ARISTOTLE PACIFIC CAPITAL

CLO MONTHLY MONITOR
OCTOBER 2026

CLO performance was bifurcated in October, as carry helped offset widening spreads among investment-grade tranches, while lower-rated securities experienced greater price pressure.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned -0.22% in October, marking its first monthly decline since February, as the market-value component experienced its steepest decline in eight months. Month over month, the average bid for the Morningstar LSTA Leveraged Loan Index fell to $94.52, down from its September peak of $95.69.

- The loan asset class posted a negative return in October as selling pressure broadened across the secondary market. Secondary-price performance declined across the market as non-software loans experienced greater pressure, with their weighted-average bid falling 84 basis points (bps) to $95.90, while software loans declined 41 bps to $87.33. Relative to credit peers, loans underperformed as high-yield corporate and investment-grade bonds generated total returns of +0.30% and +2.16%, respectively. Fixed-rate bonds benefited from declining Treasury yields, while leveraged loans faced pressure from widening credit spreads and declining secondary-market conditions.

- Inflationary pressures persisted in October, with the Consumer Price Index (CPI) increasing 0.4% during the month, as higher food prices and persistent underlying inflation offset moderating energy price pressures. Core CPI rose 0.3%, exceeding market expectations for the third consecutive month. While the Federal Reserve maintained its target interest rate range at 3.75% to 4.00% during its October meeting, stronger-than-expected inflation data subsequently increased market expectations for tightening, with further 25-basis-point rate hikes anticipated in December 2026 and potentially March 2027.

- Institutional loan issuance, representing refinancings and non-refinancings, was a modest $28.5 billion in October as secondary market weakness discouraged new deals. M&A-related issuance remained resilient following September's strong activity, with the two months generating $49.1 billion in combined volume, marking the largest inflow of net supply since 2022.

- CLO issuance slowed in October with $13.1 billion in new issues and roughly 84% dedicated to broadly syndicated loans. Retail fund flows remained positive during the month, with $30 million of net inflows, while year-to-date withdrawals total just under $3 billion 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 8 of the 24 GICS II industries, with telecommunication services setting an industry low for 2026. Leading industries were insurance (+0.53%), pharmaceuticals, biotechnology, and life sciences (+0.39%), and real estate management and development (+0.39%), while telecommunication services (-4.04%), automobiles and components (-1.31%), and transportation (-1.20%) lagged.

- Performance was negative in October across quality cohorts, marking the first time in three years that all rating groups posted negative monthly returns. One-month returns by rating were: BB (-0.02%), B (-0.09%), and CCC (-2.87%). Losses extended across much of the leveraged loan market, with cyclical and consumer-facing sectors experiencing the greatest pressure, while higher-quality credits proved more resilient. Credit quality has remained a key differentiator in year-to-date performance, with BB rated loans enjoying a nearly 13-percentage-point advantage relative to CCC loans (+4.15% vs. -8.68%) as of month end.

- There was one loan-issuer payment default in October (Getty Images), affecting $40.1 million in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 7 bps to 0.86%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 1.96%.

CLO MARKET REVIEW

- CLO tranche performance was mixed in October, with the JP Morgan CLOIE Index generating returns of +0.40% (AAA), +0.43% (AA), +0.36% (A), -0.10% (BBB), and -2.29% (BB).

- New CLO origination during the month was $13.1 billion across 29 deals, which brought the 2026 year-to-date total to $139.2 billion, about 19% behind the record-setting pace of 2025. Despite trailing last year's record issuance pace, CLO formation remained active amid increased volatility in the underlying loan market, as managers navigated a more selective environment. Meanwhile, CLO equity economics remained an important consideration, as median U.S. broadly syndicated loan CLO equity payments declined to a post-financial crisis low of 10.8%.

- 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 October, as total U.S. CLO ETF AUM rose from $68 billion at the end of September to $71 billion at the end of October, representing 5.6% of the U.S. CLO market and up from $46 billion a year earlier.

- The amount of high-quality loans used for ramping CLO warehouses rose in October as new loan supply increased, retail demand softened, and CLO issuance slowed during the month. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), October flipped to a modest monthly surplus of $2.6 billion and only the third month of excess supply year to date.

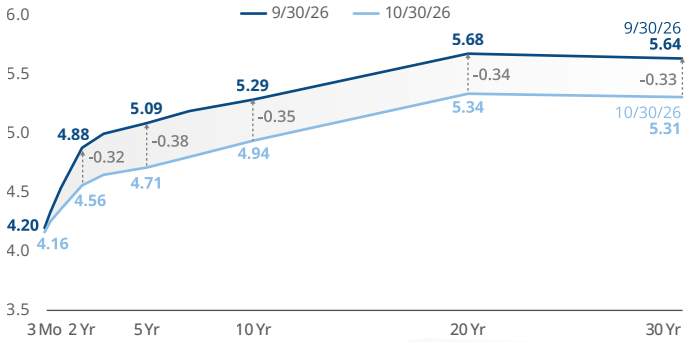
- With the third-quarter earnings season underway, high-yield issuers have continued to report generally positive results, with more than twice as many companies beating EBITDA expectations as missing. However, this was partially offset by an increase in companies reporting inflationary pressures, which rose from 34% in the second quarter to 49% in the third quarter. Looking at industry trends, housing has been a notable area of weakness, with nearly twice as many companies missing EBITDA expectations as beating them. Additionally, housing issuers have reported increasingly negative outlooks, with more than seven times as many companies lowering guidance as raising it.

