CLO MONTHLY MONITOR
NOVEMBER 2025

ARISTOTLE PACIFIC CAPITAL

CLO tranches were positive in November with BB the outlier, as carry offset price softness and spreads bifurcated with compression across investment grade tranches and widening lower in the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned +0.36% in November, with coupons the primary driver of performance as secondary prices drifted lower. A risk-off tone in loans came about with the growing likelihood of a federal funds rate cut in December, retail fund outflows, and weakness in lower-quality issuers and specific sectors such as building products and chemicals. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index declined 21 basis points (bps) to end at 96.46.
- The loan asset class generated positive performance during the month, although rate movements continued to be a headwind leading into the final Federal Open Market Committee meeting of 2025. Relative to credit peers, loan performance lagged as investment-grade and high-yield corporate bonds generated total returns of +0.65% and +0.58%, respectively. Fixed-rate investment-grade corporates enjoyed a tailwind from falling U.S. Treasury yields, while high-yield corporates benefited from option-adjusted spread compression in November.
- Institutional loan issuance, representing refinancings and non-refinancings, was a modest $15.9 billion during the month as secondary market weakness discouraged new deals. Repricing activity represented 43% of total activity in November, a step up from October but still well off the year-to-date high of 71% in July. To put 2025's repricing activity into context, loan issuers have repriced $472 billion, or roughly one third of all term loans outstanding.
- CLO issuance was robust in November with $21.4 billion in new issues and roughly 89% dedicated to broadly syndicated loans. Retail fund flows were negative for a fourth consecutive month with $0.55 billion of outflows in November, adding to the year-to-date outflow of $6.9 billion that was largely driven by trade war volatility last spring.
- Monthly performance was positive for 20 of the 24 GICS II industries, with ongoing fallout from the First Brands bankruptcy felt in automobiles & components and underperformance in materials primarily due to continued weakness in chemicals. Leading industries were pharmaceuticals, biotechnology, and life sciences (+1.01%), telecommunication services (+0.83%), and food, beverage, and tobacco (+0.82%), while household and personal products (-1.12%), materials (-0.55%), and automobiles and components (-0.50%) lagged.
- Market performance favored higher-quality issuers, and CCC rated loans generated material underperformance last seen during the spring trade war volatility. The breakdown of one-month returns by rating was: BB (+0.49%), B (+0.44%), and CCC (-1.61%).
- There were two loan-issuer payment defaults in November (Packers Sanitation Services and New Fortress Energy), affecting $2.5 billion in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 6 bps to 1.31%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 3.16%.

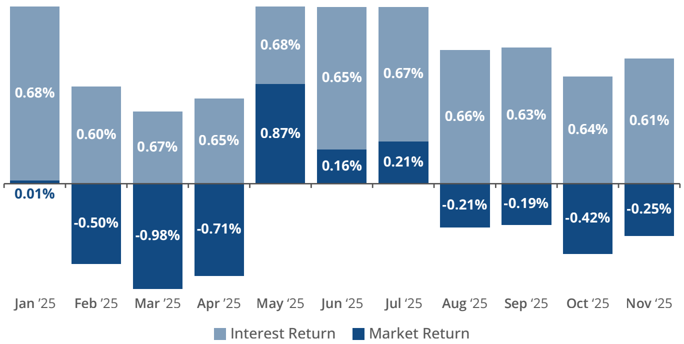
CLO MARKET REVIEW

- The majority of CLO tranches delivered positive total returns in November, with the J.P. Morgan CLOIE Index reporting returns of +0.39% (AAA), +0.42% (AA), +0.43% (A), +0.53% (BBB), and -0.10% (BB).
- New CLO origination was $21.4 billion across 45 deals, taking the year-to-date total to $198.3 billion and 2% ahead of the record setting pace of 2024. With markets now in the final weeks of 2025, the breadth of sell-side outlooks for 2026 has widened out from the bearish 20% drop forecasted by J.P. Morgan noted last month. Morgan Stanley and Deutsche Bank forecast $200 and $190 billion CLO deal issuance respectively in the new year, in close proximity to the likely record total forecasted for 2025, as strong demand from insurance companies, banks, and CLO ETFs, as well as favorable funding conditions, underpin issuance. Morgan Stanley also projects $250 billion of combined reset and refinancing activity in 2026, which tracks with recent experience, as our investment team noted in November that a CLO issuer recently reset their 12th deal of 2025.
- 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 $38 billion, of which $15 billion represents inflows year to date in 2025, according to research from Bank of America.
- While the U.S. loan market has grown by 9% in total par amount in 2025, robust CLO issuance has continued to absorb the high-quality loans used for ramping warehouses. That said, a push/pull dynamic has developed with demand in recent months as CLO managers remain important buyers while retail investors have sold in recent months in the wake of lower interest rates. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), November flipped to a modest monthly surplus of $3.1 billion as slowing repayments and mutual fund outflows offset CLO buyers.
- Looking at leveraged-loan fundamentals, credit metrics have remained stable over the last 12 months, ending the second quarter of 2025 with revenue and EBITDA growth of 2.8% and 4.3%, respectively. Leverage remains near post-pandemic lows at 5.03 times and interest coverage at 3.0 times. One positive from the Fed easing cycle is a gradual improvement of interest coverage, with J.P. Morgan noting a reduction of issuers with less than one times coverage from 10% in Q3 2024 to 6% in Q2 2025, along with an increase from 20% to 27% of issuers with greater than two but less than three times interest coverage.
- With only one month remaining in 2025, we will concede that fixed-rate corporate bonds will likely outperform CLOs this year as U.S. Treasury yields have fallen between 11 bps and 79 bps across the curve year to date through November. That said, we continue to highlight the merits of the asset class. We believe CLOs may offer attractive yield pickup relative to credit peers in a capital efficient manner for many institutional investors and may be well positioned in the event yields move higher. In our opinion, strong technical dynamics within the CLO asset class, characterized by limited net new issuance and steady performance from the underlying collateral pools, may be expected to support prices remaining near or above par throughout the capital stack.

