



CLO performance bifurcated in February with positive returns higher in the capital stack while lower-mezzanine tranches materially lagged. Carry was the primary driver of returns but was not enough to offset spread widening in BBB and BB tranches.

LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned -0.78% in February as coupons could not offset declining secondary prices as a selloff in software and services (the largest GICS II industry) intensified. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index fell 116 basis points (bps) to end at \$94.59.
- The loan asset class generated negative performance during the month as a combination of industry specific weakness, uncertainty around tariff policy following the Supreme Court ruling, and volatility in private credit weighed on risk appetite. Relative to credit peers, loan performance trailed as high-yield corporate and investment-grade bonds generated total returns of +0.19% and +1.29%, respectively. Fixed rate bonds enjoyed a tailwind from lower U.S. Treasury yields, which fell between 14-29 bps across intermediate and long maturities, and more than offset spread widening for investment-grade corporates.
- Institutional loan issuance, representing refinancings and non-refinancings, was \$25.4 billion, representing less than half of the activity in January as adverse market conditions impacted primary markets. Repricings represented 16% of total activity in February, the lowest point since the trade war volatility in spring 2025.
- CLO issuance picked up the pace in February with \$19.5 billion in new issues and roughly 77% dedicated to broadly syndicated loans. Retail fund flows turned negative during the month, with \$3.1 billion of outflows as AI induced volatility and spillover effects from private credit funds damped investor enthusiasm for the asset class.
- Monthly performance was positive for 12 of the 24 GICS II industries, with software and services the worst-performing industry for a second consecutive month as advancing AI functionality posed a potential threat to software company business models and adjacent service industries. Leading industries were materials (+1.25%), household and personal products (+1.02%), and semiconductors and semiconductor equipment (+0.88%), while software and services (-3.72%), insurance (-1.94%), and commercial and professional services (-1.18%) lagged.
- Risk-off sentiment continued to weigh on loans as market performance favored higher-quality issuers and BBs are the only rating cohort with positive year-to-date returns. The breakdown of one-month returns by rating was: BB (+0.17%), B (-1.11%), and CCC (-3.06%). Single B securities bore the brunt of AI related selling in software issuers as 47% of those companies were rated B- in February.
- There was one loan-issuer payment default in February (Trinseo) affecting \$716 million in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate increased by 14 bps to 1.55%. Including distressed-exchange activity, the 12-month default rate ended the month higher at 3.23%.

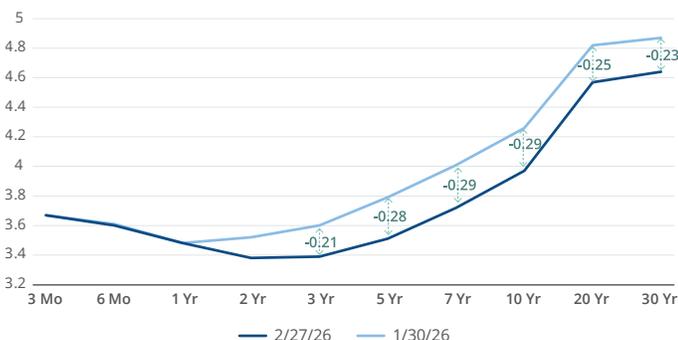
CLO MARKET REVIEW

- CLO tranches performance was mixed in February, with the JP Morgan CLOIE Index reporting returns of +0.32% (AAA), +0.42% (AA), +0.32% (A), -0.74% (BBB), and -2.03% (BB).
- New CLO origination during the month was \$19.5 billion across 41 deals, which made the 2026 year-to-date total about a billion shy relative to February 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. While the price impact has been seen in markets within the last two months, JP Morgan notes that more challenges may lie ahead as software issuers with loans rated B- or below have roughly \$101 billion in debt maturities in aggregate coming due in 2028 and 2029.
- 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. ETFs were not immune from the market volatility as AAA and mezzanine funds experienced \$160 million in aggregate outflows in the final week of February. Of note during the month was the launch of a new ETF, which invests in AA and single A tranches only and targets institutional buyers that are traditional buyers of AAA tranches.
- The amount of high-quality loans used for ramping CLO warehouses was limited in February as repayments remained high relative to 2025 experience, coming in at \$25.8 billion. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), the market experienced a supply deficit for a third consecutive month as CLO issuance picked up.
- With the fourth-quarter earnings season wrapping up, high-yield issuer reports and outlooks are beginning to resemble the saying “the last will be first and the first will be last.” 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 weighed on the industry in 2025. This is juxtaposed by a positive start to the year where loans to chemicals companies have returned over 2.4% in the first two months. The same could not be said of technology companies though, which reported earnings beats versus expectations at over a 3 to 1 ratio during the fourth quarter, but the outlook may be more challenging going forward.
- We believe it is important to highlight the potential merits of the asset class for investors in high-quality, public credit. In our opinion, CLOs may offer attractive yield pickup relative to credit peers in a capital efficient manner for many institutional portfolios and may be well positioned if yields move higher. Long term value of the CLO asset class is supported by strong technical dynamics and higher quality collateral.

