CLO MONTHLY MONITOR
JULY 2026

ARISTOTLE PACIFIC CAPITAL

CLO performance was positive in July across tranches with carry the primary driver of returns, while spread movements diverged among liabilities with widening in senior tranches and compression in mezzanine tranches.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned 0.79% in July as risk sentiment improved and secondary prices rose. Month over month, the average bid for the Morningstar LSTA Leveraged Loan Index climbed 20 basis points (bps) to end at $95.17 as buyers returned to AI-impacted industries such as software and insurance brokers.
- The loan asset class generated positive performance in July as improving risk appetite and rising interest rates benefited investors. Relative to credit peers, loans outperformed as high-yield corporate and investment-grade bonds generated total returns of -0.25% and -1.67%, respectively, as fixed-rate bonds were weighed down by higher duration and robust issuance. The floating-rate structure of loans was a tailwind in July as U.S. Treasury yields rose across maturities and the 30-year bond ended at 5.27%, a level last seen in 2007.
- The conflict with Iran reignited in July, sending energy prices higher with the West Texas Intermediate (WTI) futures contract rising over $15 to $84.67 at month end. That said, the temporary cessation of fighting that began in mid-June could be seen in economic data, with July's annual CPI declining by a tenth of a point to 3.4%. With inflation still well above the Fed's 2% target, the Federal Open Market Committee voted to keep the Fed funds rate between 3.5%-3.75% and reiterated an emphasis on price stability over full employment. Reactions were mixed as three Fed presidents voted to raise rates by a quarter point and the bond market voted with their feet by sending long-end Treasury yields higher.
- Institutional loan issuance, representing refinancings and non-refinancings, was steady in July at $40.1 billion. Repricings accounted for 39% of activity during the month in light of benign market conditions. The year-to-date total through July for loan repricings was roughly 60% relative to the prior year on account of changing Fed policy and spring volatility.
- CLO issuance picked up in July with $12.7 billion in new issues and 84% dedicated to broadly syndicated loans. Retail fund flows turned negative during the month, with $320 million in net redemptions, and the year-to-date total reflects over $4.4 billion of withdrawals as AI-induced volatility and spillover effects from private credit funds dampened investor enthusiasm for the asset class earlier in the year.
- Monthly performance was positive for 22 of the 24 GICS II industries, with insurance leading the way while telecommunication services was the laggard on account of rating downgrades and LME activity. Leading industries were insurance (+1.58%), software and services (+1.56%), and semiconductor and semiconductor equipment (+1.24%), while telecommunication services (-0.43%), transportation (-0.01%), and media and entertainment (+0.16%) lagged.
- Performance dispersion continued in July across quality cohorts, with single Bs regaining ground from June's underperformance. The breakdown of one-month returns by rating was: BB (+0.64%), B (+0.95%), and CCC (-0.09%). The higher quality bias that has marked this year is seen in year-to-date performance, with BB rated loans enjoying a nearly 7-percentage-point performance advantage relative to CCC loans (+3.20% vs. -3.52%) as of month end.
- There was one loan-issuer payment default in July (Unifrax Investment, Alkegen), affecting $1.67 billion in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate was unchanged from the prior month at 1.29%. Including distressed-exchange activity, the 12-month default rate ended the month unchanged at 2.29%.

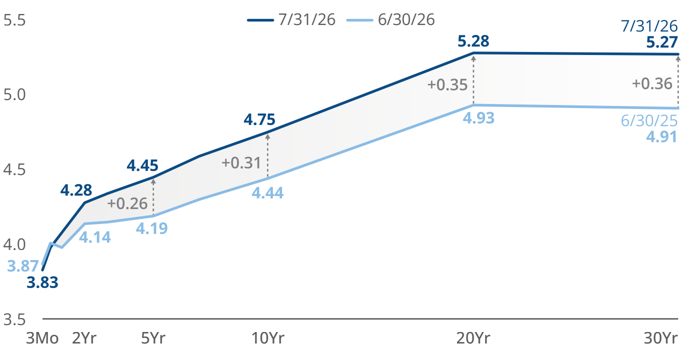
CLO MARKET REVIEW

- CLO tranche performance was positive in July across the capital stack with the J.P. Morgan CLOIE Index reporting returns of +0.38% (AAA), +0.41% (AA), +0.44% (A), +0.57% (BBB), and +1.00% (BB).
- New CLO origination during the month was $12.7 billion across 29 deals, which brought the 2026 year-to-date total to $93.1 billion and about 24% behind the record-setting pace of 2025. J.P. Morgan notes that one factor potentially weighing on year-to-date activity is investors focusing on CLO resets, with some offering modest yield pickup relative to similar tranches from new issues.
- 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. According to Bank of America, assets in CLO ETFs have grown 42% year to date to over $58 billion and now hold almost 5% of the outstanding US CLO market.
- The amount of high-quality loans used for ramping CLO warehouses fell in July as repayments nearly doubled month over month to $35 billion and higher CLO issuance impacted the market. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), the market experienced a supply deficit of roughly $8 billion.
- Second-quarter earnings season is underway and high-yield issuers have continued the positive momentum from the prior quarter. More than triple the number of high yield companies beat EBITDA expectations as missed during the second quarter, but this was partially offset by an uptick in companies' warnings of inflation pressure, which rose from 34% in March to 39% in June. Looking at industry trends, one interesting takeaway thus far has been the dour outlook for chemicals manufacturers. The GICs Level III industry for the LSTA Leveraged Loan Index has returned 7.47% year to date through July, but the Iran-conflict bump in earnings appears short lived. According to J.P. Morgan, of the 10 issuers in scope, a third have shared a negative earnings outlook.
- 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 rose across intermediate and long maturities in July

