Case Study: Quantifying Credit Risk

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 table below shows how Cardinal's credit risk score can be used to avoid higher risk loans and be over-weight to lower risk loans. This simple risk management framework can lead to superior risk adjusted returns that outperform the market.

	Average12 month loan price change	Average coupon	Absolute return
Credit risk >20%	-8.5%	4.3%	-4.2%
Market	-2.9%	3.5%	+0.6%
Credit risk <2%	-2.0%	3.1%	+1.1%

Loans are selected in August 2025 based solely on their Cardinal credit risk score, and the change in loan price is evaluated 12 months later. The average coupon is also taken into account and added to the loan price change to derive the absolute return value (note this does not include the SOFR rate).

Those loans with a credit risk score greater than 20% had a price return of -8.5% in the intervening 12 months. The average coupon was 4.3%, and total return for the period of -4.2%.

The entire universe of loans covered by Cardinal had a price return of -2.9% in the 12-month period, and an average coupon value of 3.5%. The total return for the period was +0.6%.

Loans with a credit risk score less than 2% had a price return of -2.0% over the 12-month period and an average coupon of 3.1%. The total return was +1.1% and outperformed the market's return - despite a lower coupon value.

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

sales@cardinalanalytics.co   cardinalanalytics.co   Belfast