CLO MONTHLY MONITOR
MARCH 2026

ARISTOTLE PACIFIC CAPITAL

CLO performance bifurcation continued in March 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 0.54% in March as loans were one of the few areas to enjoy positive returns in the war-induced risk-off environment. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index rose 4 basis points (bps) to end at $94.63.
- The loan asset class generated positive performance as bargain hunting and its floating-rate structure insulated it from headwinds that affected broader fixed income and equities. Relative to credit peers, loans outperformed as high-yield corporate and investment-grade bonds generated total returns of -1.18% and -1.98%, respectively. Fixed-rate bonds were hit by a one-two punch as the Iran war escalation and the knock-on effects to oil and inflation caused U.S. Treasury yields to rise across the curve, with the three-year note climbing 42 bps in March, and option adjusted spread widened.
- The Strait of Hormuz closure by Iran cut the world off from 14 million barrels of oil per day and set in motion a worldwide scramble for refined products, liquid natural gas, and fertilizer. Cognizant to the risks the Iran conflict poses to both sides of its dual mandate – price stability and maximum employment – the Federal Reserve kept the fed funds rate between 3.5%-3.75% at its March meeting and reiterated a commitment to its 2% inflation objective. Market expectations for rate cuts materially shifted, dropping from two projected fed fund cuts at the start of the quarter to zero for the balance of 2026. While the impact of the war on the U.S. economy remains to be seen, Fed policy on hold is positive for the income generation that loans provide to investors.
- Institutional loan issuance, representing refinancings and non-refinancings, was $32.1 billion, as adverse market conditions impacted primary markets and most activity was driven by a handful of large M&A deals, such as a group of investors acquiring Electronic Arts. Loan market activity started strong but largely dried up as volatility increased, with loan repricings falling from $108 billion in January to zero in March.
- CLO issuance slowed down a touch in March with $17.6 billion in new issues and roughly 82% dedicated to broadly syndicated loans. Retail fund flows remained negative during the month, with $2.3 billion of outflows as AI-induced volatility and spillover effects from private credit funds continued to dampen investor enthusiasm for the asset class.
- Monthly performance was positive for 17 of the 24 GICS II industries, with the insurance and software and services industries regaining their footing while more cyclical industries lagged in the challenging macro environment. Leading industries were health care equipment and services (+1.36%), insurance (+1.22%), and software and services (+1.15%), while household and personal products (-0.78%), consumer staples distribution and retail (-0.70%), and materials (-0.46%) lagged.
- Market performance was positive across the board with single B securities leading the way after two consecutive months of losses. The breakdown of one-month returns by rating was: BB (+0.47%), B (+0.61%), and CCC (+0.17%). Part of March's strength in single B issuers can be attributed to bottom fishing in software and services loans, which makes up 16% of that rating bucket.
- There was one loan-issuer payment default in March (Cumulus Media), affecting $312 million in loans outstanding. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 9 bps to 1.46%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 3.04%.

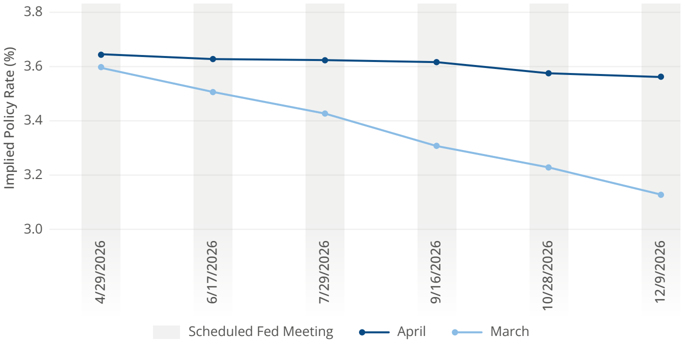
CLO MARKET REVIEW

- CLO tranche performance was mixed in March, with the JP Morgan CLOIE Index reporting returns of +0.19% (AAA), +0.09% (AA), +0.21% (A), -0.14% (BBB), and -2.02% (BB).
- New CLO origination during the month was $17.6 billion across 37 deals, which brought the 2026 year-to-date total about 3% behind the record setting pace of 2025. With the National Association of Insurance Commissioners (NAIC) wrapping up their spring meeting in March, it's worth noting a proposal that could impact institutional demand in CLOs. The NAIC has proposed new capital charges on BSL CLOs held by life insurers, which would materially reduce the charges for tranches rated A or above while significantly increasing the charges for tranches rated BBB. Although the potential for RBC adjustments has been known for some time, it is possible that an additional rotation toward AAA-A tranches may develop from life insurers when the charges go into effect at the end of 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 $6.5 billion to $43.5 billion just in the first quarter of 2026, and it has become an increasingly crowded space, with 35 vehicles available to North American investors, of which seven launched since the start of the year.
- The amount of high-quality loans used for ramping CLO warehouses was limited in March as repayments remained high relative to the 2025 experience, coming in at $25.2 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 fourth consecutive month.
- Looking at leveraged-loan fundamentals, credit metrics were firm in the fourth quarter of 2025 but highlighted the need for active credit selection as deterioration has modestly picked up. On the positive side, revenue grew 0.8% quarter over quarter, while interest coverage (EBITDA/ Net Interest Expense) improved to 4.3 times as easier Fed policy last year flowed through to earnings. Offsetting this was an increase in leverage, which rose 0.07 to 4.44 times quarter over quarter, and over 50% of issuers reported EBITDA contraction for the first time in almost three years. While we enter first-quarter 2026 earnings season on a relatively firm footing, the outlook is complicated by a long list of uncertainties, including the price of oil and other input commodities, rising interest rates, unresolved tariff policy, and the potential for slowing economic growth.
- 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 Fed cutting on pause was constructive for loan income

