ARISTOTLE PACIFIC CAPITAL

CLO MONTHLY MONITOR
APRIL 2026

CLO performance was positive in April as secondary prices and carry drove returns and spreads compressed across the entire capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned 1.29% in April as a recovery in risk appetite and bargain hunting supported a recovery in secondary prices. Month over month, the average bid for the Morningstar LSTA Leveraged Loan Index rose 68 basis points (bps) to end at $95.31.
- The loan asset class generated positive performance as a ceasefire with Iran and stabilizing software loan prices were supportive of spread compression in April. Relative to credit peers, loans were mid-pack as high-yield corporate and investment-grade bonds generated total returns of 1.69% and 0.37%, respectively. The floating-rate structure of loans was a tailwind as U.S. Treasury yields rose across intermediate and long maturities in April and the 30-year bond ended 2 bps shy of 5%.
- The Strait of Hormuz remained closed by Iran in April, which has cut the world off from 14 million barrels of oil per day and underpins a worldwide scramble for refined products, liquid natural gas, and fertilizer. The effects of rising energy prices can already be seen in data, with April 2026 annual CPI coming in at 3.8%, the highest reading in three years. Cognizant to the risks the Iran conflict poses to both sides of its dual mandate – price stability and maximum employment – the Federal Reserve kept the fed funds rate between 3.5%–3.75% at its April meeting. While the impact of the war on the U.S. economy remains to be seen, Fed policy on hold is positive for the income generation that loans provide to investors.
- Institutional loan issuance, representing refinancings and non-refinancings, was $14.8 billion, as macroeconomic uncertainty driven by the Iran conflict and recent pressure in software continued to weigh on primary issuance. Loan market activity did see some green shoots though, as repricings rose from zero in March to $7.6 billion in April, though well off the $42 billion monthly average seen in 2025.
- CLO issuance slowed materially in April with $6.2 billion in new issues and roughly 62% dedicated to broadly syndicated loans. Retail fund flows turned positive during the month, with $62 million of inflows, but the year-to-date total reflects over $5 billion of withdrawals as AI-induced volatility and spillover effects from private credit funds have dampened investor enthusiasm for the asset class in 2026.
- Monthly performance was positive for 23 of the 24 GICS II industries in the risk-on rally, with materials regaining its footing in April on the strength of building-product and chemicals manufacturers. Leading industries were telecommunication services (+1.99%), materials (+1.93%), and commercial and professional services (+1.92%), while consumer staples distribution and retail (-0.05%), automobiles and components (+0.21%), and utilities (+0.73%) lagged.
- Market performance was positive across quality cohorts with lower-rated issuers leading the rally. The breakdown of one-month returns by rating was: BB (+1.09%), B (+1.39%), and CCC (+1.80%). The lingering effects of the AI selloff can be seen in the amount of loans priced at par or above, with 59% of BB- loans and only 16% of B- loans as of April month end versus 74% and 45% respectively in mid-January.
- There were no loan-issuer payment defaults in April. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 7 bps to 1.39%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 2.75%.

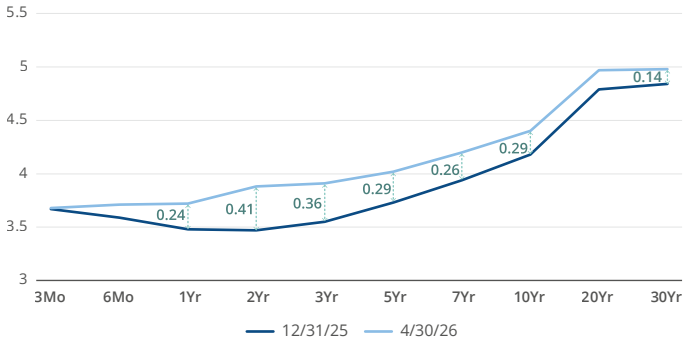
CLO MARKET REVIEW

- CLO tranche performance was positive in April with mezzanine tranches leading the way and the JP Morgan CLOIE Index reporting returns of +0.55% (AAA), +0.70% (AA), +0.64% (A), +1.78% (BBB), and +3.89% (BB).
- New CLO origination during the month was $6.2 billion across 14 deals, which brought the 2026 year-to-date total of $52.2 billion about 18% behind the record-setting pace of 2025. The drop-off in new issuance has been attributed to lingering effects on demand from the sell-off in private credit as well as managers focusing on derisking their collateral portfolio following AI disruption and energy concerns.
- 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. AAA dedicated ETFs enjoyed inflows each week of April, and ETF AUM now stands at $45.8 billion, up 59% in the last year and roughly 3.7% of the total CLO market.
- The amount of high-quality loans used for ramping CLO warehouses rose in April as repayments slowed to $15 billion, roughly half of the pace set in the first quarter of 2026. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), the market experienced a supply surplus for the first time in five months as both loan repayments and CLO issuance slowed.
- With the first-quarter earnings season underway, high-yield issuers are off to a positive start. Nearly three times as many high-yield companies beat EBITDA expectations as missed during the first quarter, but this was partially offset by an uptick in companies' warnings of inflation pressure, which rose from 27% at the end of 2025 to 35% in March. Companies in the chemical sector have enjoyed a remarkable change in fortunes. While excess capacity in China, tariff uncertainty, high energy costs, and weak demand all weighed on earnings in 2025, chemical manufacturers that have reported first-quarter 2026 earnings as of early May beat consensus EBITDA expectations 83% of the time and raised outlooks, as the Iran conflict has limited exports from the Middle East and impaired production in Asia, driving up chemical prices.
- We believe it is important to highlight the potential merits of the asset class for investors in high-quality, public credit. In our opinion, CLOs may offer attractive yield pickup relative to credit peers in a capital-efficient manner for many institutional portfolios and may be well positioned if interest rates move higher. Long-term value of the CLO asset class is supported by strong technical dynamics and higher-quality collateral.

