

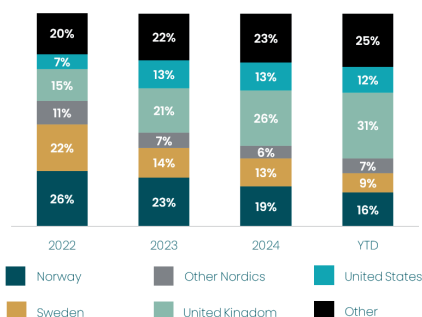


Seahawk Investments
Quarterly Note
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Nordic High Yield: From niche to mature market

The more established High Yield markets that have matured over the years and have the most standardized structure are the US High Yield (US HY) and European High Yield (EHY) market. Apart from those large market segments there were a few local niche markets like the German SME bond market (so called "Mittelstands-anleihenmarkt") that were never able to establish themselves due to their internal flaws. However, the Nordic High Yield (NHY) market is another success story currently growing at a strong pace from a niche market to a maturing market. For a clearer understanding: Back in early 2019, when the Nordic High Yield market had a market value of around USD18bn^[1], the Euro High Yield market had a market value of USD300bn, while the US High Yield market had around USD1100bn. As of September 30, NHY counts roughly USD40bn, whereas the Euro High Yield market value is USD450bn and US High Yield is USD1400bn. Hence, the Nordic High Yield market grew at +120% followed by Euro High Yield (+48%) and US High Yield (+24%). Even more astonishing is the shift in the investor base on the Nordic High Yield bond markets since 2022.

Shifting investor base in Nordic High Yield over the years



Source: Seahawk Investments, Pareto Securities; As of: September 2025

A few conclusions can be drawn from the chart: First, the share of Nordic countries as main buyers for Nordic High Yield bonds decreased from 59% in 2022 to currently 32%. Second, UK and US investors that accounted for only 22% of the overall investor base back in 2022 now doubled their engagement to 43% per now. However, the US investors are more stable since 2023. The largest increase came from UK investors.

The Nordic High Yield bond framework: Lean, standardized and fast

One of the most compelling key benefits is the lean and fast process to get a new issue deal placed on the primary market. The biggest differentiation is that any issuer heading to the Nordic High Yield bond market does not need an official credit rating, which on the other hand is essential for the US High Yield market (or European High Yield market). By way of comparison, the bonds on the US High Yield market are rated predominantly by Moody's, Standard and Poors or Fitch. Additionally, it is about volume as the NHY-market does not have a typical minimum size but often refers to deals that need to have at least an issue size of USD50mn.^[2] Since the typical benchmark deal size for a US High Yield deal is between USD500mn and USD750mn, the issue volume is far higher than the typical issue size for a NHY deal.

^[1]NOK converted to USD.

^[2]In practice there were some deals below that threshold. This could be the case when issued in NOK or SEK; then the converted USD amount was less than USD50mn.

	Nordic HY market	US HY market
Issuer Industry	Diversified	Diversified
Min. Max. issue volume	USD50mn USD700mn	USD200mn USD2bn
Currency	USD, EUR, NOK, SEK, DKK	USD
Tenors	3 to 7 years	5 to 10 years
Coupon Type	Fixed or Floating	Fixed
Credit Ratings	Not required	Required
Callable	Yes (after NC period)	Yes (after NC period)
Covenants	Maintenance & incurrence	Incurrence
Due diligence	Limited	Full (legal, financial, technical)
Documentation	Prospectus c.200 pages	Prospectus c. 600 pages
Reporting	Quarterly (IFRS-related)	SEC standards (accordance)
Governing Law Legal costs	Norwegian law up to USD150k	US law up to USD2mn

Source: Seahawk Investments, Pareto Securities; As of: September 2025

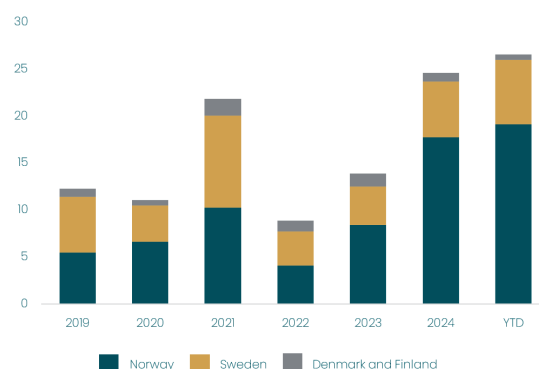
Once the key decision has been made to opt for the NHY-market, the issuer is benefiting from a less rigid framework (e.g. no SEC-reporting required) that is governed by Norwegian law and a leaner documentation. A draft Term Sheet is often around 20 pages long, and the full prospectus has approximately 200 pages, whereas the US prospectus has a length of 600 pages or more. Regarding the placement on the primary market, a typical Nordic High Yield bond deal is covered by its books and not that much oversubscribed as it is more common with US High Yield primary market placements. Liquidity on the secondary market is typically thinner than on the bigger US-pondant, but it is typically size driven. Deals that have an issue size of less than USD200mn are less liquid, which is compensated by a higher liquidity premium increasing the total yield on the bond.

