CLO MONTHLY MONITOR
DECEMBER 2025

CLO performance was positive in December with carry the primary driver of returns and spreads compressed across the capital stack.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned +0.64% in December, with coupons the primary driver of performance, and secondary prices ended four months of softness to end modestly higher. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index rose 17 basis points (bps) to end at $96.64.
- The loan asset class generated positive performance during the month, returning 0.64%. Relative to credit peers, loan performance led the way as investment-grade and high-yield corporate bonds generated total returns of -0.20% and +0.57%, respectively. The gulf in performance between fixed-rate corporates can be attributed to the steepening of the U.S. Treasury yield curve, as a fed funds 25 bps rate cut in December lowered the front end of the curve while yields on maturities seven years and longer rose.
- Institutional loan issuance, representing refinancings and non-refinancings, was $25.4 billion during the month as markets slowed down going into the holidays. Repricing activity represented 53% of total activity in December, ending a busy year in which 8% of companies repriced their loans twice to wring out savings.
- CLO issuance ended the year on a strong note with $14.9 billion in new issues and roughly 72% dedicated to broadly syndicated loans. Retail fund flows were negative for a fifth consecutive month with $0.76 billion of outflows in December, as the third fed funds rate cut in December dented the outlook for income in the new year.
- Monthly performance was positive for 22 of the 24 GICS II industries, with automobiles & components the worst performer for a fourth consecutive month. The ongoing fall out from First Brands continued to weigh on the industry as the company has launched a sale process and looked to raise additional debtor-in-possession financing. Leading industries were consumer staples distribution and retail (+1.35%), consumer discretionary distribution and retail (+1.12%), and software and services (+0.98%), while automobile and components (-0.66%), consumer durables and apparel (-0.07%), and technology hardware and equipment (0.13%) lagged.
- December mirrored a broader theme for the year as market performance favored higher-quality issuers and BB rated loans outperformed their CCC rated peers by 4.45% in 2025. The breakdown of one-month returns by rating was: BB (+0.65%), B (+0.67%), and CCC (+0.22%).
- There were zero loan-issuer payment defaults in December. Looking at the par-weighted default rate, the trailing 12-month rate increased by 15 bps to 1.46%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 2.87%.

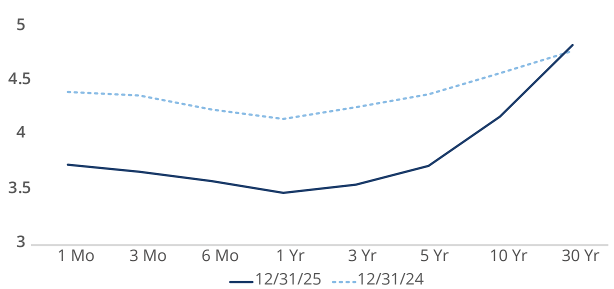
CLO MARKET REVIEW

- CLO tranches delivered positive total returns in December, with the JP Morgan CLOIE Index reporting returns of +0.46% (AAA), +0.52% (AA), +0.54% (A), +0.68% (BBB), and 1.08% (BB).
- New CLO origination was $14.9 billion across 31 deals, taking the year-to-date total to $208.8 billion and 3% ahead of the record set in 2024. AAA spreads compressed 7 bps quarter over quarter to end the year at 124 bps, which flowed through the capital structure and lowered the weighted average cost to capital (WACC) by 7 bps to SOFR +159 bps.
- 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 $37 billion, or roughly 3.5% of the total market according to JP Morgan. ETFs have become an increasingly crowded space, with 26 vehicles available to North American investors of which eight were launched in the last year. ETF flows gravitated toward higher quality tranches in 2025, as AAA rated funds enjoyed $14.8 billion of inflows, while mezzanine funds gained $0.8 billion.
- While the U.S. loan market has grown by over 9% 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), the market returned to a deficit of $7.7 billion in December, which was the trend for most of 2025 as CLO demand more than offset retail outflows.
- Looking at leveraged-loan fundamentals, credit metrics were stable during the third quarter of 2025, with revenue and EBITDA growth of 4% and 2.3%, respectively, versus the prior quarter. Leverage remains near post-pandemic lows at 4.37 times and interest coverage modestly grew to 4.18 times with the potential for continued improvement in light of lower Fed rate policy. The outlook for 2026 may be less sanguine though in the event we see an uptick in inflationary pressures, slowing economic growth or a reengagement in punitive trade tariffs.
- With the new year, we believe it is important to highlight the merits of the asset class for investors in high-quality, public credit. CLOs potentially offer attractive yield pickup relative to credit peers in a capital efficient manner for many institutional portfolios and are 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, are expected to support prices remaining near or above par throughout the capital stack.

