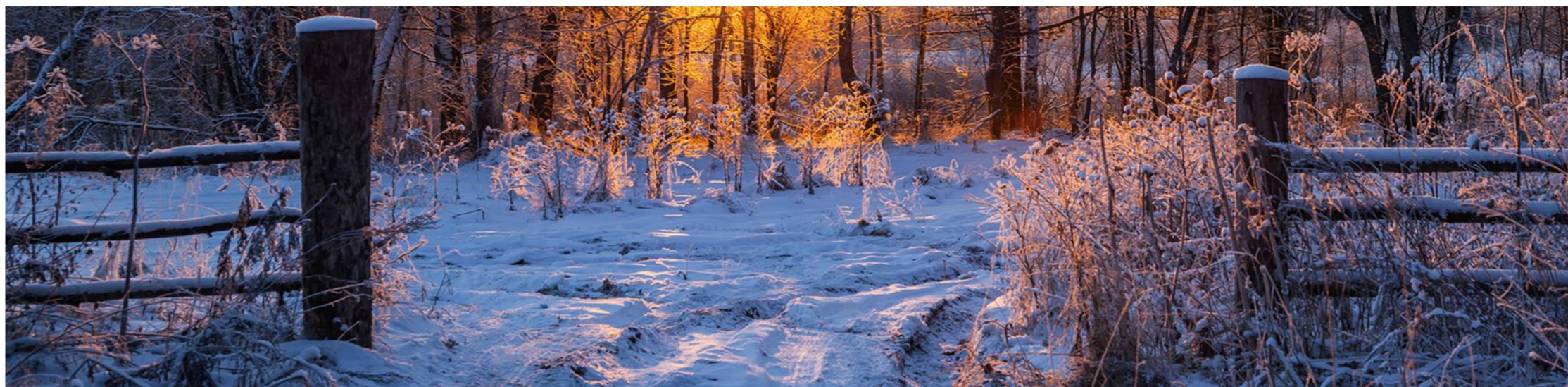
Default and Recovery Rates in European high-yield

MONTHLY SPOTLIGHT



European high-yield market review of 2025:

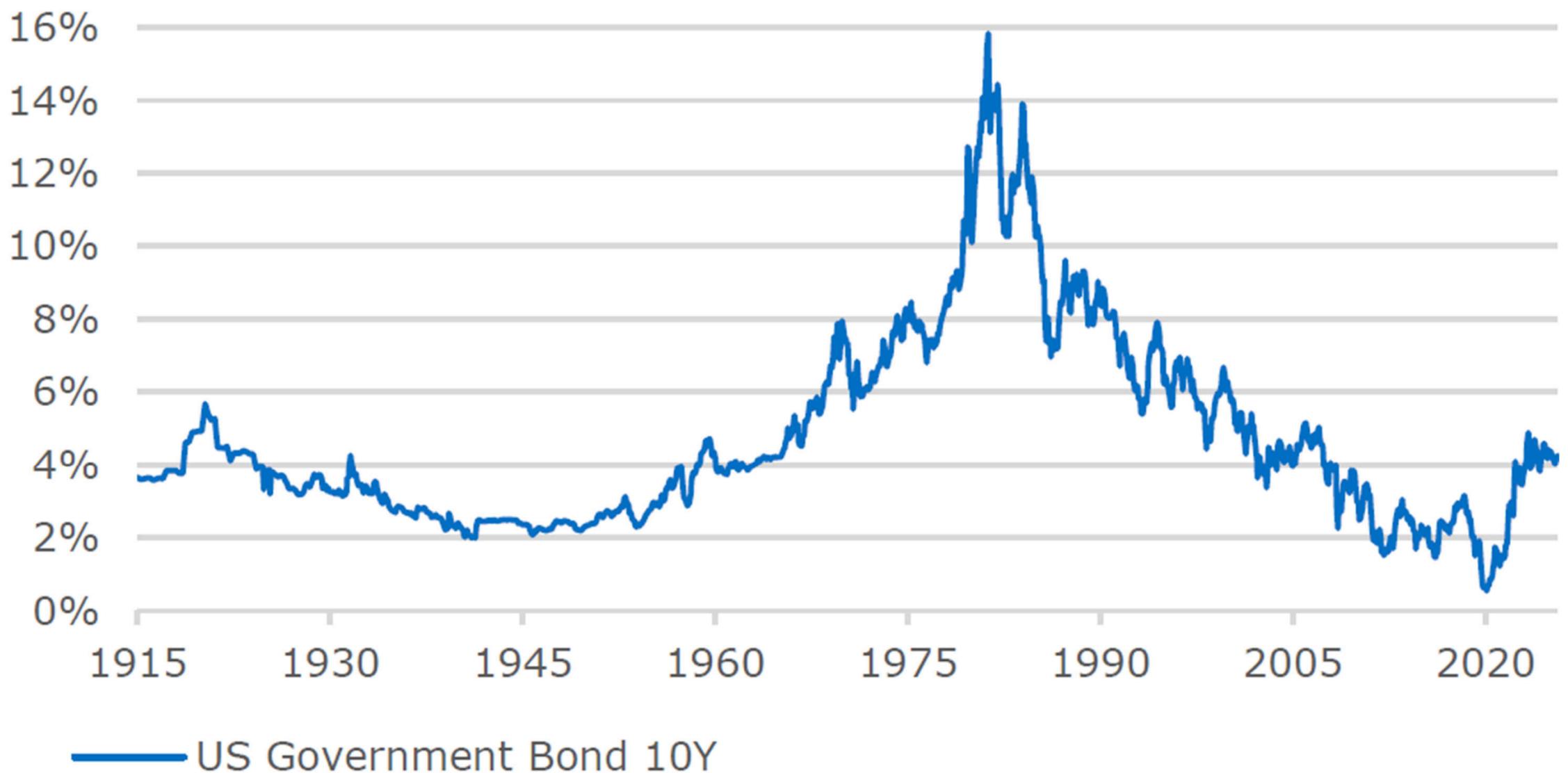
- The overall loss rate (1-Recovery) improved to 1.2%
- **The overall recovery rate rose to 62%, surpassing the long-term median's 41%**
- The overall notional default rate was steady at 3.2%
- Financial Services were the hardest hit, with a 17% default rate due to weak debt servicing