CHARTS OF THE MONTH

1 Lower U.S. Treasury Yields a Tailwind for Fixed Rate Bonds in February

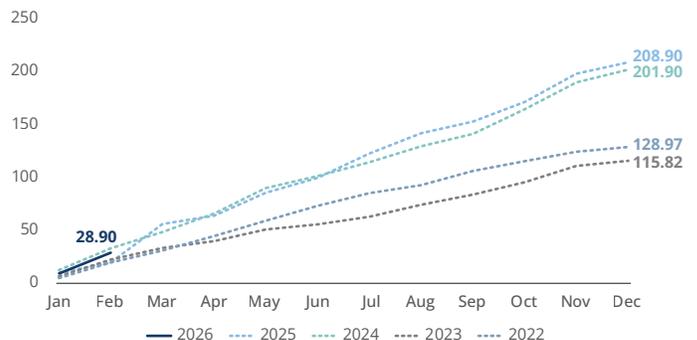
U.S. TREASURY YIELD CURVE (%)



Source: U.S. Treasury Daily Par Yield Curve Rates 1/30/2026 & 2/27/2026.

2 A Touch Slower but Still Steady

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



Source: Pitchbook/LCD Research as of February 28, 2026

Market Data	February 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
J.P. Morgan CLO Indices						
AAA-Rated	0.32	5.36	4.4	0.0	95	100.2
AA-Rated	0.42	5.90	4.7	-0.1	123	100.2
A-Rated	0.32	6.13	5.1	0.0	161	100.1
BBB-Rated	-0.74	5.63	6.6	0.4	313	98.9
BB-Rated	-2.03	5.49	10.9	0.8	740	92.8
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.17	5.62	6.1	-0.1	261	99.2
B-Rated	-1.11	3.80	7.4	0.1	478	95.2
CCC-Rated	-3.06	-4.63	11.9	0.3	1708	70.7

Source: J.P. Morgan, Morningstar, as of February 28, 2026

TECHNICALS

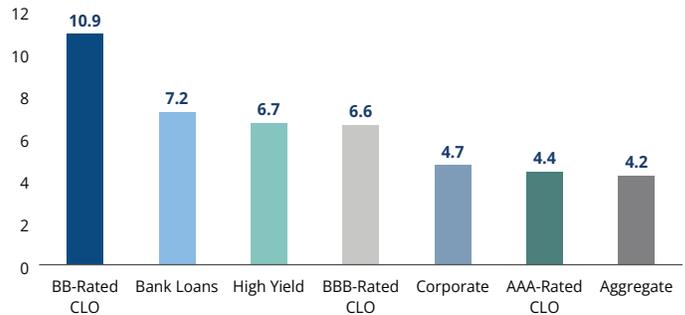
VALUATIONS

ANNUAL CLO NEW ISSUANCE (\$BN)



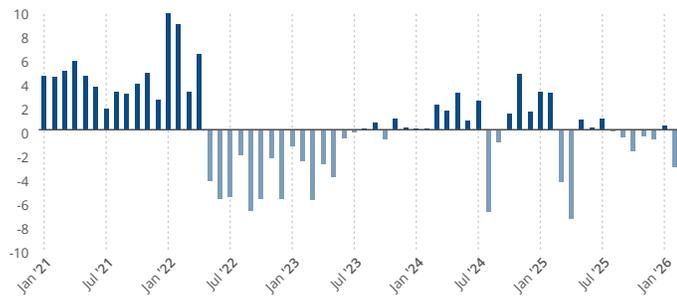
Source: Pitchbook/LCD Research as of February 28, 2026

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, J.P. Morgan, Morningstar, as of February 28, 2026

MONTHLY BANK LOAN FUND FLOWS (\$BN)



Source: Pitchbook/LCD Research as of February 28, 2026

MORNINGSTAR LSTA LEVERAGED LOAN INDEX (\$)



Source: Morningstar, as of February 28, 2026

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.

The Morningstar Indexes are the exclusive property of Morningstar, Inc. Morningstar, Inc., its affiliates and subsidiaries, its direct and indirect information providers and any other third party involved in, or related to, compiling, computing or creating any Morningstar Index (collectively, "Morningstar Parties") do not guarantee the accuracy, completeness and/or timeliness of the Morningstar Indexes or any data included therein and shall have no liability for any errors, omissions, or interruptions therein. None of the Morningstar Parties make any representation or warranty, express or implied, as to the results to be obtained from the use of the Morningstar Indexes or any data included therein. ©2026 Morningstar, Inc. All rights reserved. The Morningstar name and logo are registered marks of Morningstar, Inc. Marks used in conjunction with Morningstar products or services are the property of Morningstar or its subsidiaries.