

CLO MONTHLY MONITOR

MARCH 2025

- CLO performance was mixed in March as carry drove positive total return for higher-quality liabilities, but spreads widened across all tranches in the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned -0.31% in March, as coupon was not able to offset softness in secondary market prices. Ongoing headwinds—including market volatility, tariffs, and decelerating economic data—weighed on average price, which ended the month at \$96.31.

- The loan asset class generated its first negative total return since October 2023 but was mid-pack relative to its corporate-credit peers. Investment-grade and high-yield bonds returned -0.29% and -1.02%, respectively, as spread widening negatively impacted credit, but a modest decline in Treasury yields softened the blow for investment-grade bonds.

- Institutional loan issuance, representing refinancings and non-refinancing issuances, reached \$36.9 billion in March. Of the \$47.7 billion in primary market activity during the month (which includes amendments and new issue transactions), the total was skewed toward new issuance. The complexion of loan activity changed as the first quarter progressed, with repricings falling from 79% of activity at year-end to only 19% as of March month-end.

- CLO issuance kept up the pace from the prior month at \$18.8 billion with roughly 80% dedicated to broadly syndicated loans. Retail fund flows reversed in March with \$ 4.4 billion in outflows, ending five months of inflows as the risk-off environment and the prospect of fed fund rate cuts weighed on the asset class.

- Performance was mixed across GICS II industries in March, with tariff impacted industries materially lower. Leading industries included food and staples retailing (+0.70%), real estate (+0.68%), and diversified financials (+0.33%), while consumer durables and apparel (-1.60%), household and personal products (-1.09%), and materials (-0.90%) underperformed.

- Souring risk sentiment could be seen in the returns by rating as BB issuers were the only quality cohort to generate positive returns in March. The breakdown of one-month returns by rating was as follows: BB (+0.09%), B (-0.41%), and CCC (-2.76%).

- There were three loan issuer defaults in March (Rugs USA, Mitel Networks, and Astra Acquisition), affecting \$2.4 billion in loans outstanding. Taking a look at the par-weighted default rate, the trailing 12-month default rate decreased by 2 basis points to 1.24%. Including distressed exchange activity, the 12-month default rate ended the month lower at 3.86%.

CLO MARKET REVIEW

- CLO tranches delivered mixed total returns in March, with the JP Morgan CLOIE Index reporting returns of 0.17% (AAA), 0.12% (AA), 0.17% (A), -0.27% (BBB), and -1.45% (BB).

- New CLO origination was \$18.8 billion across 39 deals, capping off a first quarter that saw \$56.1 billion in new issuance in spite of market volatility that surfaced at the end of March.

- AAA spread compression, a prevalent theme of 2024, continued in the first quarter as spreads tightened from 134 basis points at the end of 2024 to 119 basis points at March month-end. Pitchbook noted that eight AAA CLOs new issues in March priced at 113 basis points over SOFR, which ranked among the tightest spreads in the CLO 2.0 era.

- 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 \$31 billion in aggregate but is concentrated with one ticker accounting for 69% of total assets. CLO ETFs were not immune from the tariff induced volatility in March, experiencing its first month of outflows since June 2022 at \$305 million.

- Last month marked a change in supply dynamics with \$22.5 billion in non-refinancing new issuance for LBOs and M&A, which provided a wider selection of high-quality loans available to ramping warehouses. When factoring in demand (CLO creation and retail fund flows) versus leveraged loan issuance, March may have been an inflection point as it was the first time the market had a monthly new loan supply surplus since September 2023.

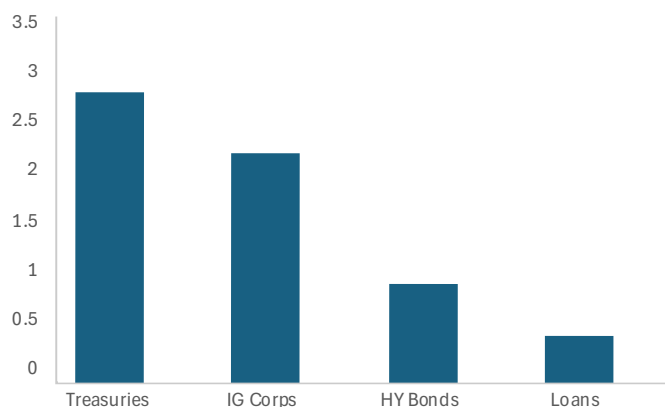
- Taking a look at leveraged-loan credit fundamentals, U.S. loan issuers reported modestly improved metrics as of December 2024. EBITDA growth rose to 8.9% in the fourth quarter relative to the year prior, interest coverage improved for the first time in two-and-a-half years, and average leverage declined to 4.5 times for public loan borrowers. The outlook for first quarter 2025 may be less sanguine though as inflationary pressures, slowing growth, and negative guidance from issuers impacted by tariffs may take their toll.

- 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. Treasuries outperformed in the first quarter of 2025 as risk sentiment shifted.