RATES PERSPECTIVE



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

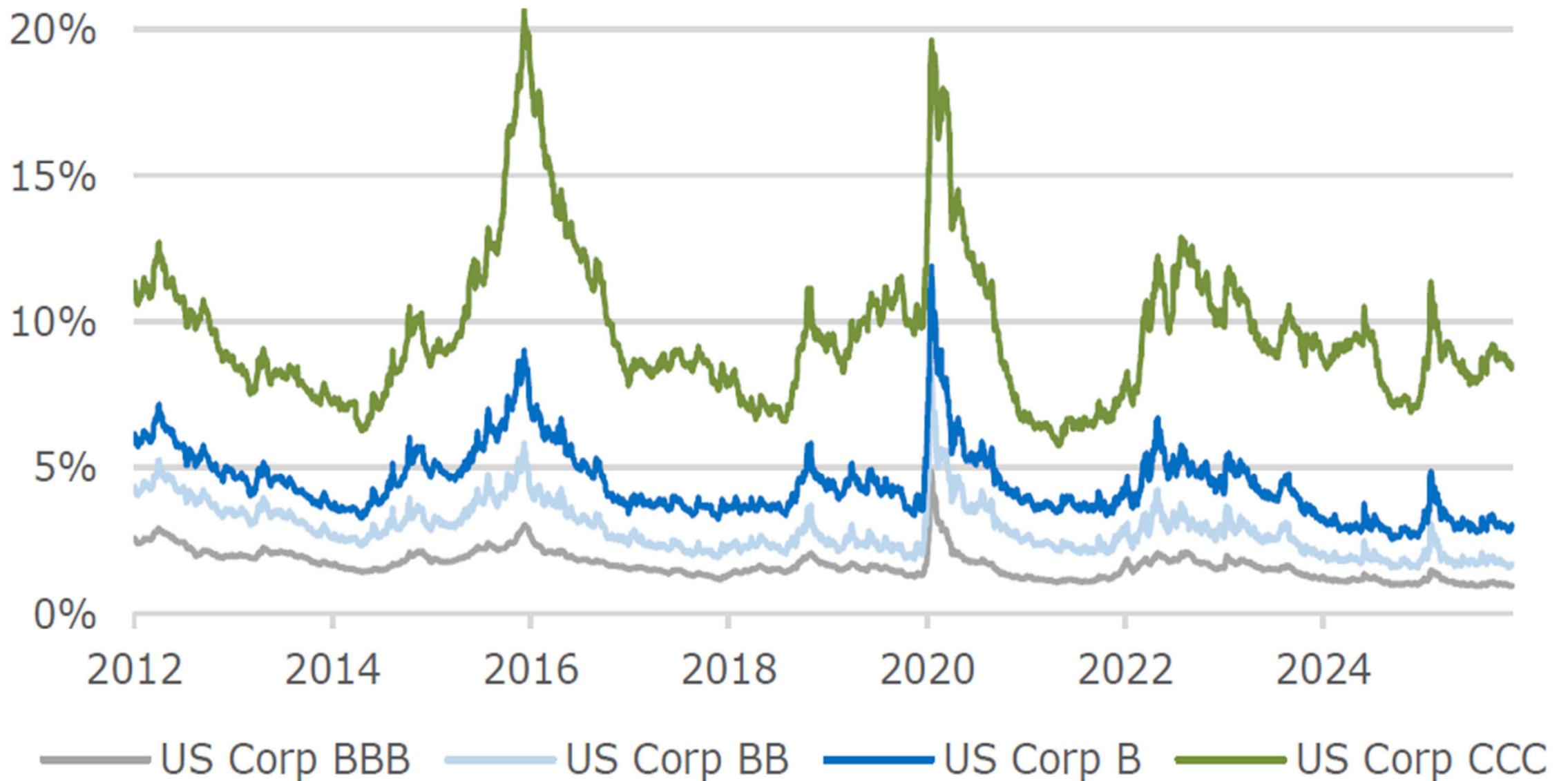


Source: FRED – US Federal Reserve Economic Data

CORPORATE PERSPECTIVE



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

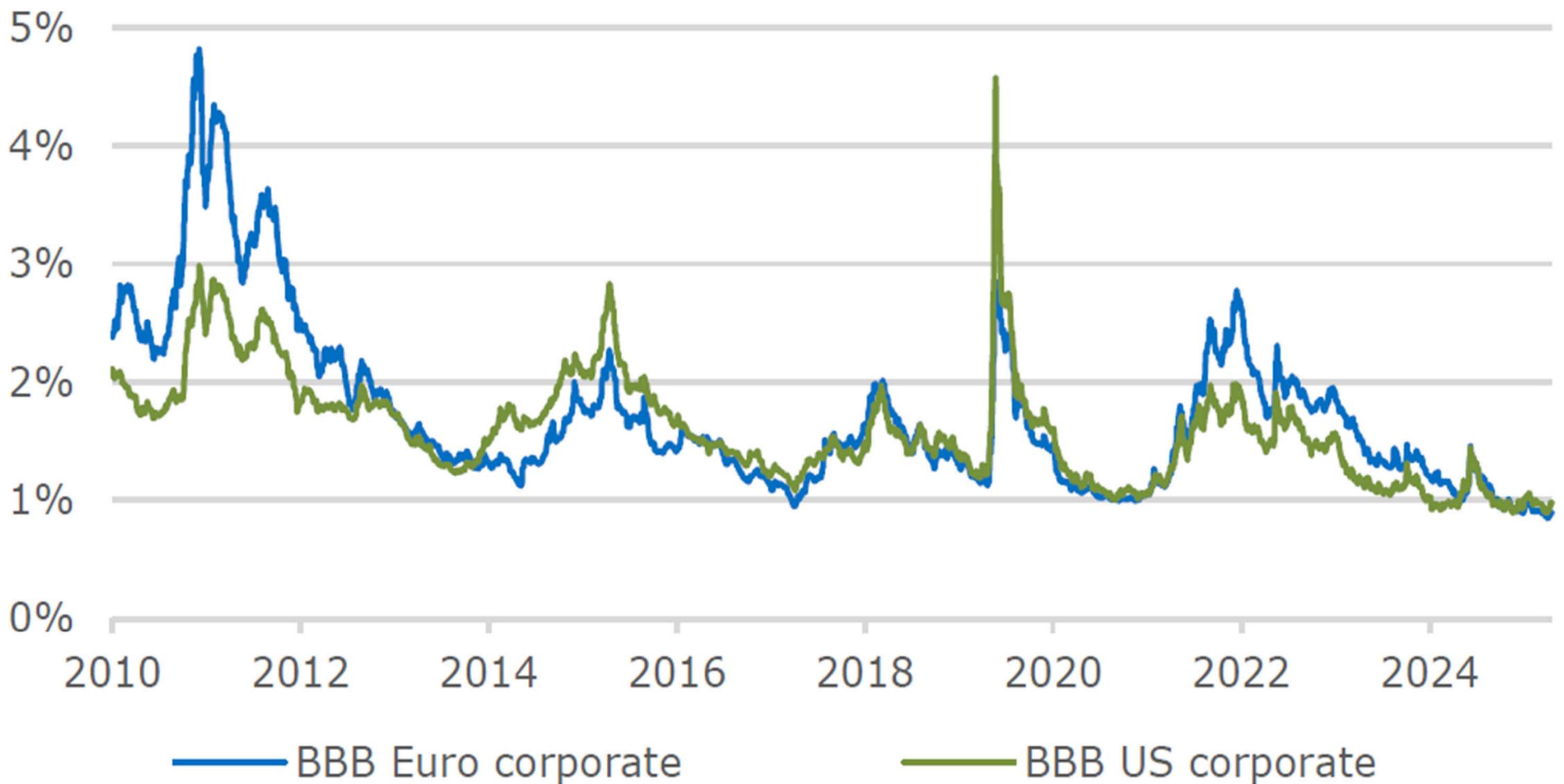