The bond market: A steadily growing primary market volume

We have argued that the total market value of NHY has picked up significantly since 2019. A closer look at the development of the primary market reveals that the share of Norwegian bonds

has increased from 44% of total issue volume in 2019 (Sweden: 48%) to 72% (Sweden: 26%). What was once divided equally between Norway and Sweden has now become a market dominated by Norway.

Nordic High Yield primary market issue volume by year (in USDbn)



Source: DNB; As of: September 2025

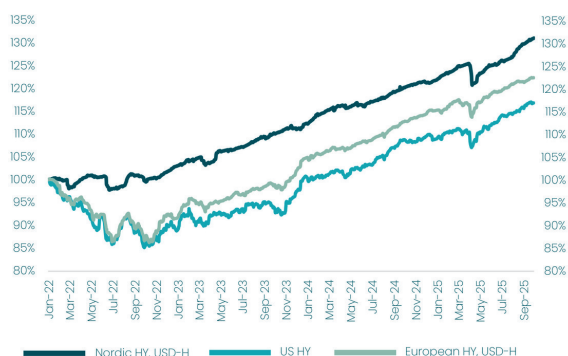
However, this is only half the truth as almost every second company issuing a Nordic High Yield Bond today is based in a non-Nordic country. Out of that proportion the top three countries account for 55% of all non-Nordic countries. The largest contribution comes from Germany, which accounts for 22% of the volume of non-Nordic countries. After the sharp recovery and the increased risk appetite seen post-COVID, the year 2022 can be summarized as annus horribilis. The global hike in interest rates within a timeframe of 1 to 1.5 years was only surpassed by the rise in interest rates at the end of the 1970s and beginning of the 1980s. At that time, inflation rose sharply after the oil price crisis following the Iranian Revolution disrupted the global oil supply. The consequences prompted Paul Volcker – FED-chair from 1979 to 1987 – to raise interest rates tremendously. In the years after 2022, the volume of issuance on the Nordic High Yield primary market

rose again. The previous record for the first half of the year, set in 2024, was surpassed in the current year. Furthermore, at USD27bn, the issue volume since the beginning of the year exceeds the total volume for the entire last year, which was USD25bn. We expect the volume for the residual year to be in-line with previous year's volume and to increase by around USD3bn to a total of USD30bn for the full year 2025.

Performance review: Nordic High Yield versus its bigger peers

The small NHY-market compared to its bigger "brothers" the European High Yield and US-High Yield markets performed well since January 2022. Per September 30, NHY outperformed US High Yield by 14.3% and European High Yield by 8.7% bringing the total return to +31%.

Total Return comparison of Nordic High Yield against US- and European High Yield (hedged in USD)

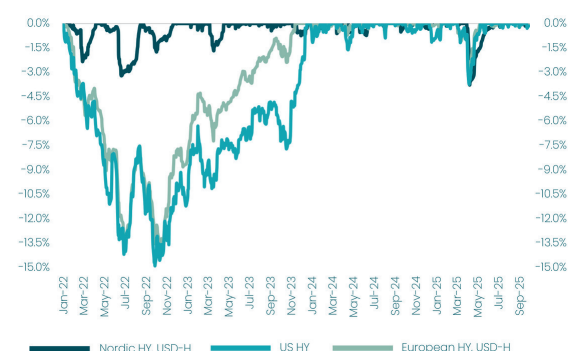


Source: Bloomberg; As of: September 30, 2025

The initial phase of the time series shown above is particularly noteworthy and should be examined in more detail. After a lengthy period of losses, on September 29, 2022 the US High Yield Market reached a low of -14.9% and the drawdown of the

NHY market was only -1.5%. Hence, the outperformance of NHY on that day was around +14.7%.