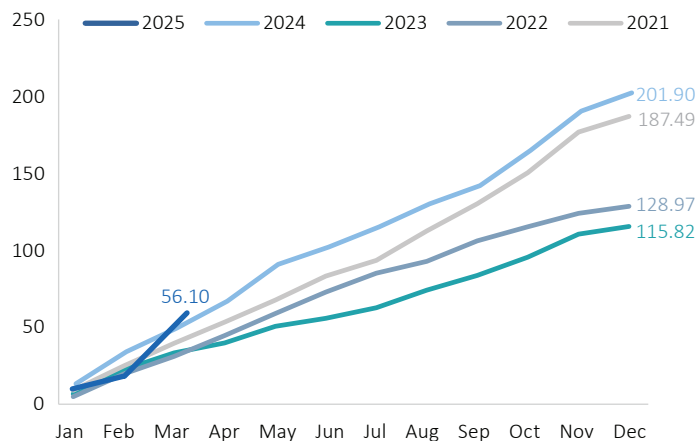
Q1 2025 Index Total Returns (%)



Source: Bloomberg, Morningstar LSTA as of March 31, 2025

2. 2025 CLO new issuance off to a strong start.

Historical U.S. CLO Issuance (\$bn)



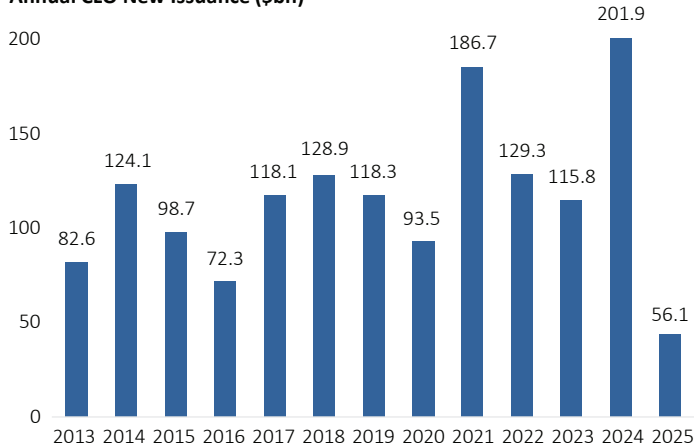
Source: Pitchbook LCD Research, as of March 31, 2025

Market Data	March 2025 Return (%)	1-Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
JP Morgan CLO Indices						
AAA-Rated	0.17	6.26	5.2	0.2	123	100.0
AA-Rated	0.12	6.84	5.7	0.3	174	99.9
A-Rated	0.17	7.63	5.9	0.3	192	99.9
BBB-Rated	-0.27	9.20	7.0	0.8	296	99.8
BB-Rated	-1.45	12.80	11.3	1.6	725	95.6
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.09	7.03	6.9	0.0	270	99.3
B-Rated	-0.41	7.31	8.1	0.0	439	97.2
CCC-Rated	-2.76	-8.25	11.3	0.0	1259	78.7

Source: JP Morgan, Morningstar LSTA, as of March 31, 2025

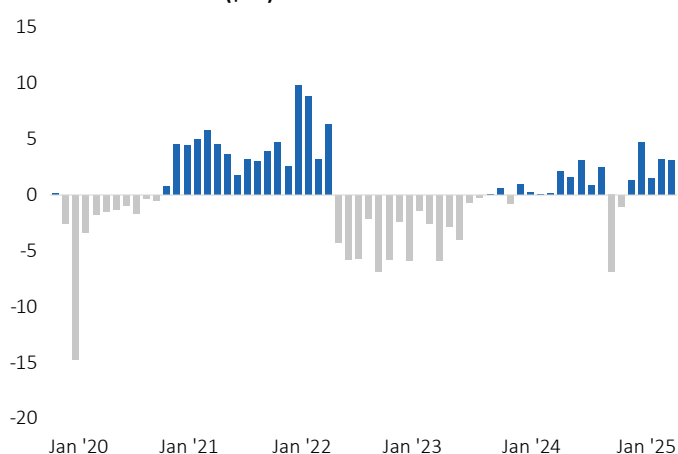
Technicals

Annual CLO New Issuance (\$bn)



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

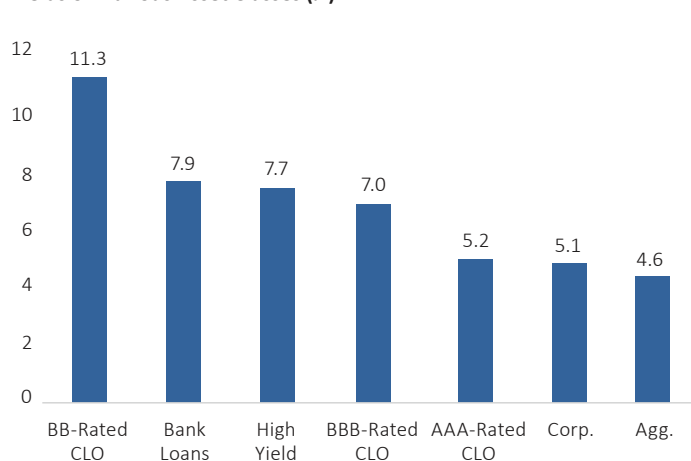
Bank Loan Fund Flows (\$bn)



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

Valuations

Yields on Various Asset Classes (%)



Source: Bloomberg, JP Morgan, Morningstar LSTA, as of March 31, 2025

Morningstar LSTA Leveraged Loan Index (\$)



Source: Morningstar LSTA as of March 31, 2025

ABOUT ARISTOTLE PACIFIC CAPITAL

Aristotle Pacific Capital, LLC specializes in institutional fixed income management with a focus on corporate credit. As of March 31, 2025, the firm managed \$30bn across bank loan, high yield, corporate, and CLO strategies and represents APC and its CMV's.

IMPORTANT NOTES AND DISCLOSURES

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