



CLO performance was positive in September across most tranches with carry the primary driver of returns, while spreads generally widened across the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned 0.21% in September, with coupon income offsetting a late-month reversal in secondary prices. Month over month, the average bid for the Morningstar LSTA Leveraged Loan Index declined 26 basis points (bps) to end at \$95.32 as challenging market conditions weighed on risk appetite.
- The loan asset class generated positive performance in September as software loans continued to rally. Secondary-price performance diverged in September, with software loans gaining 2 bps to reach \$87.74 and non-software loans declining 33 bps to \$96.74. Relative to credit peers, loans outperformed as high-yield corporate and investment-grade bonds generated total returns of -2.52% and -2.72%, respectively. Fixed-rate bonds came under pressure as Treasury yields rose sharply across maturities, while the floating-rate structure of loans was a tailwind in September due to higher rates.
- The effects of volatile energy prices were evident in September's economic data, with CPI increasing by 0.6% during the month and 3.7% year over year. Annual inflation was 1.3 percentage points above its February reading of 2.4%, immediately before the Iran conflict began at month-end. Energy prices increased 5.2% during the month, led by a 9.1% rise in gasoline. In September, the Federal Reserve raised the federal funds target range by 25 bps to 3.75% to 4.00%, as inflation remained elevated. The unanimous decision reinforced the Fed's emphasis on price stability, with the committee stating that the increase would support "a timelier return to the Committee's 2 percent goal."
- Institutional loan issuance, representing refinancings and non-refinancings, rose to \$50.3 billion in September, an increase of \$34.8 billion from the prior month, as primary-market conditions improved. M&A-related issuance accounted for \$30.6 billion in volume, marking its busiest month since January 2022. Notably, Paramount Skydance's \$8.5 billion term loan, part of a broader financing package supporting its acquisition of Warner Bros. Discovery, was the year's second largest loan financing, underscoring the resurgence in large-scale M&A activity.
- CLO issuance slowed in September with \$14.0 billion in new issues and roughly 66% dedicated to broadly syndicated loans. Retail fund flows remained positive during the month, with \$580 million of net inflows, taking the year-to-date total to just under \$3 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 18 of the 24 GICS II industries, with telecommunication services posting their weakest return since March 2023. Leading industries were software and services (+0.84%), materials (+0.72%), and technology hardware and equipment (+0.65%), while telecommunication services (-1.75%), automobiles and components (-0.87%), and media and entertainment (-0.44%) lagged.
- Performance dispersion continued in September across quality cohorts with CCC rated loans the only area to post negative returns. The breakdown of one-month returns by rating was: BB (+0.20%), B (+0.39%), and CCC (-2.18%). Single-B loans continued to benefit from the recovery in software credits, while CCCs lagged amid investor caution toward lower-quality borrowers. Credit quality has remained a key differentiator in year-to-date performance, with BB rated loans enjoying a more than 10-percentage-point advantage relative to CCC loans (+4.17% vs. -5.98%) as of month end.

Loan-market bifurcation remained evident in September, as the share of Morningstar LSTA Index loans priced at par or above declined to 28% from 42% in August amid the late-month market pullback. Meanwhile, the share of loans trading below \$80 remained elevated at 7.1%, compared with 4.4% at the beginning of the year and 2.6% in September 2025.

There was one loan-issuer payment default in September (Leslie's Poolmart), affecting \$757 million in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 31 bps to 0.93%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 2.08%.

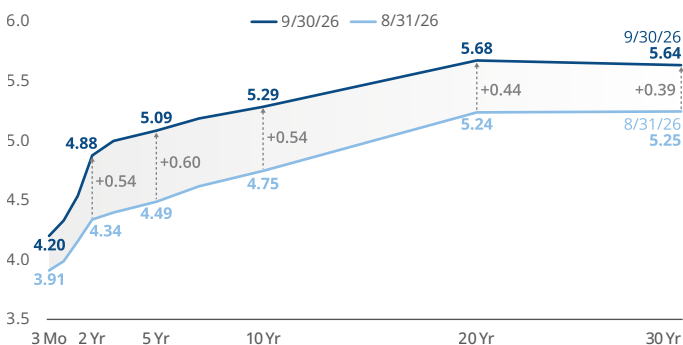
CLO MARKET REVIEW

- CLO tranche performance was positive in September across AAA through BB, with BBB and BB tranches having out-performed higher-rated tranches and the JP Morgan CLOIE Index generating returns of +0.34% (AAA), +0.31% (AA), +0.37% (A), +0.70% (BBB), and +0.86% (BB).
- New CLO origination during the month was \$14.0 billion across 30 deals, which brought the 2026 year-to-date total to \$126.1 billion, about 17% behind the record-setting pace of 2025. Although issuance slowed in September, aggregate third-quarter issuance increased from second-quarter levels despite rising yields and geopolitical uncertainty.
- CLO ETFs, while still a small portion of the \$1.3-trillion CLO market, have grown significantly in size and popularity, offering retail investors access to a market that was previously out of reach. Growth remained robust through September, with total U.S. CLO ETF AUM rising from \$62.6 billion at the end of August to \$67.9 billion at the end of September, representing 5.3% of the U.S. CLO market and up from \$46.6 billion a year earlier.
- The amount of high-quality loans used for ramping CLO warehouses remained low due to limited new supply as of month end and strong retail demand. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), the market experienced a supply deficit for a third consecutive month.
- Looking at leveraged-loan fundamentals, credit metrics improved over the second quarter of 2026 with issuers recording their strongest growth rates in three years with revenue and EBITDA increasing 10.8% and 6.8%, respectively, year over year. Interest coverage improved for a seventh consecutive quarter to 3.25 times, although leverage edged higher to 4.96 times as debt growth reached 7.6%. Results remained uneven across the market as CCC rated issuers reported a 3.0% decline in EBITDA, while software borrowers also carried above-market leverage. The increase in distressed loans highlights continued credit dispersion within the loan market.
- 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 as 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 September Brought Higher Yields Across the Curve

