ARISTOTLE PACIFIC CAPITAL

CLO MONTHLY MONITOR
AUGUST 2025

CLO performance was positive across the board as August slipped away.
Carry drove total return during the month and spreads compressed across the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned +0.45% in August, with coupon the primary driver of performance as secondary market prices softened following a three-month winning streak. A confluence of factors, including a weakening jobs market, the prospect of Fed rate cuts, and ample supply activity in July, combined to weigh on loan prices. As of August month-end, 41% of the Morningstar LSTA Leveraged Loan Index was priced above par, and the average bid declined 22 cents to end at $97.19.

- The loan asset class generated positive performance in August, although rate movements were a headwind. Relative to credit peers, loan performance lagged the +1.25% and +1.01% total returns of high-yield and investment-grade corporate bonds, respectively, as U.S Treasury yields fell across the curve with the largest declines at the two- and three-year maturities.

- Institutional loan issuance, representing refinancings and non-refinancing issuances, reached $27.69 billion during the month. Of the $51.8 billion in primary market activity (which includes amendments and new-issue transactions), the total was fairly balanced and the level of repricings fell from the July record of $158.8 billion to $16.7 billion to end the month.

- CLO issuance continued to hum along in August with $19.2 billion in new issues and roughly 74% dedicated to broadly syndicated loans. Retail fund flows were modestly negative with $0.09 billion of outflows, ending three months of inflows, as Federal Reserve Chair Powell comments at the Jackson Hole Economic Symposium and a softening jobs outlook support potential rate cuts that can weigh on the asset class.

- Monthly performance was positive for 21 of the 24 GICS II industries, although household and personal products materially trailed peers with a monthly total return worse than any period during the spring trade-war volatility. Leading industries were consumer durables and apparel (+0.94%), consumer staples distribution and retail (+0.93%), and equity real estate investment trusts (+0.87%), while household and personal products (-1.65%), semiconductors and semiconductor equipment (-0.82%), and materials (-0.09%) lagged.

- Market performance favored higher-quality issuers as CCC rated loans ended a three-month winning streak in August. The breakdown of one-month returns by rating was: BB (+0.50%), B (+0.52%), and CCC (-0.76%).

- There were three loan-issuer defaults in August (Claire's Stores, Anastasia Beverly Hills, and ModivCare), affecting $1.71 billion in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month default rate increased by 10 basis points to 1.29%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 3.37%.

CLO MARKET REVIEW

- CLO tranches delivered positive total returns in August, with the JP Morgan CLOIE Index reporting returns of +0.46% (AAA), +0.50% (AA), +0.48% (A), +0.74% (BBB), and +0.96% (BB).

- New CLO origination was $19.2 billion across 39 deals, taking the year-to-date total to $141.9 billion and 8% ahead of the record setting pace of 2024. Of note during August was the first ever emerging-market CLO issued by the International Finance Corporation (IFC). The $509 million static, dollar-denominated CLO priced on Aug. 29 with 57 corporate obligors from Asia, the Middle East, and Africa. The CLO has three tranches with the senior making up $320 million and rated Aaa by Moody's. All of the underlying loans were originated by the IFC and are serviced and rated by the organization.

- 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. Bank of America notes that CLO ETFs enjoyed $2.5 billion of inflows in August, and some of the institutional flows during the summer were a rotation from loan to CLO ETFs.

- With year-to-date loan issuance volume 7% below last year's levels, CLO managers continue to face challenges sourcing 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), August logged a fourth monthly deficit of $13.6 billion of supply, similar to the experience seen in all of 2024.

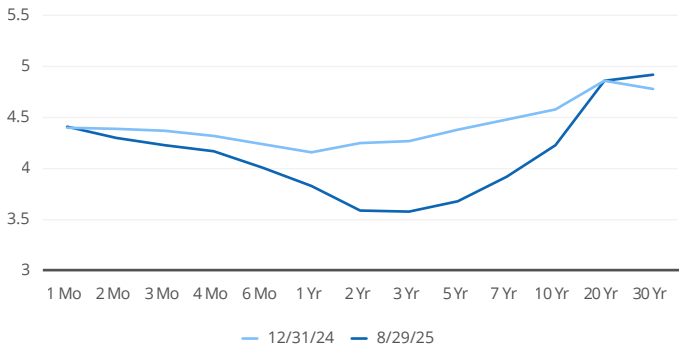
- With the second-quarter earnings season wrapped up, high-yield issuers enjoyed the strongest earnings in two years in spite of the tumultuous start to the quarter. Nearly three times as many high-yield companies beat EBITDA expectations as missed during the second quarter. There has also been a notable shift regarding inflation pressures, with the number of companies warning of inflation dropping from 41% in first quarter 2025 to 29% in the second quarter.

