CLO MONTHLY MONITOR

JUNE 2025

CLO performance was positive across the board in June as carry drove total return, and spreads compressed across all tranches in the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned +0.80% in June, with coupon the primary driver of performance, although secondary market prices steadily ground higher during the month. Receding concerns about tariffs, a rebound in market conditions, and an improvement in forward-looking consumer sentiment help to underpin the loan market, with the average price for the Morningstar LSTA Leveraged Loan Index rising 37 cents to end the month at $97.07.
- The loan asset class generated positive performance as the continuing recovery in risk appetite was a tailwind in June. Relative to credit peers, loan performance lagged behind the +1.87% and +1.84% total returns of investment-grade and high-grade corporate bonds respectively, which benefited from both spread compression and falling U.S Treasury yields.
- Institutional loan issuance, representing refinancings and non-refinancing issuances, reached $44.1 billion during the month. Of the $65.4 billion in primary market activity (which includes amendments and new issue transactions), the total was skewed toward new issuance. That said, the rebound in loans rekindled repricing activity, which jumped from 2% in May to 43% in June.
- CLO issuance continued to hum along in June, with $15.4 billion in new issues and roughly 87% dedicated to broadly syndicated loans. Retail fund flows were positive with $0.18 billion of inflows, although the year-to-date aggregate flow was largely unchanged at -$4.6 billion as the recent risk-off environment and the prospect of fed fund rate cuts have weighed on the asset class.
- Monthly performance was positive across all GICS II industries, as tariff-impacted and consumer-facing industries continued to recover from spring volatility. Leading industries included household and personal products (+1.95%), technology hardware and equipment (+1.22%), and pharmaceuticals, biotechnology, and life sciences (+1.19%), while automobiles and components (+0.23%), telecommunication services (+0.25%), and consumer staples distribution and retail (+0.25%) lagged.
- Market performance favored lower-quality issuers as CCC rated loans led the pack for a second month in a row following the recent tariff induced volatility. The breakdown of one-month returns by rating was: BB (+0.72%), B (+0.87%), and CCC (+1.11%).
- There were no loan defaults during the month of June. Looking at the par-weighted default rate, the trailing 12-month default rate decreased by 6 basis points to 1.36%. Including distressed-exchange activity, the 12-month default rate ended the month higher at 3.79%.

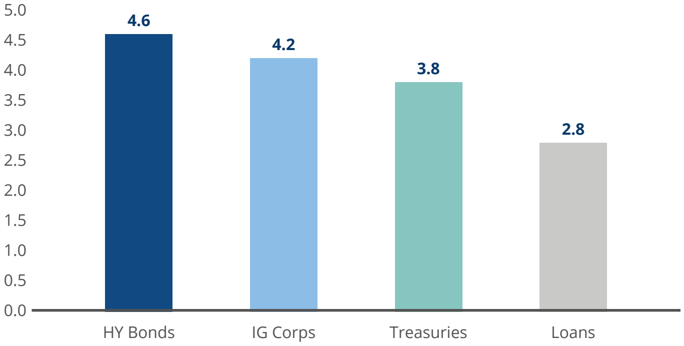
CLO MARKET REVIEW

- CLO tranches delivered positive total returns in June, with the JP Morgan CLOIE Index reporting returns of +0.55% (AAA), +0.55% (AA), +0.55% (A), +0.70% (BBB), and +0.91% (BB).
- The AAA spread compression that marked 2024 and early 2025 re-emerged last month as the AAA tranche of the JP Morgan CLOIE Index tightened 8 bps. A similar dynamic can also be seen across the investment-grade and below investment-grade tranches, where the weighted average cost of capital (WACC) has fallen 13 basis points in the last year.
- New CLO origination was $15.4 billion across 33 deals, taking the year-to-date total of $99.8 billion, which is just shy of the 1H 2024 total and on pace to be the second busiest year on record, although second half originations could be constrained without additional AAA tightening given the continued strength of the loan market.
- 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. CLO ETF assets in the U.S. are now $30.6 billion, up from $21 billion as of year-end 2024, and JP Morgan estimates that ETFs represent 2.8% of the outstanding CLO market.
- With year-to-date loan issuance volume 23% below last year's levels, CLO managers continue to face challenges sourcing the narrow selection of high-quality loans available to ramping warehouses. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), June logged a second monthly deficit of -$7.3 billion of supply, similar to the experience seen in all of 2024.
- Looking at leveraged-loan credit fundamentals, U.S. loan issuers reported modestly improved metrics as of March 2025. EBITDA growth rose to 3.0% in the first quarter relative to the year prior, interest coverage improved for only the second time in the past three years, and average leverage declined to 4.43 times for public loan borrowers. The outlook for second quarter 2025 may be less sanguine though in the event we see an uptick in inflationary pressures, slowing growth, or a reengagement in punitive trade tariffs.
- With the first half of 2025 in the books, CLO debt has lagged similarly rated corporate bonds. That said, we believe CLO debt has the potential to outperform similarly rated debt as it did in 2024. In our opinion CLOs may offer attractive yield pickup relative to credit peers in a capital efficient manner for many institutional investors. We believe strong technical dynamics within the CLO asset class, characterized by limited net new issuance and steady performance from the underlying collateral pools, will support prices remaining near or above par throughout the capital stack.