Maximum drawdowns were more pronounced, and the recovery took significantly longer in US- and European High Yield markets

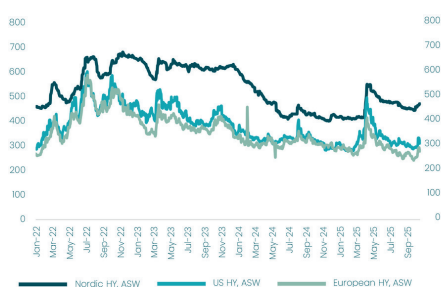


Source: Bloomberg; As of: September 30, 2025

There are several reasons for this huge discrepancy that occurred in 2022. One of them is, that the NHY-market per se consists of a high share of Floating Rate Notes (FRN) between 60% and 70%. Thus, if a massive spread widening would have been the cause behind the drawdowns, we would have seen a similar deterioration on the NHY-market. However, the main driver behind this loss period was the soaring interest rates that effectively led to declining prices on the US High Yield market due to a higher modified duration that is more than three times higher than that of the NHY-market. Currently the US High Yield market has a modified duration around 4.4% compared to 0.93% on the Nordic High Yield market. Briefly, in times of tremendously rising interest rates the NHY market provides a cushion – assuming that everything else like spread level remains the same (ceteris paribus) – due to its high share of Floating Rate Notes. Another benefit is the quarterly refix of the coupon rate leading to a higher income return when interest rates rise.

This year, the picture was different as spreads widened globally after Trump's liberation day, regardless of whether they were European-, US- or Nordic High Yield bonds. This led to similar drawdowns (US HY: -3.8%, NHY: -3.8% and EHY: -3.3%). Consequently, there was no such cushion on the Nordic High Yield market. On the other hand, the NHY-market is providing a cushion due its high ordinary income. The average coupon has risen from 6% in 2022 to around 8% (+200 Bp) recently, whereas in the same period it has only increased by 100 Bp on the US High Yield market from 5.5% to 6.5%.[3] We would like to take a final look on the spread development. We already argued that the massive losses taking place on the US- and European High Yield markets over the year 2022 was driven predominantly by rising interest rates and to a lesser degree by widening spreads.

Spreads for Nordic High Yield were less volatile and still show a decent pickup to US- and European High Yield



Source: Bloomberg; As of: September 30, 2025

As depicted in the chart above Nordic High Yield reacted with a time lag in the initial phase from beginning of January to end of February 2022. When spreads already went northwards on the US-market by +90 Bp, NHY spreads only did half of the way. However, within a few days in early March spreads on the NHY-market spiked to more than 500 Bp (US High Yield: 410 Bp) showing that time lag

effects exist. Furthermore, it is observable that European High Yield and US High Yield spreads are much more correlated compared to Nordic High Yield. As per end of September the Nordic High Yield market still has a spread pickup of around 150 Bp to US High Yield respectively +190 Bp to European High Yield and offers great opportunities to invest in. As the market grew in volume it also did in terms of diversification: In 2009 Oil and Gas (O&G) accounted for 64% of the total market value, today it accounts for less than 20% of the total market value. Anyhow, as the share of O&G, shipping and transportation is still roughly one-third of the overall market, for Seahawk it is still the most compelling market within the broader High Yield universe. Compared to the US High Yield market, where the share in the corresponding sectors is only around 15% (European High Yield: 10%), Nordic High Yield offers twice the opportunities plus a diversification within the corresponding subsectors. A good example is the whole offshore industry: Most US-American offshore energy companies are focused on the drilling segment. In the Nordic High Yield market, there are companies focusing on 1) drilling, 2) OSV or 3) seismic and nay of these subsectors has unique features and could add to diversification benefits.

[3] For the European High Yield market, the average coupon increased by roughly 150 Bp from 3.5% to 5%.

Key takeaways

The Nordic High Yield market offers unique features. It offers a lean and standardized framework and delivers on a fast time to market for primary placements. Moreover, the market is different from it was 15 years ago. It is maturing and much more heterogeneous in its sector diversification. This is noticed by investors as well, since UK and US investors that accounted for only 22% of the overall investor base in 2022 now account for 43%. Finally, from a technical perspective the market is remarkably interesting, as a large proportion of at least 60% is issued as Floater structures, which have a short interest rate duration. The Nordic High Yield market offers a decent spread pickup of around 150 bp to the much larger US High Yield market and same applies to the coupon income that is on average 8% on the Nordic High Yield market.

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