

CLO performance was positive in October as carry more than offset price softness and spreads widened across most of the capital stack.

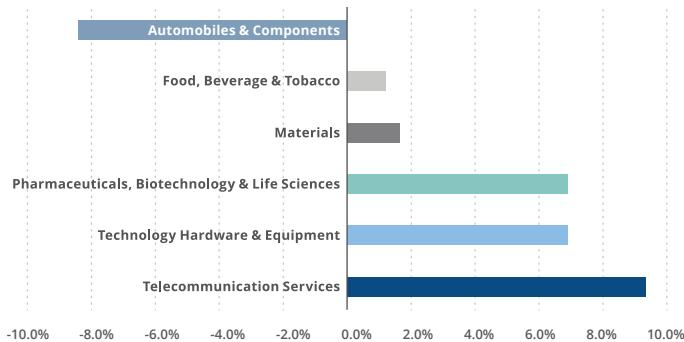
LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned +0.22% in October, with coupon the primary driver of performance as secondary prices drifted lower. A confluence of factors including a 25-basis-point rate cut by the Federal Open Market Committee, retail fund outflows, and weakness in specific sectors such as chemicals and software weighed on secondary loans prices in October. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index declined 39 basis points (bps) to end at 96.67.
- The loan asset class generated positive performance during the month, although rate movements continued to be a headwind. Relative to credit peers, loan performance was mid pack as investment-grade and high-yield corporate bonds generated total returns of 0.38% and 0.16%, respectively. Coupon was the primary driver of performance for fixed-rate bonds as the positive impact from lower U.S. Treasury yields was offset by option-adjusted-spread widening.
- Institutional loan issuance, representing refinancings and non-refinancings, reached \$31.5 billion during the month. Repricings have continued to tick lower since the year-to-date high of 71% in July, representing 23% of activity in October. The largest segment of activity during the period was new loans for M&A activity, with \$20.3 billion and roughly a quarter dedicated to the purchase of Dayforce by Thoma Bravo.
- CLO issuance picked up from the September lull with \$18.3 billion in new issues and roughly 83% dedicated to broadly syndicated loans. Retail fund flows were negative for a third consecutive month with \$1.83 billion of outflows in October, adding to the year-to-date outflow of \$6.4 billion that was largely driven by trade war volatility last spring.
- Monthly performance was positive for 22 of the 24 GICS II industries, with continued fallout from the First Brands bankruptcy felt in automobiles & components and underperformance in materials primarily due to weakness in chemicals. Leading industries were consumer discretionary distribution and retail (+0.73%), household and personal products (+0.70%), and insurance (+0.70%), while automobile and components (-3.87%), materials (-0.59%), and media and entertainment (+0.11%) lagged.
- Market performance favored higher-quality issuers, and CCC rated loans gave back some of their outperformance from September. The breakdown of one-month returns by rating was: BB (+0.32%), B (+0.28%), and CCC (-0.20%).
- There were three loan-issuer payment defaults in October (Jordan Health Services, GPS Hospitality, and Office Properties Trust), affecting \$3.1 billion in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 16 bps to 1.37%. Including distressed-exchange activity, the 12-month default rate ended the month higher at 3.33%.

CHARTS OF THE MONTH

1 The Great Divide – Top and Bottom 3 Loan Industries

YTD 2025 INDEX TOTAL RETURNS (%)



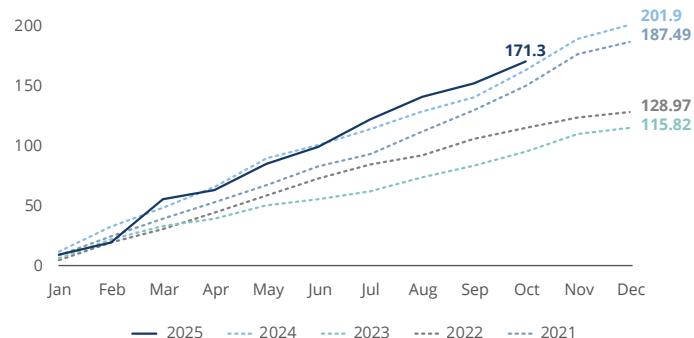
Source: Pitchbook, Morningstar LSTA Leveraged Loan Index GICS Level II as of October 31, 2025

CLO MARKET REVIEW

- CLO tranches delivered positive total returns in October, with the J.P. Morgan CLOIE Index reporting returns of +0.37% (AAA), +0.42% (AA), +0.43% (A), +0.32% (BBB), and +0.06% (BB).
- New CLO origination was \$18.3 billion across 39 deals, taking the year-to-date total to \$171 billion and 3% ahead of the record setting pace of 2024. With 2025 beginning to wind down, sell-side banks have begun sharing their 2026 outlooks for CLO supply. Of note was a forecast by J.P. Morgan, projecting \$145 billion of CLO new issuance in the new year, 20% below their 2025 forecast and 30% below the record set in 2024. While still a strong showing, J.P. Morgan sees potential collateral downgrades, specific issuer risks, an uncertain macroeconomic environment, and Fed rate cuts as some of the factors that could potentially dampen supply in 2026.
- 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. Assets under management across U.S. and Canadian CLO ETFs have climbed to \$36 billion as recently as September but experienced \$419 million outflows as the lower income outlook from fed-funds cuts weigh on CLOs and loan ETFs alike.
- While the U.S. loan market has grown by 7% in total par amount in 2025, robust CLO issuance has continued to absorb the high-quality loans used for ramping warehouses. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), October reverted to recent market conditions with a monthly deficit of \$6.0 billion.
- With the third-quarter earnings season underway, high-yield issuers have enjoyed positive earnings but pockets of weakness can be seen in the data. While 2.7 times as many high-yield companies beat EBITDA expectations as missed during the third quarter, there has been an uptick in inflation pressures, with the number of companies warning of inflation rising from 29% in the second quarter 2025 to 34% as of September month end. The sectors with the largest percentage of high-yield companies warning of inflation include food and beverage (88%), paper and packaging (86%), and industrials (83%). The chemical sector reported the worst outlook among peers as excess capacity in China, tariff uncertainty, high energy costs, and weak demand all combine to weigh on future earnings.
- While fixed-rate corporate bonds have delivered strong year-to-date returns relative to CLOs, we continue to highlight the merits of the asset class. CLOs potentially may offer an attractive yield pickup relative to credit peers in a capital efficient manner for many institutional investors and are well positioned in the event yields move higher. Strong technical dynamics within the CLO asset class, characterized by limited net new issuance and performance that has been steady from the underlying collateral pools, are expected to support prices remaining near or above par throughout the capital stack.

