ARISTOTLE PACIFIC CAPITAL

CLO MONTHLY MONITOR
AUGUST 2026

CLO performance was positive in August across tranches with carry the primary driver of returns, while spreads tightened across the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned +0.93% in August, its second-best monthly return over the past year, as carry and rising secondary prices contributed to performance. Month over month, the average bid for the Morningstar LSTA Leveraged Loan Index increased by 41 basis points (bps) to end at $95.58.

- The loan asset class generated positive performance in August, led by the rebound in software loans. In August, software loans outperformed, with secondary prices gaining 127 bps to reach $87.73, compared with a 22-bp increase for non-software loans, which rose to $97.06. Relative to credit peers, loans were middle of the pack as high-yield corporate and investment-grade bonds generated total returns of +0.97% and +0.43%, respectively. The floating-rate structure of loans was a tailwind in August as U.S. Treasury yields rose across most of the curve, except for the 20-year and 30-year maturities.

- August's CPI report suggested that the energy-cost effects stemming from the Iran conflict are beginning to filter through to inflation and could contribute to further price pressures in the months ahead. CPI rose 0.4% in August, after just a 0.1% increase in July, while the 12-month rate held at 3.4%. Energy remained the pressure point: gasoline prices rose 3.9% in the month and accounted for more than one-third of the all-items increase. The report reinforced Fed Chair Kevin Warsh's Jackson Hole framing that inflation remains above the Fed's 2% objective and that policymakers must be "committed to a discipline, not to a decision," keeping the Fed focused on incoming data and prepared to act if underlying inflation fails to move clearly back toward target.

- Institutional loan issuance, representing refinancings and non-refinancings, was $15.6 billion in August, down considerably from July as overall loan activity fell to $24.1 billion from $78 billion. Activity was largely driven by refinancing-related transactions, while new-money supply remained limited as M&A issuance declined to just $2.0 billion for the month.

- CLO issuance picked up the pace in August with $19.0 billion in new issues and roughly 77% dedicated to broadly syndicated loans. Retail fund flows turned positive during the month, with $530 million in inflows, but the year-to-date total reflects over $3.9 billion of withdrawals as AI-induced volatility and spillover effects from private credit funds dampened investor enthusiasm for the asset class during the spring of 2026.

- Monthly performance was positive for 23 of the 24 GICS II industries, with insurance the only negative performer. Leading industries were software and services (+2.21%), household and personal products (+1.99%), and materials (+1.28%), while insurance (-0.19%) was the primary laggard, followed by telecommunication services (+0.01%) and consumer services (+0.35%).

- Performance dispersion continued in August across quality cohorts with triple Cs the only area to post negative returns. The breakdown of one-month returns by rating was: BB (+0.73%), B (+1.16%), and CCC (-0.38%). The strength in single-B loans coincided with the recovery in software loans, as the single-B cohort carries the most software exposure for the index. Credit quality has remained a key differentiator in year-to-date performance, with BB rated loans enjoying a nearly 8-percentage-point performance advantage relative to CCC loans (+3.96% vs. -3.88%) as of month end.

- There were no loan-issuer payment defaults in August. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 8 bps to 1.21%. Including distressed-exchange activity, the 12-month default rate ended the month higher at 2.33%.

CLO MARKET REVIEW

- CLO tranche performance was positive in August across the capital stack with mezzanine tranches leading the way and the JP Morgan CLOIE Index reporting returns of +0.46% (AAA), +0.52% (AA), +0.59% (A), +0.85% (BBB), and +1.40% (BB).

- New CLO origination during the month was $19.0 billion across 40 deals, which brought the 2026 year-to-date total of $112.1 billion, about 21% behind the record-setting pace of 2025. The stronger pace helped offset some of the slower activity from the first half of the year, when AI-related disruption, political uncertainty, inflation, and higher energy prices contributed to volatility across credit markets.

- 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. Despite a slower pace of growth year to date, CLO ETFs attracted $760 million in new inflows during August, marking a strong month and bringing total U.S. CLO ETF AUM to $62.6 billion.

- The amount of high-quality loans used for ramping CLO warehouses slightly fell in August as repayments remained elevated, and retail demand turned positive. 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 $13 billion.

- Japanese government bond yields reached multi-decade highs in August as markets priced in a faster Bank of Japan hiking cycle. The move reduced the FX-hedged yield pickup on U.S. CLOs versus domestic Japanese alternatives, making relative value potentially less compelling for yen-based investors.

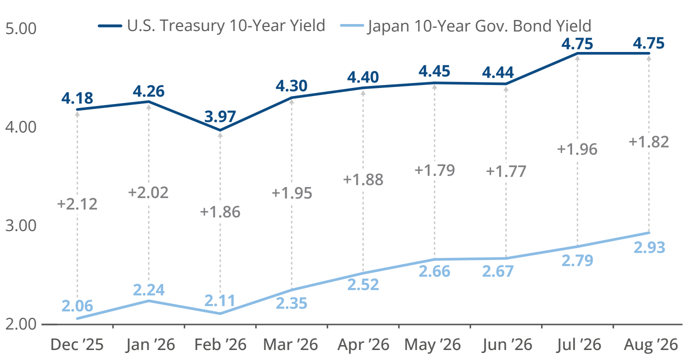
- August earnings updates were broadly supportive for high-yield credit, with 45% of second-quarter reporters beating EBITDA expectations, 43% reporting in line, and 12% missing. Positive guidance outpaced negative guidance by 2.3 times, the strongest ratio in more than a year. Inflation remained a watch item, with 34% of companies citing inflationary pressures, unchanged from the prior quarter, while tariff-related warnings were limited to 8% of companies.