CHARTS OF THE MONTH

1 The U.S. Treasury Yield Curve Steepened in 2025 with 3 Fed Fund Cuts and Higher Long End Yields

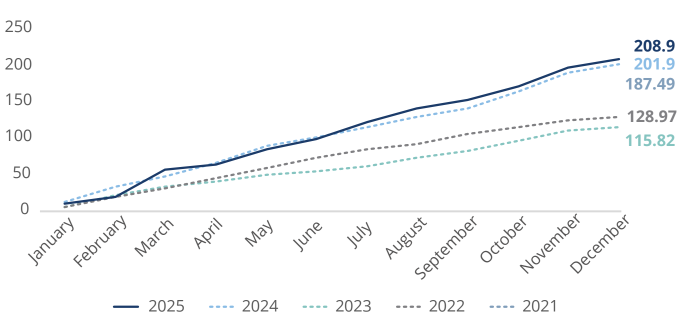
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Treasury Daily Par Yield Curve Rates 12/31/2024 & 12/31/2025

2 2025 was another record year for CLO issuance

HISTORICAL U.S. CLO ISSUANCE ($BN)



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

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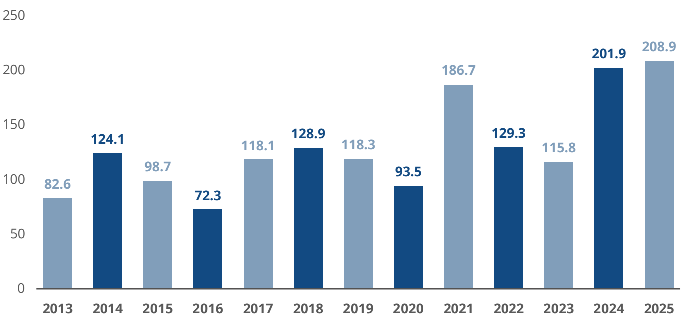
Market Data	December 2025 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.46	5.45	4.6	0.0	106	100.1
AA-Rated	0.52	5.93	4.9	-0.1	136	100.2
A-Rated	0.54	6.28	5.2	-0.1	163	100.2
BBB-Rated	0.68	7.09	6.3	-0.1	275	100.0
BB-Rated	1.08	9.11	10.3	-0.1	667	95.4
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.65	6.26	6.3	-0.2	258	99.4
B-Rated	0.67	6.18	7.4	-0.2	398	98.1
CCC-Rated	0.22	1.81	11.3	-0.1	1,424	75.9

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

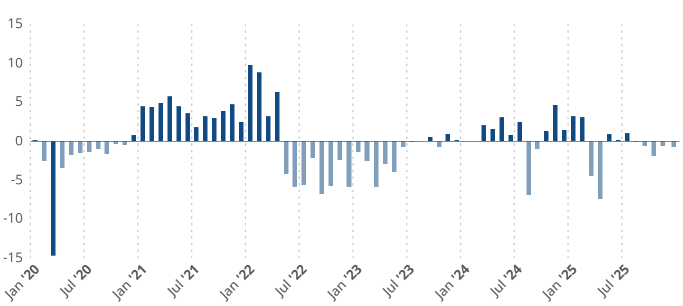
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



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

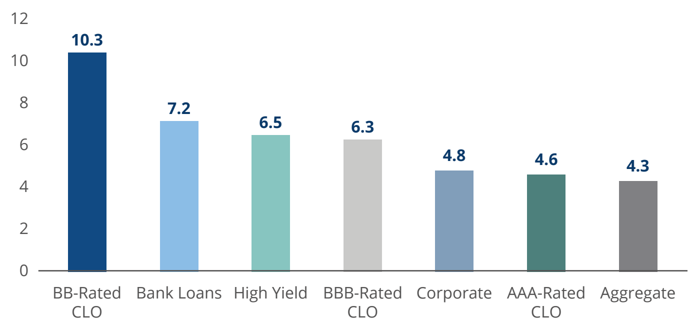
MONTHLY BANK LOAN FUND FLOWS ($BN)



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

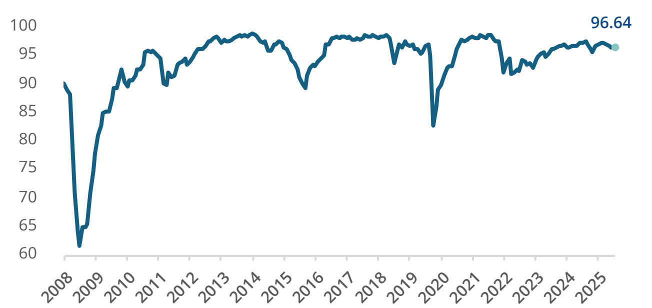
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



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

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar, as of of December 31, 2025

Average Price