Case Study: Relative Value Trades

Cardinal Analytics®

Selecting the right loans for your portfolio is hard: loans in the same sector, with similar maturities, coupon, and pricing can behave differently.

The credit risk of a loan may not be reflected perfectly in the loan price or credit rating, and its quarterly earnings provide a backward-looking snapshot at four points during the year.

You need a daily way to monitor the credit risk of a loan with a credit risk score that is forward looking. Cardinal Analytics does just that and provides daily end of day credit risk scores for issuers in the global broadly syndicated loan market.

The cases below are prime examples of how seemingly similar loans - or those that would appear higher vs lower risk - are actually very different and follow different price trajectories over time.

Being able to quantify the inherent credit risk allows more informed decisions to be made, and opportunities to avoid losses and make gains.

	Loan A	Loan B
Industry	Services	Services
Maturity	2028	2029
Coupon	200	800
Price (May 2026)	102.625	102.625

Credit Risk Score	10.7%	1.7%

Price (Aug 2026)	97.75	103.5

5.6% difference between Loan A & Loan B in only **3 months**

	Loan A	Loan B
Industry	Utilities	Utilities
Maturity	2029	2029
Coupon	350	350
Price (May 2026)	99.625	99.75

Credit Risk Score	10.1%	0.5%

Price (Aug 2026)	97.375	101.625

4.1% difference between Loan A & Loan B in only **3 months**

In the first pair of loans, the 800bps loan would be considered higher credit risk than the 200bps loan, when all other characteristics are similar. However, Cardinal's credit risk score showed the 200bp loan to have over 5x higher credit risk than the 800bps loan. In only three months the 200bps loan decreased whilst the 800bps loan increased in value.

In the second pair of loans there is no real way to distinguish them from one another: everything is pretty much identical. Cardinal's credit risk score indicated a 20x difference in credit risk between the two otherwise identical loans. In just three months the loan with the higher credit risk score decreased in value, whilst the loan with the lower credit risk score increased in value.

Contact us to set up your free 14-day trial of our dashboard:

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