Source: Ice Data Indices, LLC

CORPORATE PERSPECTIVE



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

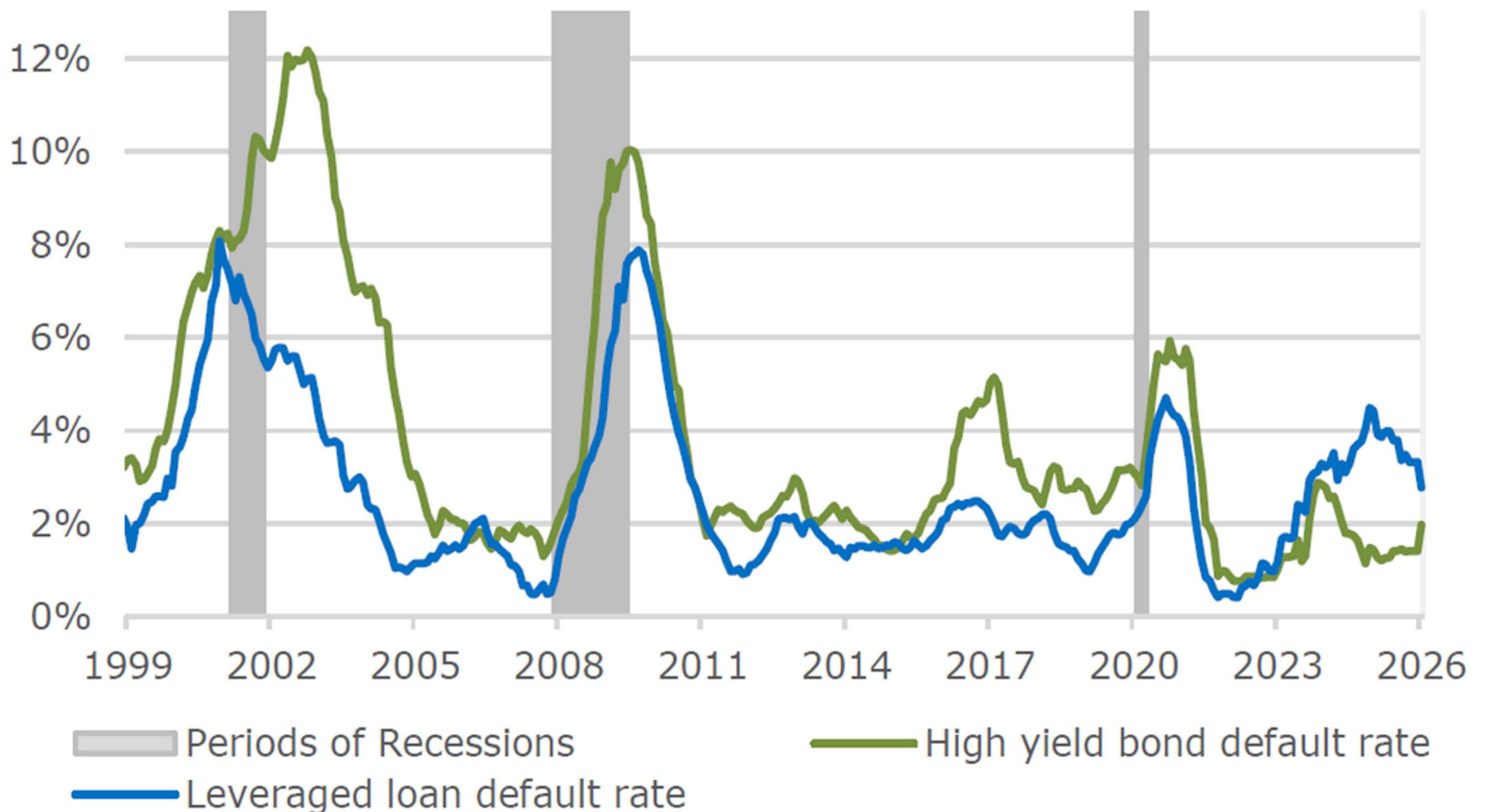


Source: Ice Data Indices, LLC

CORPORATE PERSPECTIVE



Default Rates: High-yield bond default rates are now lower than leveraged loan default rates.



Source: J.P.Morgan Default Monitor

OAS



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

US corporates by rating (bps)

	curr	Δ month
AAA	33	-1
AA	45	-4
A	60	-5
BBB	94	-7
BB	171	+2
B	306	+5
CCC	855	-30

Global high yield (bps)

