CLO Monthly Monitor

January 2025

• CLOs started the new year on a positive footing with strong total returns and spread compression across the capital stack.

Loan Market Review

• The S&P UBS Leveraged Loan Index returned 0.72% in January, as elevated rates continued to support attractive yields relative to other fixed-income peers. Carry and price appreciation drove performance during the month with average price of the index ticking higher to 96.54, the highest reading since spring of 2022.

• The loan asset class generated a positive total return during the month but was mid pack relative to corporate credit peers as U.S. Treasury yields were largely unchanged and spreads on high-yield corporates compressed. Investment-grade and high-yield bonds returned 0.55% and 1.37%, respectively, as option-adjusted spreads on high-yield corporates compressed 26 basis points month over month due to strong investor appetite.

• Robust demand from CLOs, retail mutual funds, and ETFs continued to drive the primary loan market. Institutional loan issuance, representing refinancings and non-refinancing issuances, reached $59.5 bn in January. Of the $211.7 bn in primary market activity during the month, which includes amendments and new issue transactions, the total was skewed toward repricing with 65% of the activity. The effect of accommodative credit conditions can be seen in the fact that repricing has represented more that 50% of U.S. institutional loan activity in eight of the past 12 months. LCD research notes that 12 borrowers have repriced the same credit in the past 12 months, saving between 100 and 225 basis points in interest expenses.

• CLO issuance ticked down in January to $8.7 bn, marking the lowest reading since December 2023. Retail funds more than made up for the lull in CLO demand as loan funds experienced $3.2 bn of inflows during the month, the highest reading in nearly three years.

• Performance was positive across 19 of the 20 sectors with food and drug being the sole laggard for the second consecutive month. Leading sectors included aerospace (+1.01%), food/tobacco (+0.94%), and consumer non-durables (+0.93%), while food and drug (-1.74%), chemicals (+0.43%), and manufacturing (+0.50%) underperformed.

• Returns by rating favored lower quality performing credit, but distressed loans (CC & Below) gave back some of the outperformance from December. The breakdown of one-month returns by rating was as follows: BB (+0.61%), B (+0.67%), CCC (+1.23%), and CC & Below (-0.75%).

• There was one loan issuer default in January (City Brewing) affecting $886.2 mn in loans outstanding. Taking a look at the par-weighted default rate, the trailing 12-month default rate decreased by 2 bps to 1.50%. Including distressed exchange activity, the 12-month default rate ended the month lower at 4.42%.

CLO Market Review

• CLO tranches delivered strong total returns in January, with the JP Morgan CLOIE Index reporting returns of 0.62% (AAA), 0.60% (AA), 0.65% (A), 0.94% (BBB), and 1.35% (BB).

• New CLO origination was $9.9 bn across 18 deals, well below the roughly $20 bn in average monthly activity during the fourth quarter but consistent with slow starts in January of the past three years.

• AAA spread compression, a prevalent theme of 2024, continued in January. Many managers took advantage of this to reprice older deals off of call protection, deriving $31.5 bn in reset and refinance activity in January, in line with forecasts from Bank of America, which expect roughly one third of CLOs they track to refinance in 2025.

• CLO ETFs, while still a small portion of the $1-trillion CLO market, have grown significantly in size and popularity, offering retail investors access to a market that was previously out of reach. AUM for CLO ETFs has surpassed $25 bn and with the launch of BlackRock's mezzanine-focused ETF in January, 19 different CLO ETFs have entered the market since 2020.

