ARISTOTLE
PACIFIC CAPITAL

CLO MONTHLY MONITOR
JANUARY 2026

CLO performance started the year on a positive note with carry the primary driver of returns & spreads compressed across the capital stack.
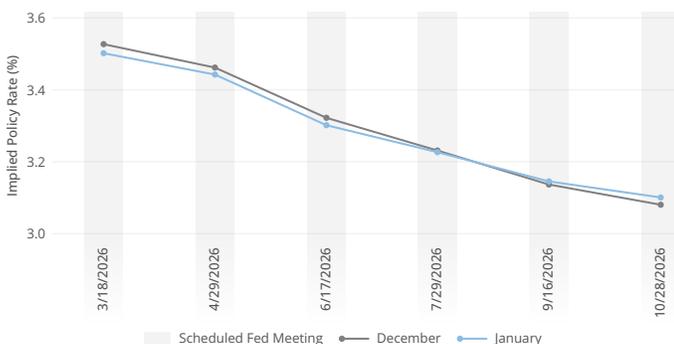
LOAN MARKET REVIEW

• The Morningstar LSTA Leveraged Loan Index returned -0.31% in January as coupons could not offset declining secondary prices as a selloff in software and services (the largest GICS II industry) weighed on loans. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index fell 89 basis points (bps) to end at $95.74.

• The loan asset class generated negative performance during the month as industry specific weakness more than offset the effects of January's Federal Open Market Committee meeting. Relative to credit peers, loan performance trailed as investment-grade and high-yield corporate bonds generated total returns of +0.18% and +0.51%, respectively. The Federal Reserve voted to hold the fed funds rate steady in January, which was supportive of loans, but investment-grade corporates benefitted from spread compression despite robust new issuance while high-yield performance was positive due to coupon return.

• Institutional loan issuance, representing refinancings and non-refinancings, was $53.9 billion, with the largest uptick in M&A activity in over two years. Repricing activity represented 63% of total activity in January, as borrowers away from the technology sector continued to make hay while the sun shined and spreads for B/B+ rated loans fell to the lowest point since the great financial crisis.

• CLO issuance started the year on a quiet note with $9.4 billion in new issues and roughly 79% dedicated to broadly syndicated loans. Retail fund flows ended a five-month outflow streak, with $0.35 billion of inflows in January as a pause in the Fed's easing cycle was supportive of the 2026 outlook for income.

• Monthly performance was positive for 18 of the 24 GICS II industries, with software and services the worst performing industry as advancing AI functionality poses a potential threat to software company business models. Leading industries were household and personal products (+1.08%), automobiles and components (+0.89%), and consumer discretionary distribution and retail (+0.79%), while software and services (-2.45%), health care equipment and services (-0.55%), and commercial and professional services (-0.50%) lagged.

• Risk-off sentiment was evident in January as market performance favored higher-quality issuers. The breakdown of one-month returns by rating was: BB (+0.06%), B (-0.39%), and CCC (-2.11%). We believe it is reasonable to extrapolate that single B securities bore a pronounced impact from the AI related selloff in software issuers as nearly half of those companies were rated B- in January.

• There were three loan-issuer payment defaults in January (Next Level Apparel, Pretium Packaging, and Multi-Color Corp) affecting $2 billion in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 5 bps to 1.41%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 2.78%.

CLO MARKET REVIEW

• CLO tranches delivered positive total returns in January, with the JP Morgan CLOIE Index reporting returns of +0.50% (AAA), +0.47% (AA), +0.52% (A), +0.73% (BBB), and 0.89% (BB).

• New CLO origination during the month was $9.4 billion across 20 deals, which was about half a billion shy of the total in January 2025 but not an impediment to outpacing the new issuance record set last year. One potential challenge to robust issuance this year is the long-term impact of artificial intelligence on CLO collateral credit quality. JP Morgan notes that U.S. CLOs held 12.4% of assets in software loans, many of which came under selling pressure in late January due to advances in large language models (LLMs). It remains to be seen whether AI-driven fears will radiate toward other industries, such as financial services and real estate management and services, which could negatively impact the ability to source paper that meets rigorous CLO standards.

• 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. ETF flows continued the 2025 trend toward higher quality tranches, as AAA rated funds attracted over $2 billion of inflows in January, of which roughly $1.5 billion came during the volatile final week of January, while mezzanine ETFs flows were flat year to date. With the rate-cutting cycle potentially on hold until the end of Fed Chair Jerome Powell's tenure in May, Deutsche Bank highlighted CLO ETFs as an attractive investment option relative to money markets due to the spread advantage.

• The amount of high-quality loans used for ramping CLO warehouses decreased in January, with the total par of U.S. loans decreasing 1% to $1.53 trillion as repayments picked up to $31.8 billion. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), the supply deficit widened to $18 billion as the drop in supply more than offset the seasonally slow start to CLO issuance.