	curr	Δ month
US HY	280	-1
EU HY	263	-7
Asia HY	368	-51
EM HY	319	-20

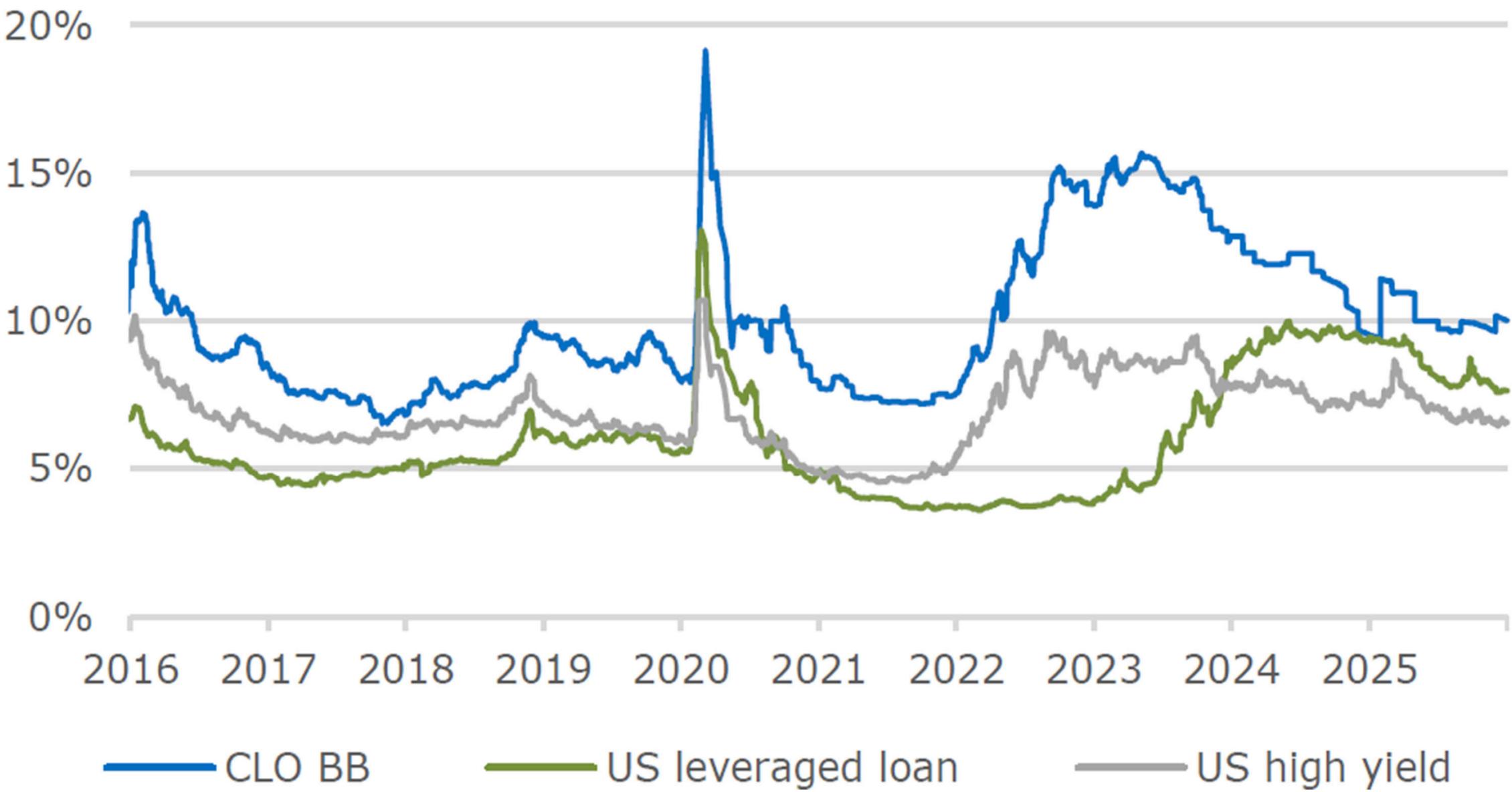
-  spread tightening
(positive price action)
-  spread widening
(negative price action)

Source: Bloomberg

ALTERNATIVE PERSPECTIVE



Loans vs. CLO vs. High-Yield: CLO BB yields are wider than those of loans and high-yield bonds.