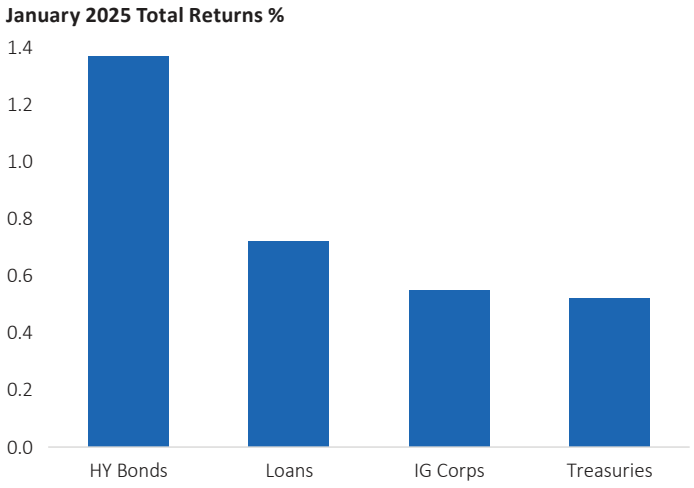
• LBO and M&A leveraged loan volume picked up in January with $35 bn in new issuance, but this only goes so far to resupply the narrow selection of high-quality loans available to ramping warehouses. When factoring in demand (CLO creation and retail fund flows) versus leveraged loan issuance, the market continued to be in a loan supply deficit as seen in all of calendar year 2024.

• With earnings through December 2024 released, one positive note was that nearly twice as many loan issuers beat EBITDA expectations as missed during the fourth quarter. This is partially offset by an uptick in high-yield companies warning about inflationary pressures (23% in Q4) along with the uncertainties brought about by tariffs.

• While the majority of fixed income is off to a positive start in 2025, we believe CLO debt has the potential to continue to outperform similarly rated debt as it did in 2024. CLO performance across ratings has been strong given the yield and additional carry. Strong technical dynamics within the CLO asset class, characterized by limited net new issuance and steady performance from the underlying collateral pools, are expected to support prices remaining near or above par throughout the capital stack.

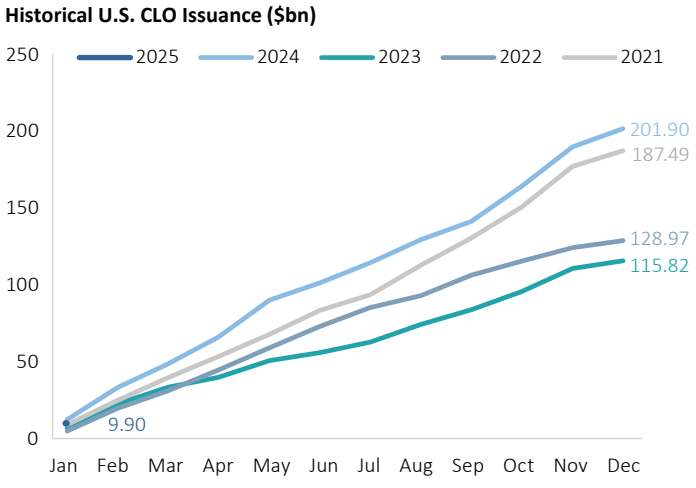
Charts of the Month

1. January was a strong month for higher spread strategies.



Source: Bloomberg, S&P UBS, as of January 31, 2025

2. 2024 represents a high hurdle to clear for CLO new issuance.



Source: Pitchbook LCD Research, as of January 31, 2025

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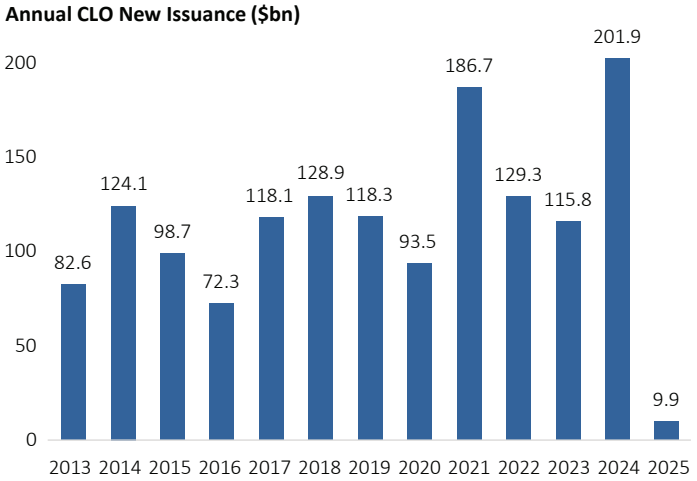
CLO MONTHLY MONITOR
JANUARY 2025

