



CLO performance was strong across the board in May as rallying prices drove total return, and spreads compressed across all tranches in the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned 1.55% in May, with price appreciation underpinning performance as secondary market prices steadily ground higher during the month. Tariff-induced market volatility that weighed on average bid in April was largely a thing of the past, as the average price for the Morningstar LSTA Leveraged Loan Index ended May at \$96.70, 40 cents higher than the March month end price just before Liberation Day.
- The loan asset class generated positive performance as a recovery in risk appetite and rising U.S. Treasury yields were both tailwinds in May. Relative to credit peers, loan performance was modestly behind the +1.68% of high yield corporates but well ahead of investment grade corporates, which returned -0.01% as duration largely offset spread compression.
- Institutional loan issuance picked up in May from the volatility-induced low the prior month, with \$27.7 billion in deals. One interesting note was that the largest deal of the month, which involved over \$4 billion in term loans across first and second liens for the company Alera, was the refinancing of private credit.
- CLO issuance picked up the pace in May, with \$20.5 billion in new issues and roughly 87% dedicated to broadly syndicated loans. Retail fund flows turned positive with \$0.8 billion of inflows, although the year-to-date aggregate flow is \$ -4.6 billion as the recent risk-off environment and the prospect of fed fund rate cuts have weighed on the asset class.
- Performance was positive across all GICS II industries in May, with tariff-impacted and consumer-facing industries leading the relief rally. Leading industries included household and personal products (+4.27%), automobiles and components (+2.99%), and retailing (+2.45%), while food and staple retailing (+0.72%), energy (+0.78%), and semiconductors and semiconductor equipment (+0.85%) lagged.
- Market performance favored lower quality issuers as CCC-rated loans recouped some of the losses from trade war induced volatility in March and April. The breakdown of one-month returns by rating was as follows: BB (+1.39%), B (+1.57%), and CCC (+2.98%).
- There were five loan issuer defaults in May (Pixelle Specialty Solutions, Gabe's, Weight Watchers International, Aegis Toxicology, and At Home), affecting \$2.4 billion in loans outstanding. Taking a look at the par-weighted default rate, the trailing 12-month default rate increased by 19 basis points to 1.42%. Including distressed exchange activity, the 12-month default rate ended the month lower at 3.62%.

CLO MARKET REVIEW

- CLO tranches delivered positive total returns in May, with the JP Morgan CLOIE Index reporting returns of 0.73% (AAA), 1.00% (AA), 1.36% (A), 1.60% (BBB), and 3.02% (BB).
- New CLO origination was \$20.5 billion across 43 deals, taking the year to date total to \$85.7 billion, which is modestly off the 2024 record-setting pace in both assets and deal count.
- The AAA spread compression that marked 2024 and early 2025, returned in May as the AAA tranche of the JP Morgan CLOIE Index tightened 25 bps. Nevertheless, even with the move in spreads, Bank of America noted in a month-end report that U.S. AAA CLO tranches offered a 40 bps spread advantage over investment grade corporate bonds.
- 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. Interest in ETF Issuance has continued to increase, with RBC and Mackenzie launching four new CLO funds in May, following in the wake of BMO's launch of two investment grade Canadian dollar hedged funds in April.
- With May's new broadly syndicated loan issuance running well below the 2024 monthly average of \$41.8 billion, CLO managers may be challenged to source the narrow selection of high quality loans available to ramping warehouses. When factoring in demand (CLO creation and retail fund flows) versus leveraged loan supply (issuance less repayments), May fell back into a deficit of \$15.1 billion of supply, similar to the experience seen in all of 2024.
- First-quarter earnings for loan issuers were mixed, with strong earnings reports paired with dour outlooks. Nearly twice as many high-yield issuers beat on first-quarter EBITDA expectations, but this was coupled with nearly 44% of companies experiencing inflationary pressures. In light of tariffs and economic growth concerns, it comes as no surprise that sectors such as chemicals, consumer, and housing provided negative guidance for the months ahead.
- 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 Intermediate maturities have borne the brunt of volatility in 2025