- 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. The long-term value of the CLO asset class is supported by strong technical dynamics and higher-quality collateral.

CHARTS OF THE MONTH

1 Yields Retreat Across the Curve in October

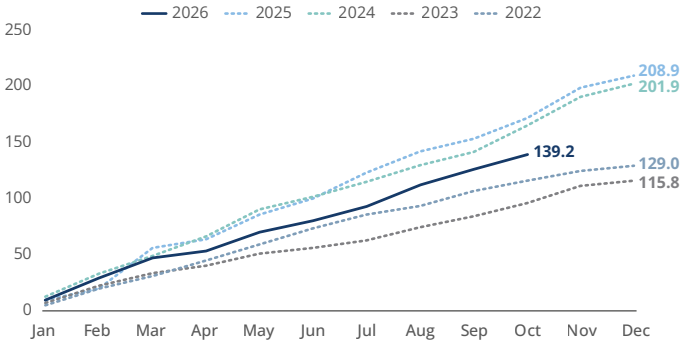
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Treasury Daily Par Yield Curve Rates, 9/30/2026 and 10/30/2026

2 U.S. CLO Issuance: Strong Activity, Slower Momentum in 2026

HISTORICAL U.S. CLO ISSUANCE ($BN)



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

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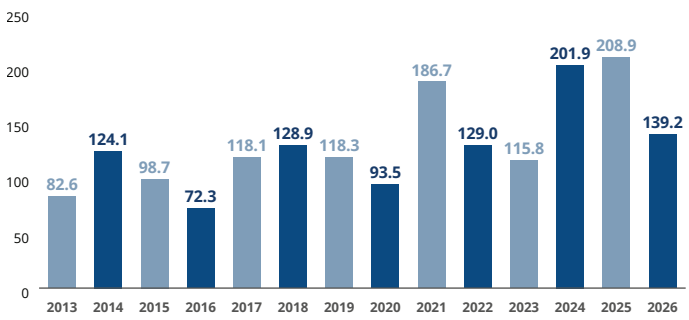
CLO MONTHLY MONITOR
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Market Data	October 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.40	4.90	5.4	-0.1	113	100.0
AA-Rated	0.43	5.32	5.7	0.0	142	100.1
A-Rated	0.36	5.57	6.0	0.0	169	100.0
BBB-Rated	-0.10	6.06	7.8	0.3	336	99.1
BB-Rated	-2.29	3.75	13.0	0.5	832	89.2
Morningstar LSTA Leveraged Loan Index						
BB-Rated	-0.02	5.34	6.6	0.0	273	98.8
B-Rated	-0.09	4.67	8.2	0.0	437	96.5
CCC-Rated	-2.87	-9.95	28.1	2.4	1994	66.0

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

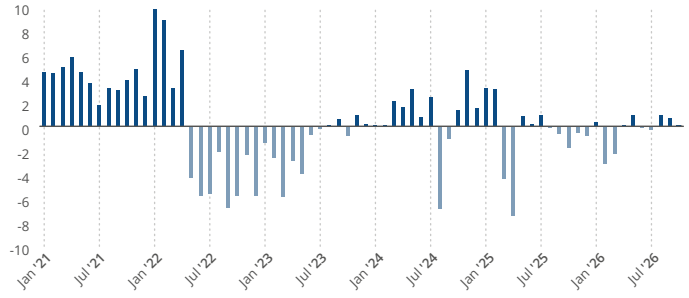
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



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

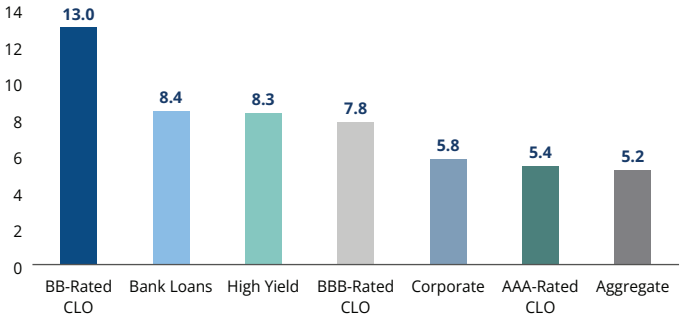
MONTHLY BANK LOAN FUND FLOWS ($BN)



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

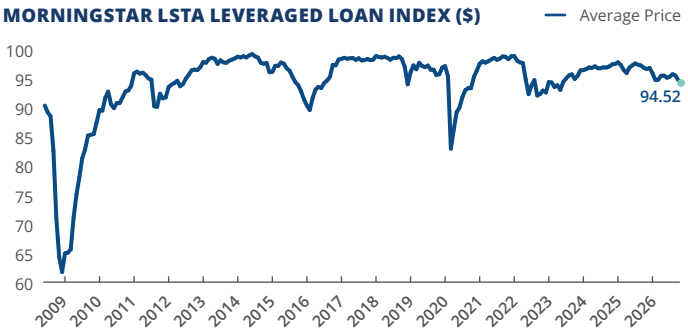
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



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

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar as of October 31, 2026

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