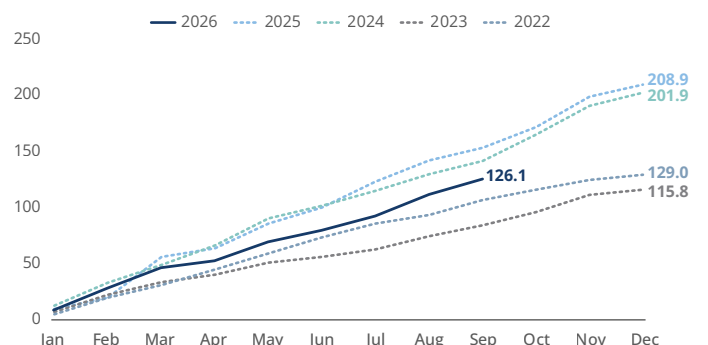
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Treasury Daily Par Yield Curve Rates, 8/31/2026 and 9/30/2026

2 U.S. CLO Issuance Good, but Not Great in 2026

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



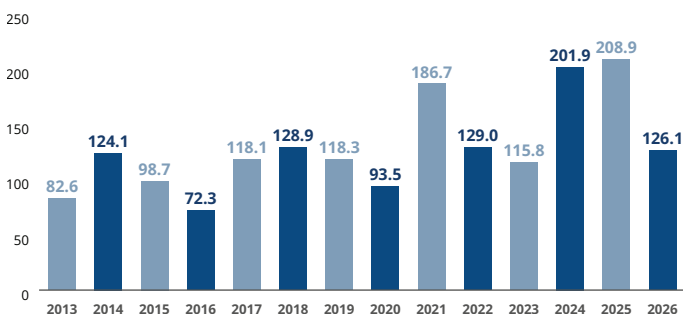
Source: Pitchbook/LCD Research as of September 30, 2026

Market Data	September 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
J.P. Morgan CLO Indices						
AAA-Rated	0.34	4.87	5.5	0.5	109	100.0
AA-Rated	0.31	5.30	5.7	0.5	137	100.1
A-Rated	0.37	5.65	6.0	0.5	161	100.1
BBB-Rated	0.70	6.51	7.5	0.4	295	99.7
BB-Rated	0.86	6.24	12.5	0.6	764	92.2
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.20	5.70	6.6	0.4	258	99.4
B-Rated	0.39	5.06	8.2	0.2	420	97.0
CCC-Rated	-2.18	-7.48	25.8	1.8	1809	68.7

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

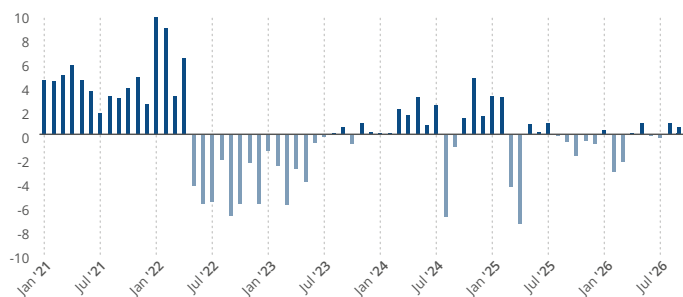
TECHNICALS

ANNUAL CLO NEW ISSUANCE (\$BN)



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

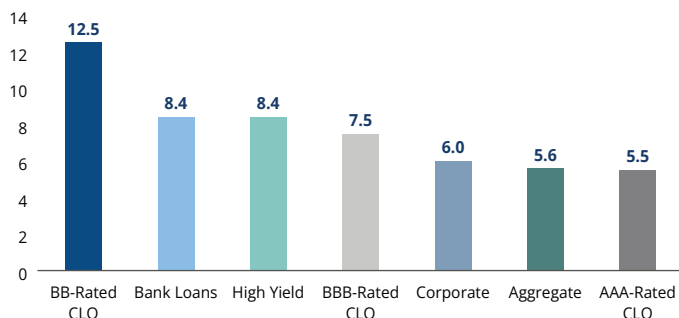
MONTHLY BANK LOAN FUND FLOWS (\$BN)



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

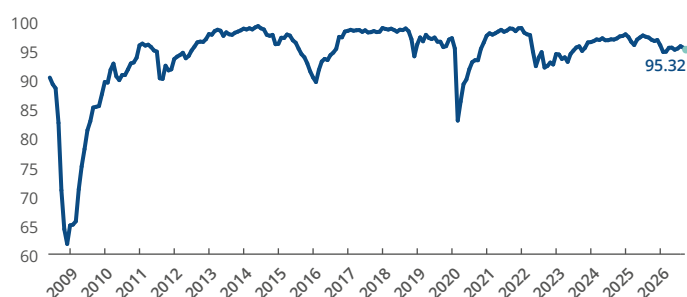
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



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

MORNINGSTAR LSTA LEVERAGED LOAN INDEX (\$)



Source: Morningstar as of September 30, 2026

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