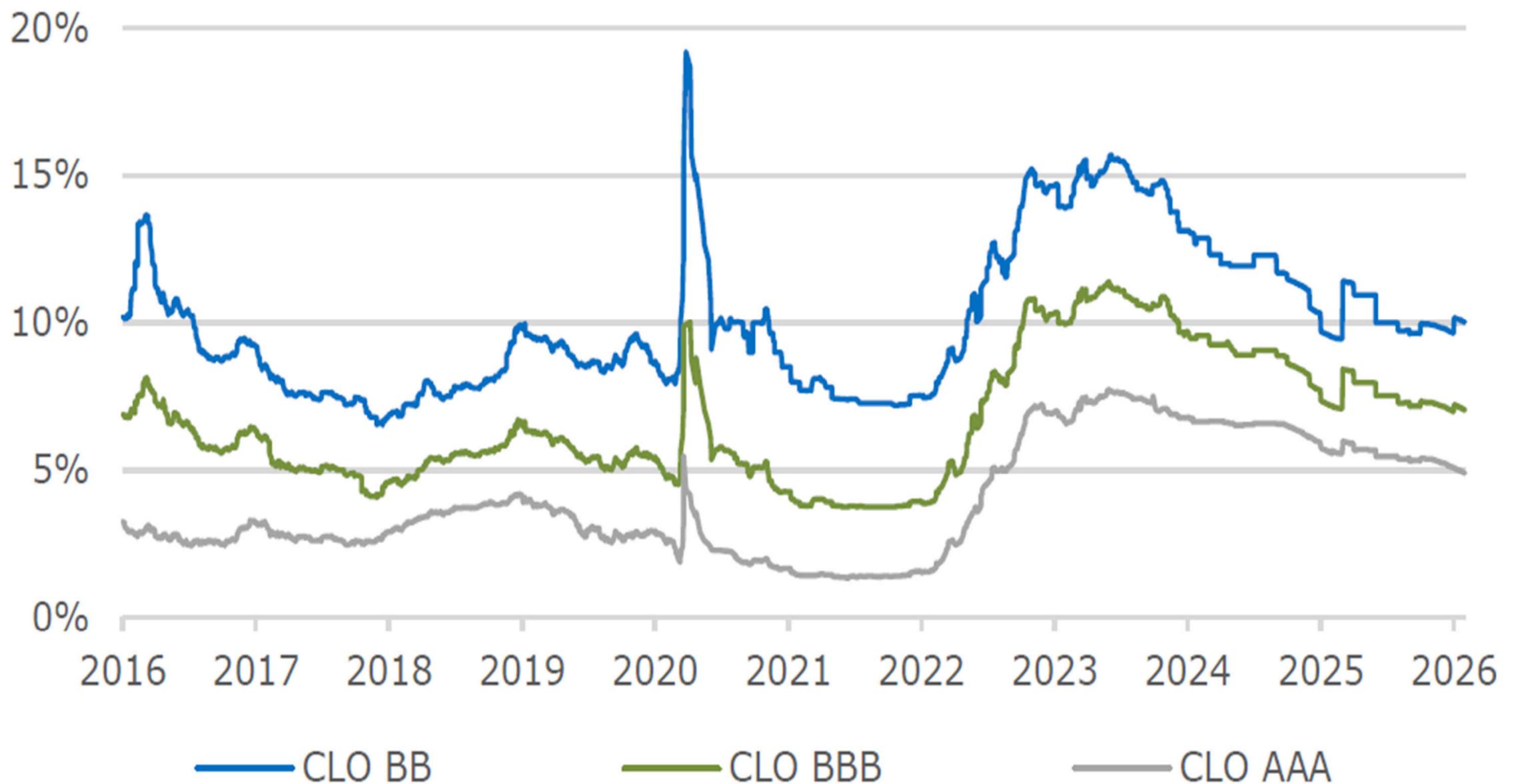


Source: Bloomberg

ALTERNATIVE PERSPECTIVE



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

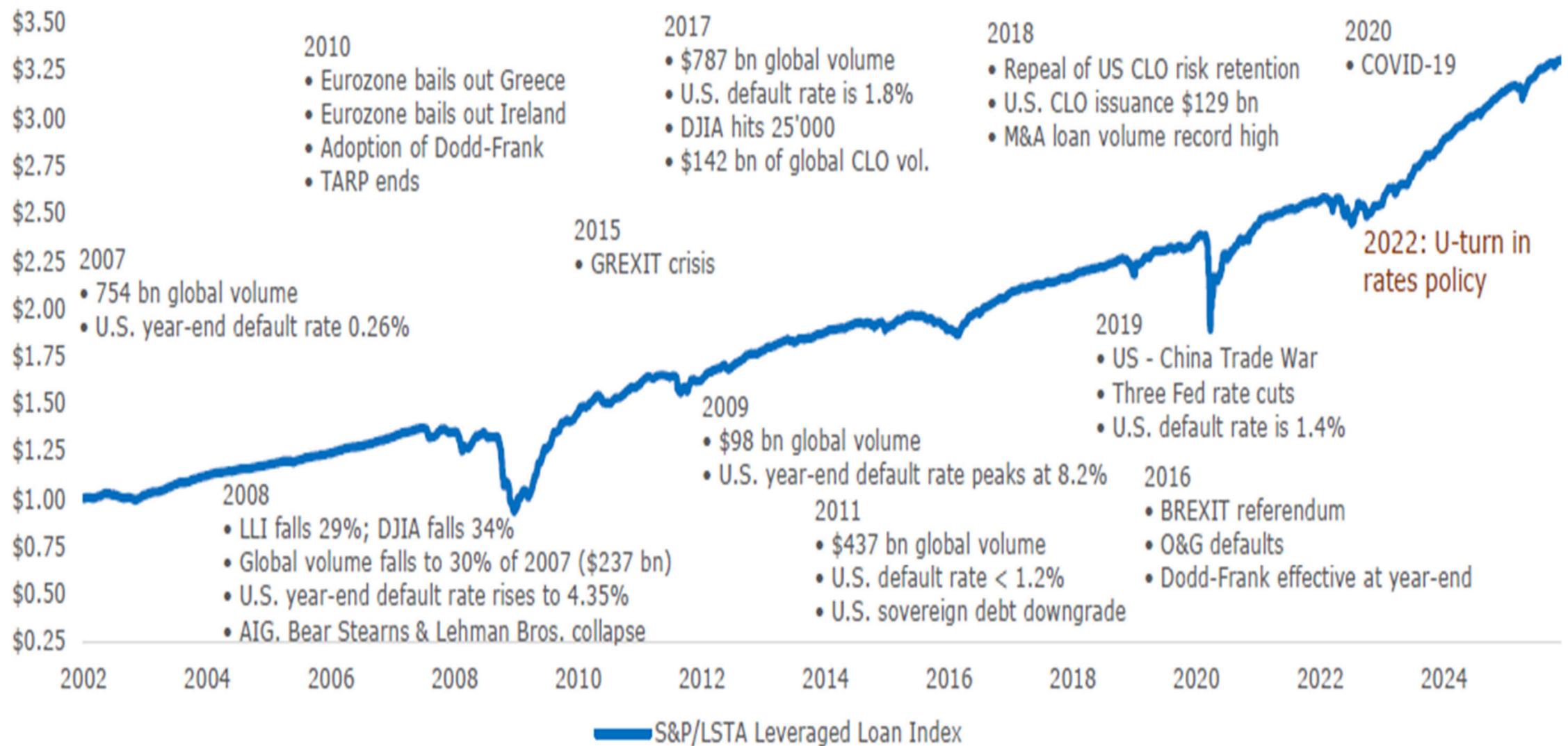


Source: Bloomberg

US LOAN INDEX TOTAL RETURN



Attractive Long-Term Yield Generation



Source: Bloomberg

EDUCATION CORNER



Private Credit – Direct Lending

- Credit yields comprise the risk-free rate, inflation, and risk premia for default, issuer uncertainty, illiquidity, and complexity.
- Identifying yield drivers is challenging, as similar returns may originate from different factors.



EDUCATION CORNER (continued)



Private Credit – Direct Lending

- Due diligence aims to separate true risk-adjusted performance from returns driven by higher risk.
- Manager selection demands a detailed evaluation of new loans sourcing strategy, underwriting rigor, structuring capability, scale, and workout expertise.



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