CHARTS OF THE MONTH

1 U.S. Treasury yields up across the curve in 2026

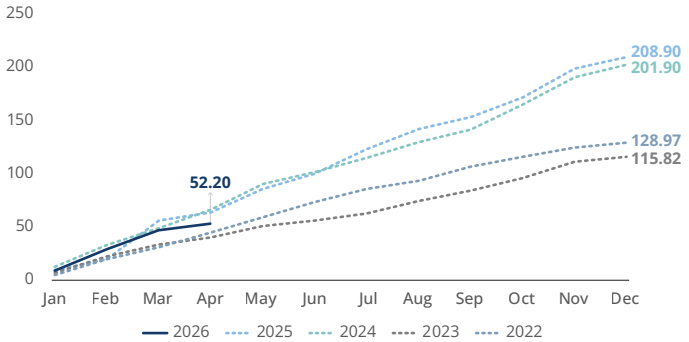
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Treasury Daily Par Yield Curve Rates, 12/31/2025 and 4/30/2026.

2 CLO new issuance trailing off in 2026

HISTORICAL U.S. CLO ISSUANCE ($BN)



Source: Pitchbook/LCD Research as of April 30, 2026

ARISTOTLE PACIFIC CAPITAL

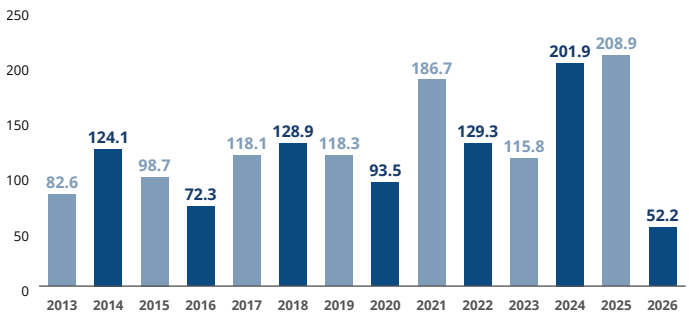
CLO MONTHLY MONITOR
APRIL 2026

Market Data	April 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.55	5.62	4.8	-0.1	109	100.1
AA-Rated	0.70	6.31	5.1	-0.1	140	100.1
A-Rated	0.64	6.76	5.5	-0.1	176	100.0
BBB-Rated	1.78	7.89	6.9	-0.3	315	99.4
BB-Rated	3.89	9.31	11.5	-0.6	760	92.5
Morningstar LSTA Leveraged Loan Index						
BB-Rated	1.09	7.14	6.1	0.0	252	99.6
B-Rated	1.39	6.33	7.3	-0.1	444	96.4
CCC-Rated	1.80	0.84	11.7	-0.1	1644	71.8

Source: J.P. Morgan, Morningstar, as of April 30, 2026

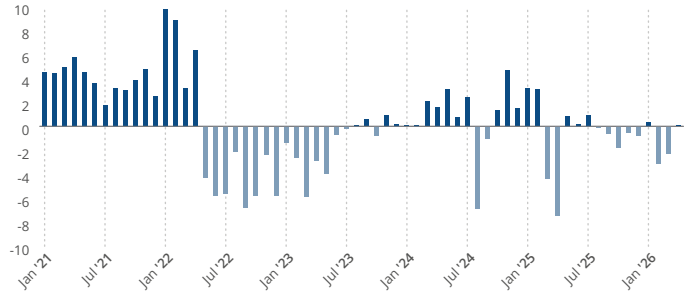
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



Source: Pitchbook/LCD Research as of April 30, 2026

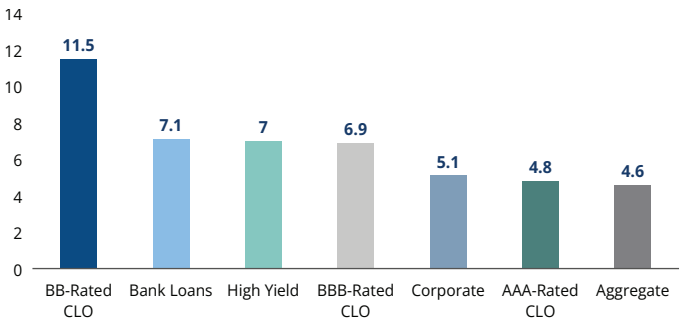
MONTHLY BANK LOAN FUND FLOWS ($BN)



Source: Pitchbook/LCD Research as of April 30, 2026

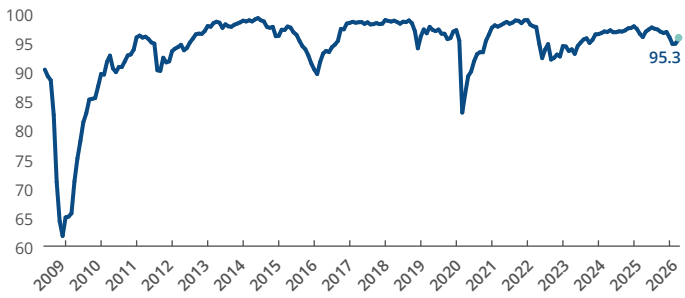
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, J.P. Morgan and Morningstar as of April 30, 2026

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar as of April 30, 2026

Average Price

For Institutional Investor use only. Past performance is not indicative of future results. 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. 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. ©2026 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.