CLO Monthly Monitor

February 2025

• CLOs performance was mixed in February as carry drove positive total return, but spreads widened across most tranches in the capital stack.

Loan Market Review

• The S&P UBS Leveraged Loan Index returned 0.15% in February, as coupon offset the nearly half-percent decline in price during the month. A confluence of factors—including market volatility, tariffs, and decelerating economic data—weighed on average price, which ended the month at $96.24.

• The loan asset class generated a positive total return during the month but trailed its corporate-credit peers as declining U.S Treasury yields and spread compression provided tailwinds for fixed-rate corporates. Investment-grade and high-yield bonds returned 2.04% and 0.67%, respectively, as the yield on the 10-year Treasury fell 34 bps with the largest move down taking place in the last week of February.

• 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 $45.7 bn in February. Of the $90.8 bn in primary market activity during the month (which includes amendments and new issue transactions), the total was skewed toward repricing with 43% of the activity. The shift in credit conditions can be seen in the fact that February repricing activity fell to roughly 28% of the $137 bn seen just the month prior and three issuers pulled repricing requests.

• CLO issuance ticked up in February to $18.1 bn with the lion's share dedicated to broadly syndicated loans. Retail demand continued unabated as loan funds experienced $3.1 bn of inflows during the month, capping a 12-month aggregate total of $14.3 bn in net flows.

• Performance was positive across 13 of the 20 sectors with media/telecom the top performing sector while more cyclical sectors lagged in February. Leading sectors included media/telecom (+0.67%), metals/mining (+0.45%), and utilities (+0.42%), while food and drug (-0.64%), chemicals (-0.63%), and housing (-0.45%) underperformed.

• Returns by rating were mixed across the credit spectrum with CCC rated loans leading the way, while CC and below lagged for a second consecutive month. The breakdown of one-month returns by rating was as follows: BB (+0.16%), B (-0.01%), CCC (+0.97%), and CC & Below (-1.03%).

• There were no loan defaults during the month of February. Taking a look at the par-weighted default rate, the trailing 12-month default rate decreased by 24 bps to 1.26%. Including distressed exchange activity, the 12-month default rate ended the month lower at 3.90%.

CLO Market Review

• CLO tranches delivered positive total returns in February, with the JP Morgan CLOIE Index reporting returns of 0.29% (AAA), 0.34% (AA), 0.34% (A), 0.43% (BBB), and 0.88% (BB).

• New CLO origination was $18.1 bn across 38 deals, broadly in line with the roughly $20 bn in average monthly activity during the fourth quarter though modestly off of the record-setting pace set in calendar year 2024.

• AAA spread tightening, a prevalent theme of 2024, continued in February with some shorter-dated deals pricing sub-100 bps. Many managers took advantage of this to reprice older deals off of call protection. In total, $37.5 bn in reset and refinance activity was observed in February, in line with forecasts from Bank of America, which estimates $339 bn in BSL CLOs could refinance or reset this year.

• 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. Also of note in February was the launch of the State Street Global Advisors/Apollo IG Public Private Credit ETF, which holds a sleeve of middle-market CLOs. A dustup ensued with the SEC issuing letters to both firms the day of the launch, noting outstanding concerns about the liquidity mismatch, name, and valuation rules of the ETF.

• The January uptick in LBO and M&A leveraged loan volume was short lived, as February's $18.2 bn of new issuance had a limited impact on the supply 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 calendar year 2024.

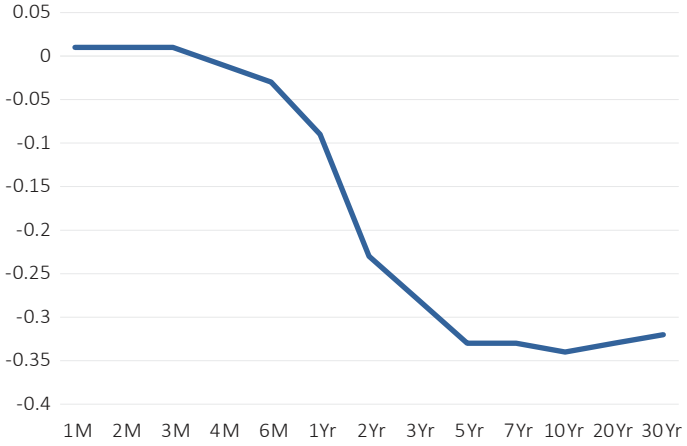
• With earnings through December 2024 released, one positive note was that nearly twice as many loan issuers beat EBITDA expectations as missed during the fourth quarter. This is partially offset by an uptick in high-yield companies warning about inflationary pressures (18% in Q4), along with more negative guidance from issuers impacted by tariff uncertainty affecting sectors such as autos and housing.

• 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. Skiers will appreciate the bull flattening of the yield curve witnessed in February.