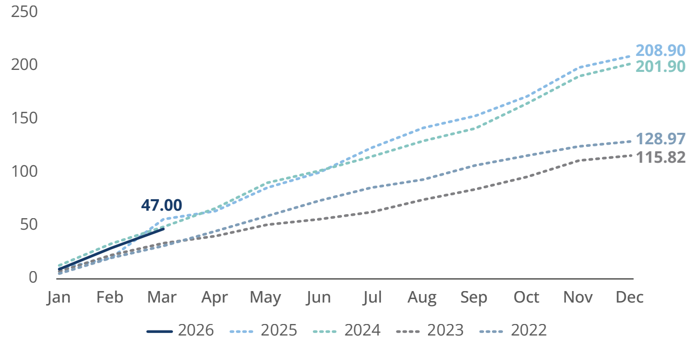
IMPLIED FED FUNDS RATE AND NUMBER OF HIKES/CUTS



Source: *Bloomberg as of March 31, 2026.*

2 A touch slower than 2025's pace

HISTORICAL U.S. CLO ISSUANCE ($BN)



Source: *Pitchbook/LCD Research as of March 31, 2026*

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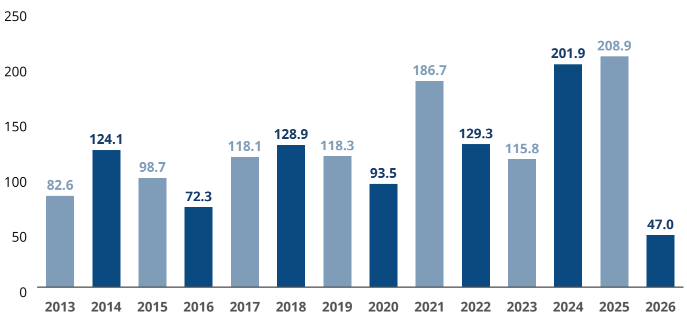
Market Data	March 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
J.P. Morgan CLO Indices						
AAA-Rated	0.19	5.38	4.9	0.5	126	99.9
AA-Rated	0.09	5.87	5.2	0.5	153	99.9
A-Rated	0.21	6.17	5.6	0.5	192	99.8
BBB-Rated	-0.14	5.77	7.3	0.7	352	98.1
BB-Rated	-2.02	4.88	12.2	1.2	828	90.0
Morningstar LSTA Leveraged Loan Index						
BB-Rated	0.47	6.03	6.1	0.0	267	99.0
B-Rated	0.61	4.86	7.4	0.0	473	95.4
CCC-Rated	0.17	-2.67	11.9	-0.1	1703	70.7

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

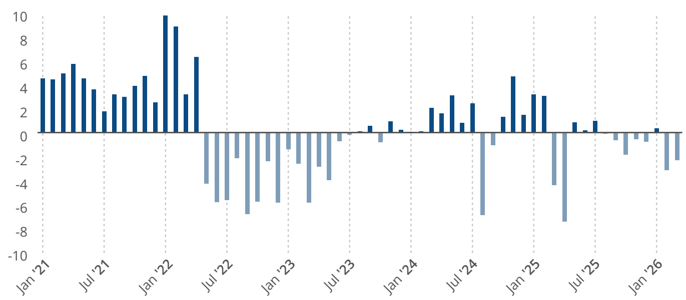
TECHNICALS

ANNUAL CLO NEW ISSUANCE ($BN)



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

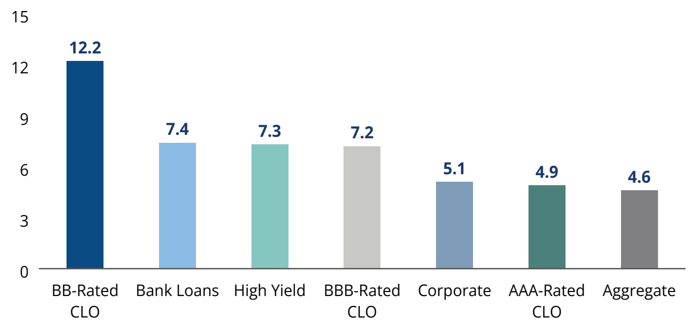
MONTHLY BANK LOAN FUND FLOWS ($BN)



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

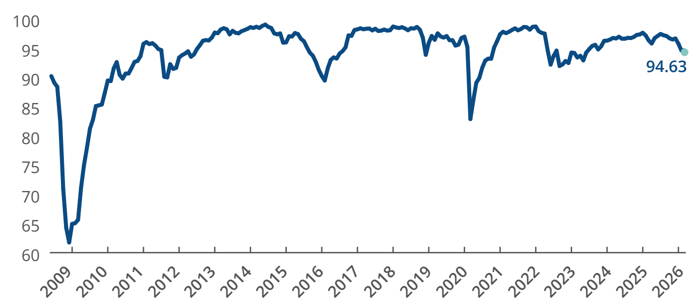
VALUATIONS

YIELDS ON VARIOUS ASSET CLASSES (%)



Source: Bloomberg, J.P. Morgan and Morningstar as of March 31, 2026

MORNINGSTAR LSTA LEVERAGED LOAN INDEX ($)



Source: Morningstar as of March 31, 2026

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