- 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. The 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. and Japanese 10-Year Yields Have Drifted Higher

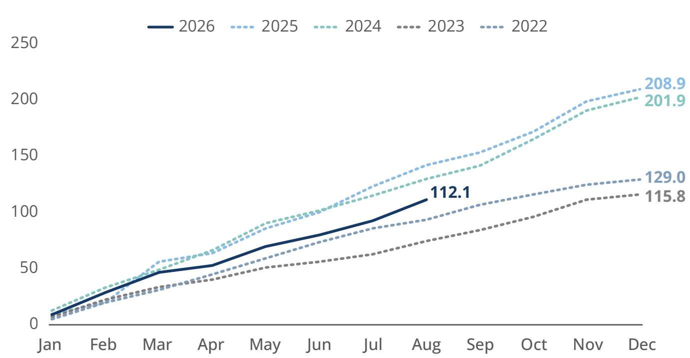
U.S. TREASURY 10Y YIELD vs. JAPAN 10Y GOV. BOND YIELD (%)



Source: Bloomberg and U.S. Department of the Treasury as of August 31, 2026

2 CLO Issuance Picked Back Up in the Month of August

HISTORICAL U.S. CLO ISSUANCE ($BN)



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

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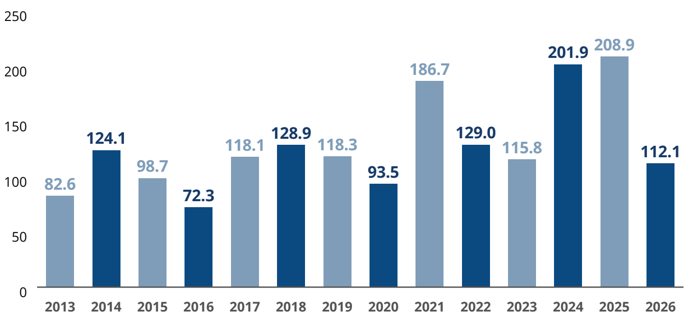
AUGUST 2026

Market Data	August 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.46	5.03	5.0	-0.1	97	100.1
AA-Rated	0.52	5.51	5.2	-0.1	118	100.2
A-Rated	0.59	5.83	5.4	-0.2	142	100.2
BBB-Rated	0.85	6.49	7.1	-0.3	296	99.6
BB-Rated	1.40	6.38	11.9	0.0	757	92.1
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.73	6.00	6.3	0.0	250	99.6
B-Rated	0.01	5.02	7.9	-0.1	424	96.9
CCC-Rated	0.00	-4.50	24.0	0.5	1704	70.7

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

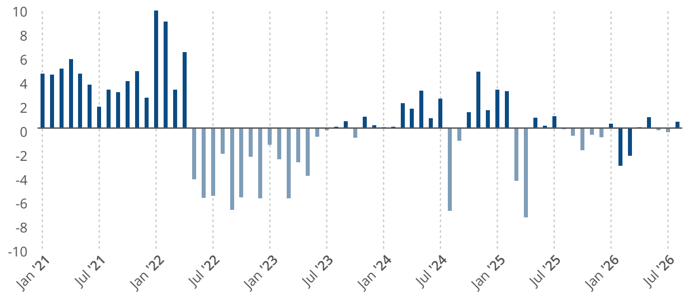
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



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

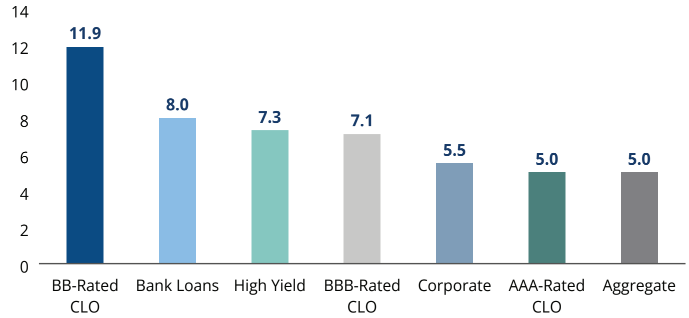
MONTHLY BANK LOAN FUND FLOWS ($BN)



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

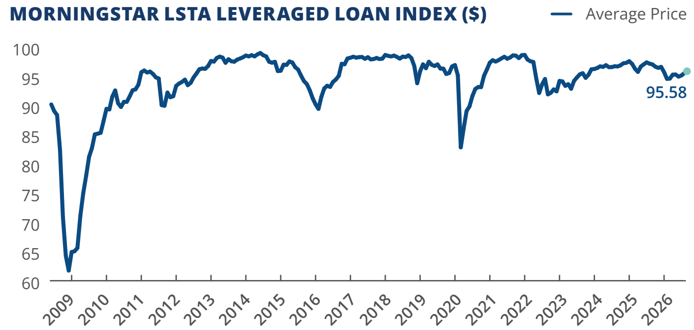
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



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

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar as of August 31, 2026

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