CHARTS OF THE MONTH

1 A remarkably strong first half of the year in spite of trade war volatility

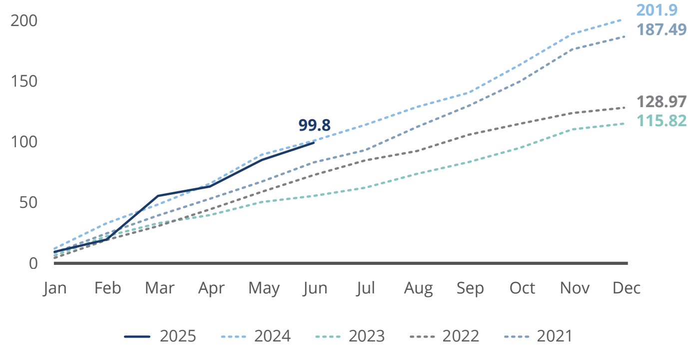
YTD 2025 INDEX TOTAL RETURNS (%)



Source: *Bloomberg, Morningstar LSTA as of June 30, 2025*

2 2025 CLO new issuance is on pace to be the second busiest year on record

HISTORICAL U.S. CLO ISSUANCE ($BN)



Source: *Pitchbook/LCD Research as of June 30, 2025*

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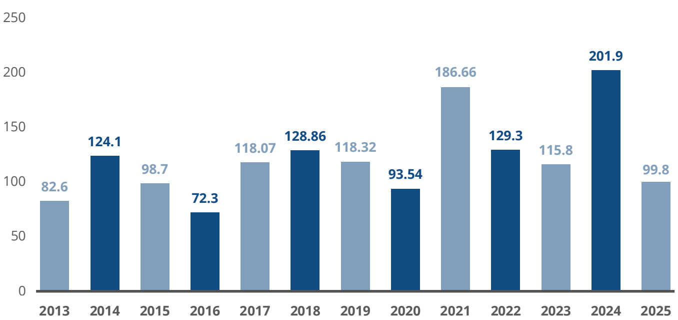
Market Data	June 2025 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.55	6.09	5.0	-0.2	106	100.1
AA-Rated	0.55	6.64	5.3	-0.1	137	100.2
A-Rated	0.55	7.29	5.6	-0.1	159	100.2
BBB-Rated	0.70	8.29	6.8	-0.2	285	99.9
BB-Rated	0.91	11.83	10.4	-0.2	661	96.3
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.72	7.36	6.9	0.0	263	99.6
B-Rated	0.87	7.72	8.0	-0.1	417	97.9
CCC-Rated	1.11	4.02	11.2	0.0	1170	81.0

Source: JP Morgan, Morningstar, as of June 30, 2025

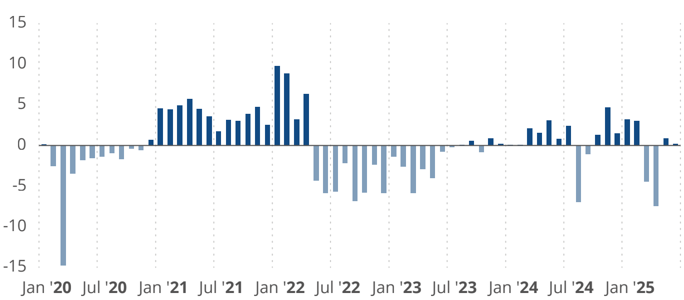
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



Source: Pitchbook/LCD Research as of June 30, 2025

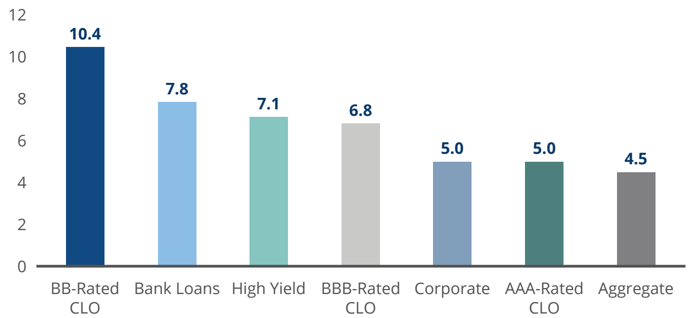
MONTHLY BANK LOAN FUND FLOWS ($BN)



Source: Pitchbook/LCD Research as of June 30, 2025

VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, JP Morgan, Morningstar, as of June 30, 2025

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)

Source: Morningstar, as of June 30, 2025

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