• With the fourth-quarter earnings season underway, high-yield issuers are off to a positive start. Nearly twice as many high-yield companies beat EBITDA expectations as missed during the fourth quarter, and there was a downtick in companies warning of inflation pressures versus September. Companies in the chemical sector reported the worst outlook among peers, as excess capacity in China, tariff uncertainty, high energy costs, and weak demand all continued to weigh on future earnings.

• We believe it is important to highlight the merits of the asset class for investors in high-quality, public credit. We believe CLOs may 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 outlook for loan income improved in January when the Fed held steady on rate cuts

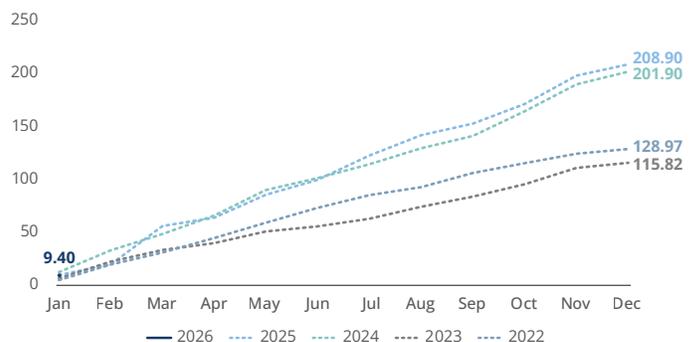### IMPLIED FED FUNDS RATE AND NUMBER OF HIKES/CUTS

Legend: Scheduled Fed Meeting — December — January

Source: Bloomberg, as of January 4, 2026.

2 Slow but steady start to the year

HISTORICAL U.S. CLO ISSUANCE ($BN)

208.90
201.90
128.97
115.82
9.40

Legend: 2026 — 2025 — 2024 — 2023 — 2022

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

Market Data	January 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.50	5.32	4.5	-0.1	93	100.2
AA-Rated	0.47	5.80	4.8	-0.1	128	100.2
A-Rated	0.52	6.15	5.1	-0.1	154	100.2
BBB-Rated	0.73	6.87	6.2	-0.1	261	100.2
BB-Rated	0.89	8.62	10.1	-0.2	644	95.6
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.06	5.63	6.2	-0.1	271	99.0
B-Rated	-0.39	5.06	7.3	0.0	427	97.0
CCC-Rated	-2.11	-1.29	11.6	0.3	1573	73.1

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

TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)

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

MONTHLY BANK LOAN FUND FLOWS ($BN)
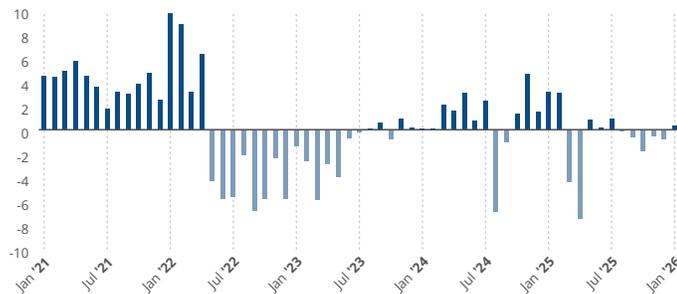
Source: Pitchbook/LCD Research as of January 31, 2026

VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)
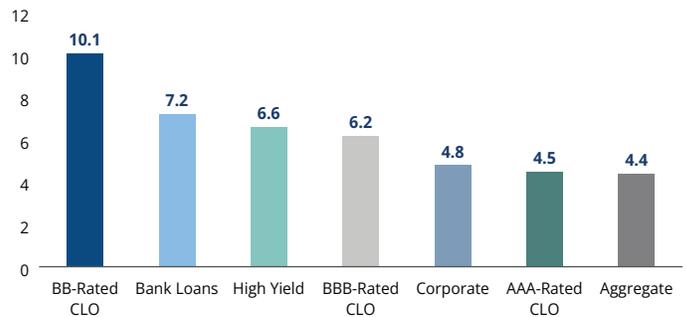
Source: Bloomberg, J.P. Morgan, Morningstar, as of January 31, 2026

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)
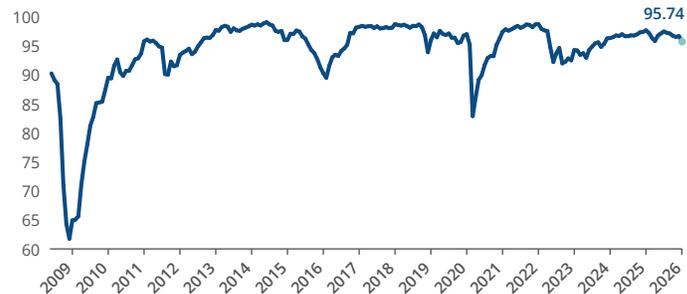
Source: Morningstar, as of January 31, 2026 — Average Price