- Year-to-date, CLO debt has lagged similarly rated fixed-rate corporate bonds. That said, we believe CLO debt has the potential to outperform similarly rated debt as it did in 2024. CLOs offer attractive yield pickup relative to credit peers in a capital efficient manner for many institutional investors. 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 treasuries have enjoyed the largest yield compression year to date

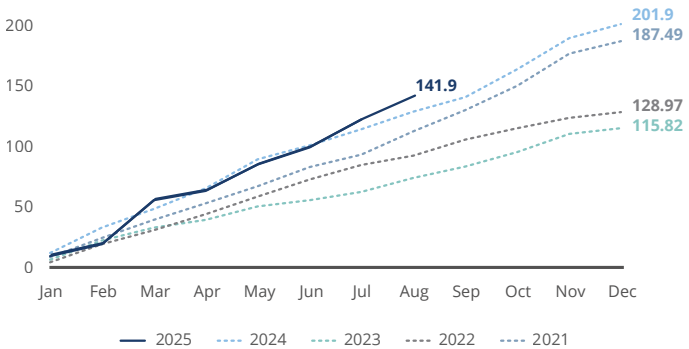
STUCK IN A RUT



Source: U.S. Treasury Daily Par Yield Curve Rates 12/31/2024 & 8/29/2025

2 CLO new issuance is on pace for another recording breaking year in 2025

HISTORICAL U.S. CLO ISSUANCE ($BN)



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

ARISTOTLE PACIFIC CAPITAL

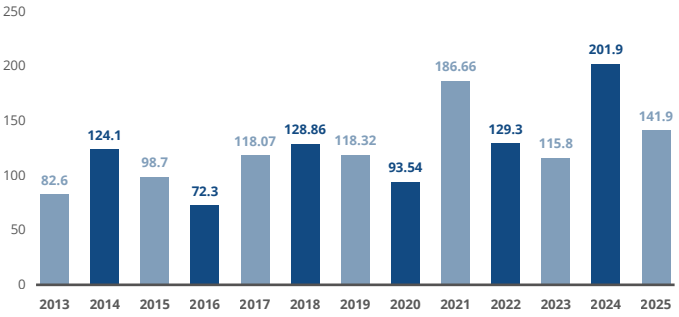
CLO MONTHLY MONITOR
AUGUST 2025

Market Data	August 2025 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.46	5.94	4.8	-0.3	101	100.2
AA-Rated	0.50	6.41	5.2	-0.3	132	100.2
A-Rated	0.48	6.89	5.5	-0.3	159	100.2
BBB-Rated	0.74	8.44	6.5	-0.4	269	100.2
BB-Rated	0.96	13.26	10.1	-0.3	632	96.9
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.50	7.03	6.8	-0.1	259	99.6
B-Rated	0.52	7.72	7.9	-0.1	401	98.1
CCC-Rated	-0.76	4.85	11.5	0.4	1274	78.7

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

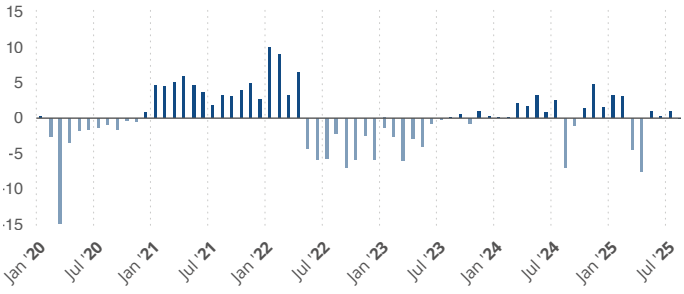
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



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

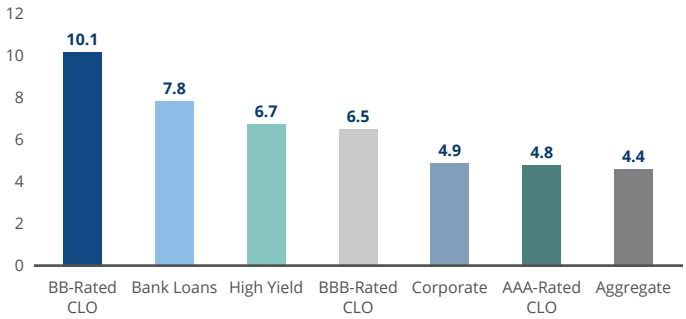
MONTHLY BANK LOAN FUND FLOWS ($BN)



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

VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



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

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar, as of August 31, 2025

— Average Price

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.

The Morningstar Indexes are the exclusive property of Morningstar, Inc. Morningstar, Inc., its affiliates and subsidiaries, its direct and indirect information providers and any other third party involved in, or related to, compiling, computing or creating any Morningstar Index (collectively, "Morningstar Parties") do not guarantee the accuracy, completeness and/or timeliness of the Morningstar Indexes or any data included therein and shall have no liability for any errors, omissions, or interruptions therein. None of the Morningstar Parties make any representation or warranty, express or implied, as to the results to be obtained from the use of the Morningstar Indexes or any data included therein. ©2025 Morningstar, Inc. All rights reserved. The Morningstar name and logo are registered marks of Morningstar, Inc. Marks used in conjunction with Morningstar products or services are the property of Morningstar or its subsidiaries.