CHARTS OF THE MONTH

1 Coupons have been the primary driver of loan performance in 2025

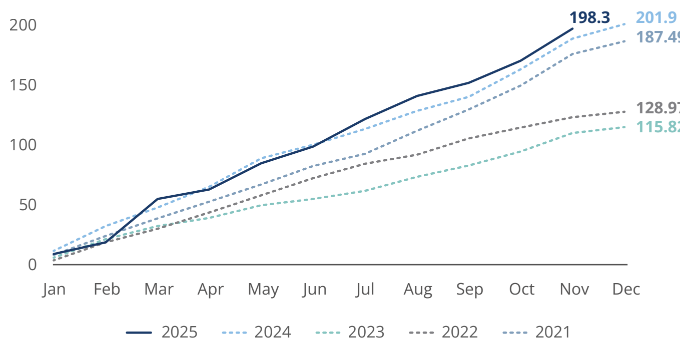
YTD 2025 CONTRIBUTION TO MONTHLY LOAN RETURN (%)



Source: Morningstar LSTA Leveraged Loan Index, 1/1/2025-11/28/2025

2 Closing in on a banner year for 2025

HISTORICAL U.S. CLO ISSUANCE ($BN)



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

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PACIFIC CAPITAL

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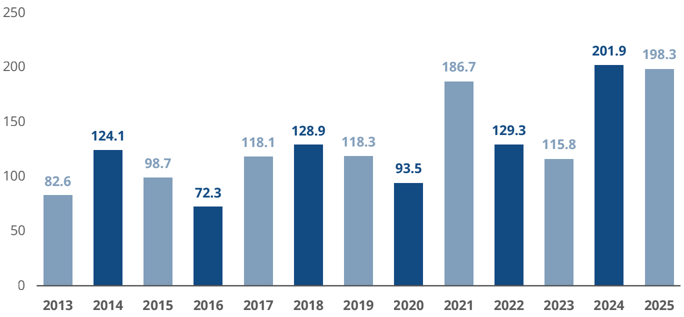
Market Data	November 2025 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.39	5.50	4.6	-0.1	106	100.1
AA-Rated	0.42	5.98	5.0	-0.1	139	100.2
A-Rated	0.43	6.34	5.3	-0.1	167	100.2
BBB-Rated	0.53	7.13	6.4	-0.1	283	100.0
BB-Rated	-0.10	9.30	10.4	0.1	680	95.3
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.49	6.14	6.4	-0.1	265	99.2
B-Rated	0.44	6.05	7.6	-0.1	410	97.7
CCC-Rated	-1.61	2.20	11.4	0.2	1378	76.8

Source: J.P. Morgan, Morningstar, as of November 30, 2025

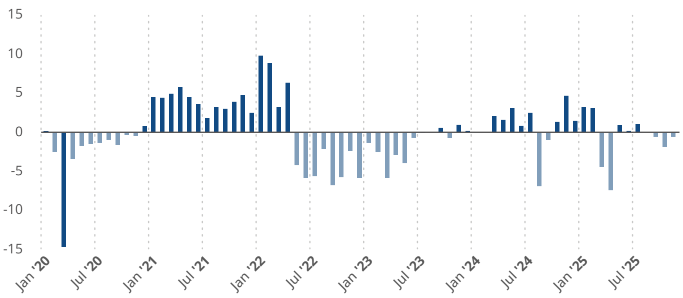
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



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

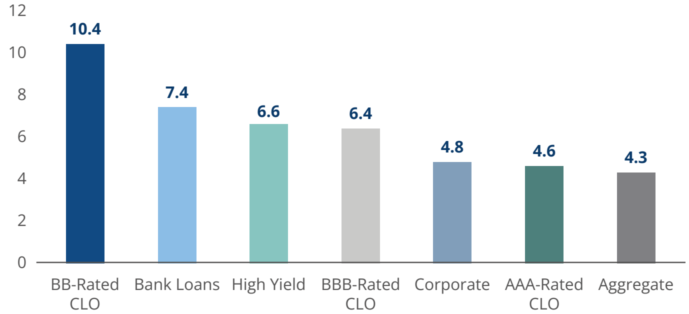
MONTHLY BANK LOAN FUND FLOWS ($BN)



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

VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, J.P. Morgan, Morningstar, as of November 30, 2025

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)

Source: Morningstar, as of November 30, 2025

Average Price

For Institutional Investor use only. Past performance is not indicative of future results. All data as of month-end unless otherwise noted. This information is presented for informational purposes only. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole investment making decision. CLO, Bank loan, corporate securities, and high yield bonds involve risk of default on interest and principal payments or price changes due to changes in credit quality of the borrower, among other risks. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. The opinions expressed herein are based on current market conditions and are subject to change without notice.