Market Data	January 2025 Return (%)	1-Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.62	6.94	5.0	-0.3	75	100.5
AA-Rated	0.60	7.74	5.4	-0.2	113	100.4
A-Rated	0.65	8.74	5.6	-0.3	140	100.5
BBB-Rated	0.94	11.35	6.2	-0.5	197	101
BB-Rated	1.35	17.28	9.9	-0.3	567	97.9
S&P UBS Leveraged Loan Index						
BB-Rated	0.61	8.25	6.59	-0.1	255	100.2
B-Rated	0.67	9.56	8.35	0.0	432	98.8
CCC-Rated	1.23	11.20	17.78	-0.3	1381	77.2

Source: JP Morgan, S&P UBS, as of January 31, 2025

Technicals

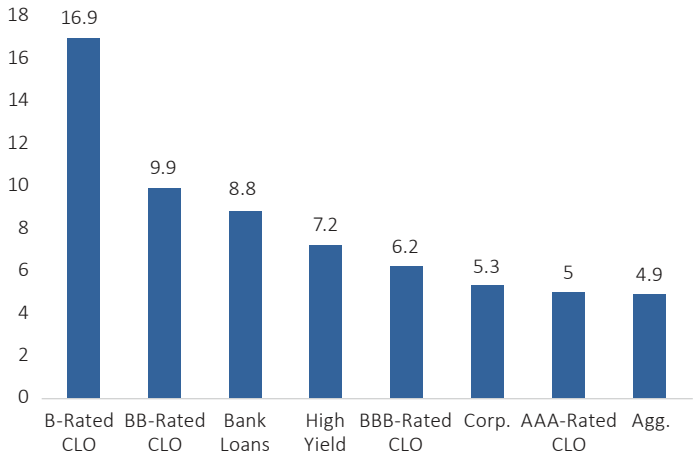
Annual CLO New Issuance ($bn)



Source: Pitchbook LCD Research, as of January 31, 2025

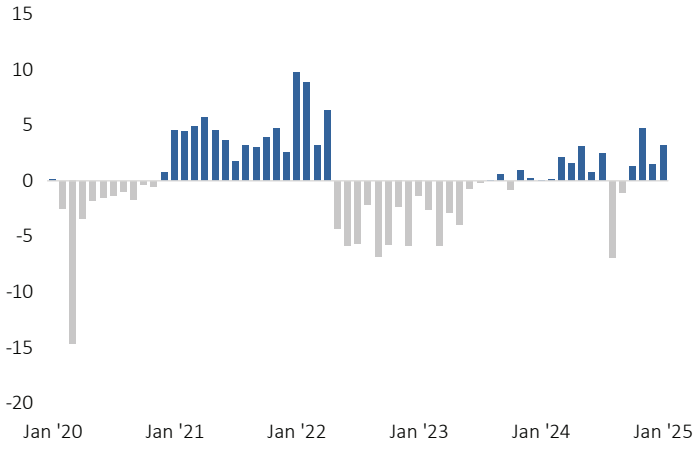
Valuations

Yields on Various Asset Classes (%)



Source: Bloomberg, JP Morgan, S&P UBS, as of January 31, 2025

Bank Loan Fund Flows ($bn)



Source: Pitchbook LCD Research, as of January 31, 2025

S&P UBS Leveraged Loan Index ($)



Source: S&P UBS, as of January 31, 2025

ABOUT ARISTOTLE PACIFIC CAPITAL

Aristotle Pacific Capital, LLC specializes in institutional fixed income management with a focus on corporate credit. As of December 31, 2024 the firm managed $30 bn across bank loan, high yield, corporate, and CLO strategies.

IMPORTANT NOTES AND DISCLOSURES

For Institutional Investor use only. All data as of month-end unless otherwise noted. This information is presented for informational purposes only. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole investment making decision. CLO, Bank loan, corporate securities, and high yield bonds involve risk of default on interest and principal payments or price changes due to changes in credit quality of the borrower, among other risks. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. Past performance is not indicative of future results. The opinions expressed herein are based on current market conditions and are subject to change without notice.