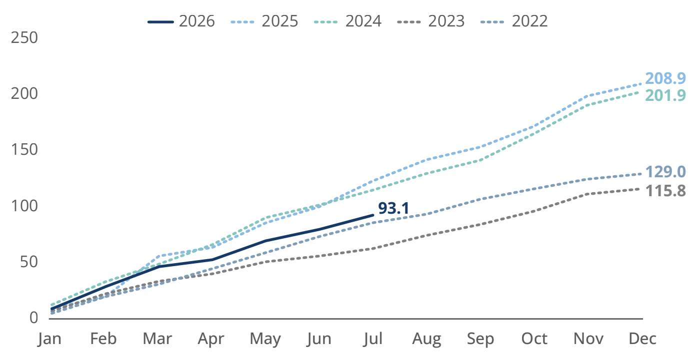
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Treasury Daily Par Yield Curve Rates, 6/30/2026 and 7/31/2026

2 Slow but steady CLO issuance thus far in 2026

HISTORICAL U.S. CLO ISSUANCE ($BN)



Source: Pitchbook/LCD Research as of July 31, 2026

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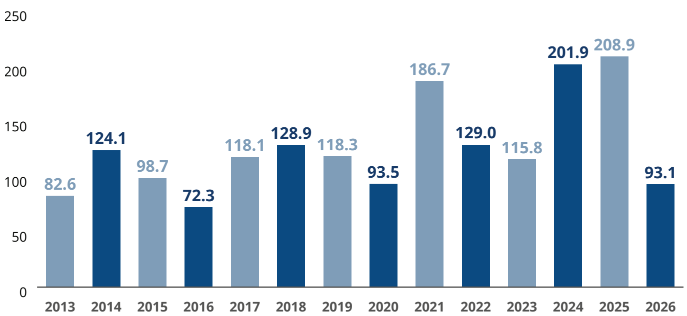
Market Data	July 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.38	5.03	5.0	0.1	106	100.1
AA-Rated	0.41	5.49	5.3	0.1	135	100.1
A-Rated	0.44	5.72	5.6	0.1	164	100.1
BBB-Rated	0.57	6.38	7.4	0.2	321	99.3
BB-Rated	1.00	5.93	12.0	0.2	764	91.9
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.64	5.76	6.1	0.0	253	99.4
B-Rated	0.95	4.36	7.3	0.0	444	96.3
CCC-Rated	-0.09	-4.87	11.9	0.1	1684	71.1

Source: J.P. Morgan, Morningstar, as of July 31, 2026

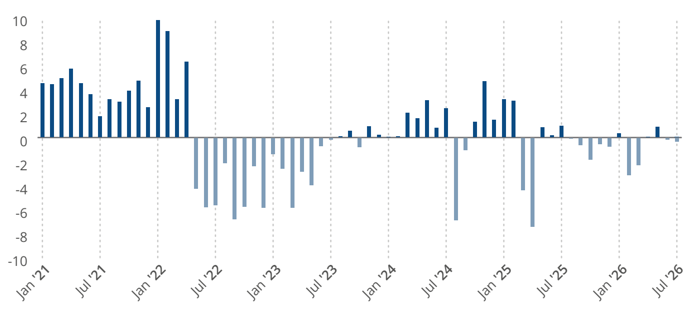
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



Source: Pitchbook/LCD Research as of July 31, 2026

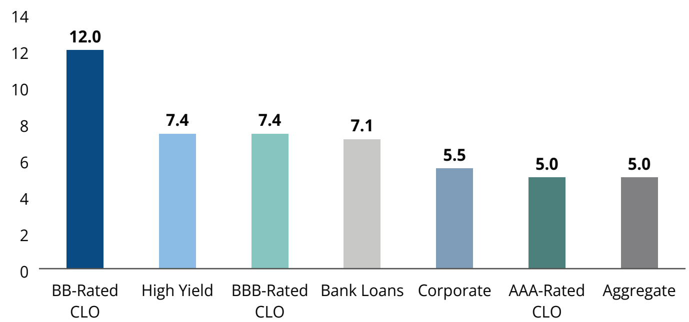
MONTHLY BANK LOAN FUND FLOWS ($BN)



Source: Pitchbook/LCD Research as of July 31, 2026

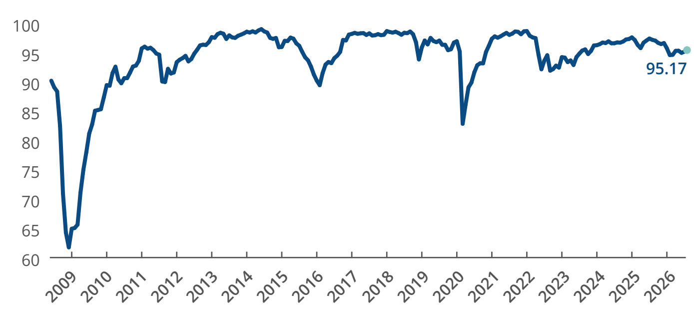
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, J.P. Morgan and Morningstar as of July 31, 2026

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar as of July 31, 2026