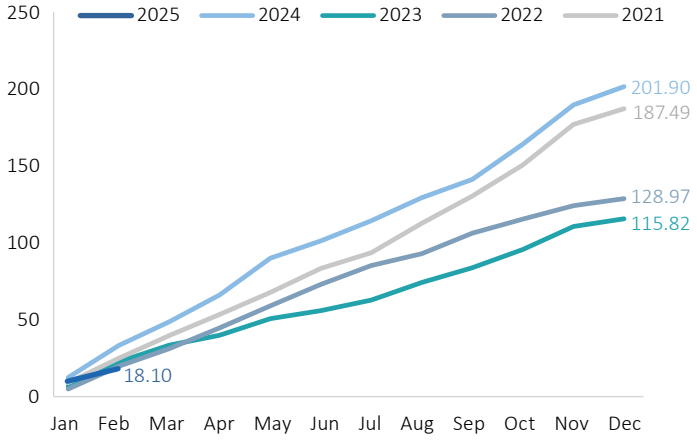
A Downshift in Hard Data & Treasury Yields



Source: U.S. Treasury Daily Par Yield Curve Rates, 1/31/2025 & 2/28/2025, change in basis points (bps)

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

Historical U.S. CLO Issuance ($bn)



Source: Pitchbook LCD Research, as of February 28, 2025

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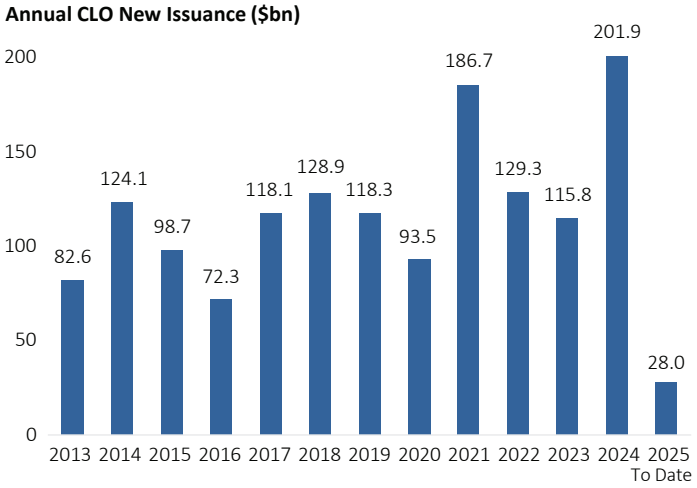
CLO MONTHLY MONITOR
FEBRUARY 2025

Market Data	February 2025 Return (%)	1-Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.29	6.63	5.0	0.0	89	100.3
AA-Rated	0.34	7.39	5.4	0.0	128	100.3
A-Rated	0.34	8.34	5.6	0.0	152	100.3
BBB-Rated	0.43	11.00	6.2	0.0	207	100.8
BB-Rated	0.88	17.40	9.7	-0.2	557	97.9
S&P UBS Leveraged Loan Index						
BB-Rated	0.16	7.79	6.4	-0.2	264	99.9
B-Rated	-0.01	8.65	8.2	-0.2	443	98.4
CCC-Rated	0.97	10.04	17.1	-0.7	1347	78.0

Source: JP Morgan, S&P UBS, as of February 28, 2025

Technicals

Annual CLO New Issuance ($bn)



Source: Pitchbook LCD Research, as of February 28, 2025

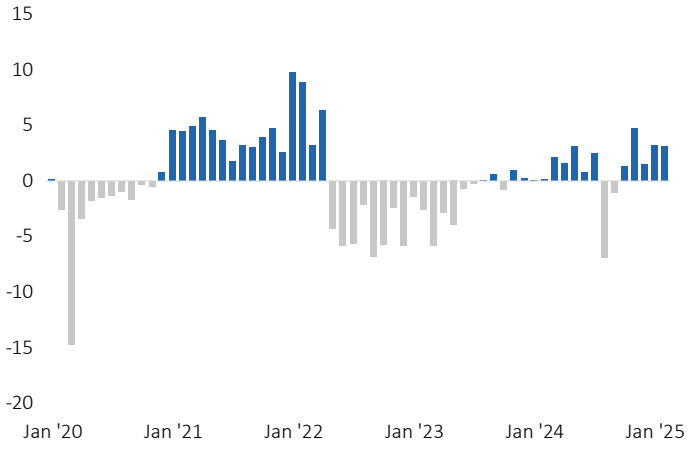
Valuations

Yields on Various Asset Classes (%)



Source: Bloomberg, JP Morgan, S&P UBS, as of February 28, 2025

Bank Loan Fund Flows ($bn)



Source: Pitchbook LCD Research, as of February 28, 2025

S&P UBS Leveraged Loan Index ($)



Source: S&P UBS, as of February 28, 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.