2 In light of J.P. Morgan's forecast, will 2025 be the CLO new issue high water mark for the next few years?

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



Source: Pitchbook/LCD Research as of October 31, 2025

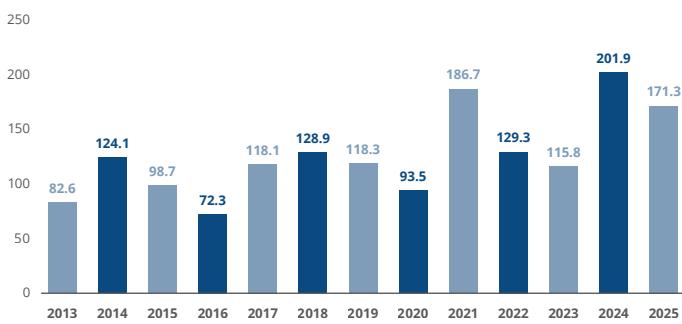
Market Data	October 2025 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
J.P. Morgan CLO Indices						
AAA-Rated	0.37	5.64	4.7	0.0	108	100.1
AA-Rated	0.42	6.10	5.1	0.0	142	100.2
A-Rated	0.43	6.50	5.4	0.0	169	100.2
BBB-Rated	0.32	7.50	6.5	0.1	287	100.0
BB-Rated	0.06	10.78	10.3	0.3	660	96.2
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.32	6.62	6.5	-0.2	265	99.3
B-Rated	0.28	6.56	7.6	-0.1	406	97.8
CCC-Rated	-0.20	3.38	11.1	-0.2	1257	79.3

Source: J.P. Morgan, Morningstar, as of October 31, 2025



TECHNICALS

ANNUAL CLO NEW ISSUANCE (\$BN)

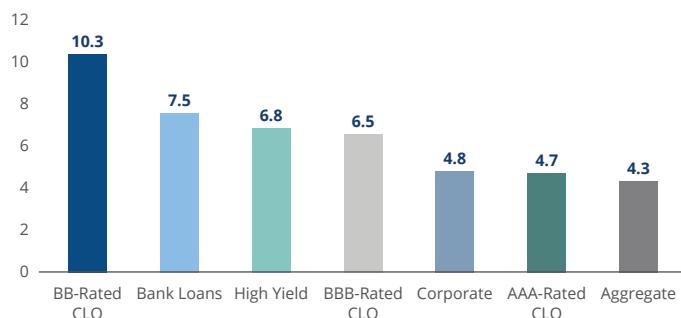


Source: Pitchbook/LCD Research as of October 31, 2025



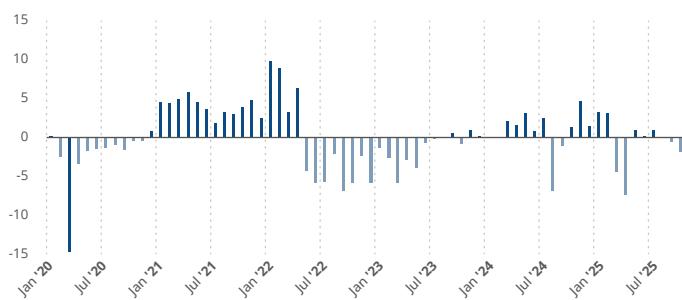
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



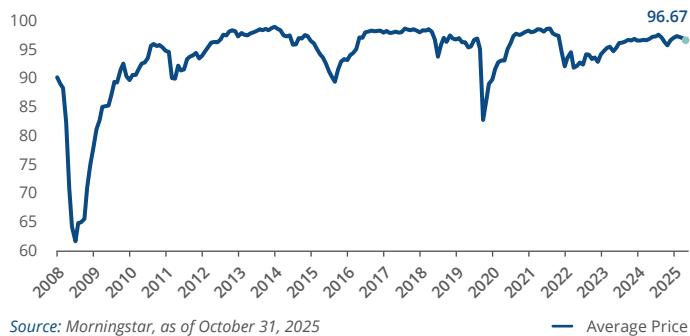
Source: Bloomberg, J.P. Morgan, Morningstar, as of October 31, 2025

MONTHLY BANK LOAN FUND FLOWS (\$BN)



Source: Pitchbook/LCD Research as of October 31, 2025

MORNINGSTAR LSTA LEVERAGED LOAN INDEX (\$)



Source: Morningstar, as of October 31, 2025

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