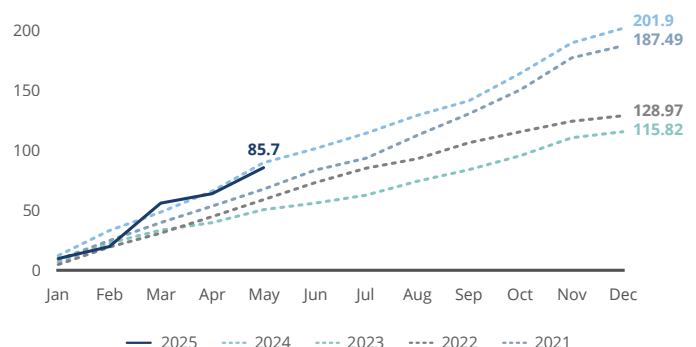
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Department of Treasury Daily Par Yield Curve Rates 1/2/2025–5/30/2025

2 2025 CLO new issuance picked up the pace in May as risk appetite returned

HISTORICAL U.S. CLO ISSUANCE (\$BN)



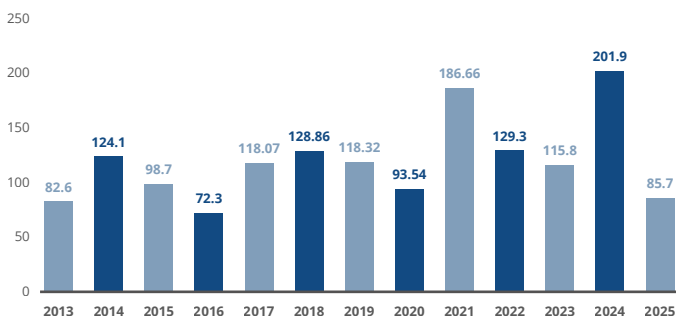
Source: Pitchbook/LCD Research as of May 31, 2025

Market Data	May 2025 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
JP Morgan CLO Indices						
AAA-Rated	0.73	5.95	5.1	0.2	114	100.1
AA-Rated	1.00	6.59	5.5	-0.1	141	100.1
A-Rated	1.36	7.37	5.7	-0.3	162	100.2
BBB-Rated	1.60	8.40	7.0	-0.2	297	99.9
BB-Rated	3.02	11.71	10.7	-0.7	668	96.3
Morningstar LSTA Leveraged Loan Index						
BB-Rated	1.39	6.97	6.9	0.0	268	99.5
B-Rated	1.57	7.12	8.1	-0.1	427	97.5
CCC-Rated	2.98	3.55	11.2	-0.3	1197	80.4

Source: JP Morgan, Morningstar, as of May 31, 2025

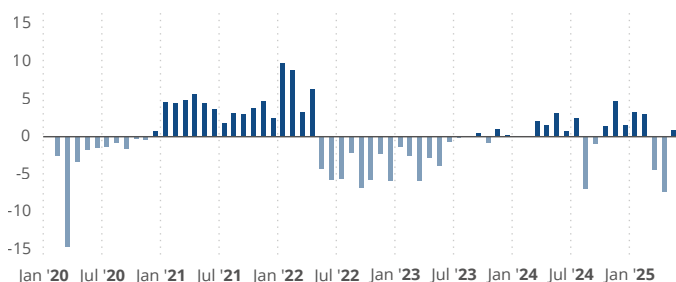
TECHNICALS

ANNUAL CLO NEW ISSUANCE (\$BN)



Source: Pitchbook/LCD Research as of May 31, 2025

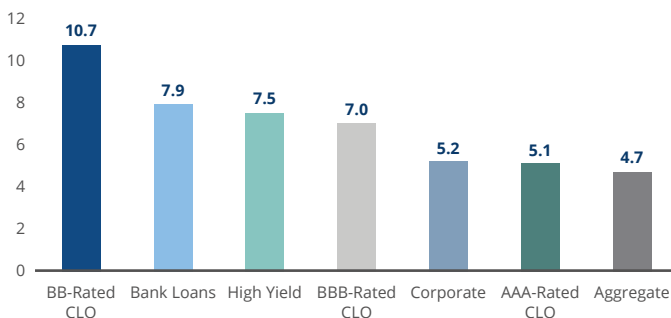
MONTHLY BANK LOAN FUND FLOWS (\$BN)



Source: Pitchbook/LCD Research as of May 31, 2025

VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, JP Morgan, Morningstar, as of May 31, 2025

MORNINGSTAR LSTA LEVERAGED LOAN INDEX (\$)



Source: Morningstar, as of May 31, 2025

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