



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

### LOAN MARKET REVIEW

- The Morningstar LSTA Leveraged Loan Index returned 0.51% in May as secondary prices modestly softened following April's risk-on rally. Month over month, the average bid for the Morningstar LSTA Leverage Loan Index rose 2 basis points (bps) to end at \$95.33, but software issuers experienced renewed selling pressure.
- The loan asset class generated positive performance in May, but most of the gains in the first half of the month from rising interest rates were offset by pockets of weakness in secondary prices. Relative to credit peers, loans were mid pack as high-yield corporate and investment-grade bonds generated total returns of 0.49% and 0.76%, respectively. The floating-rate structure of loans was a tailwind as U.S. Treasury yields rose across intermediate and long maturities. The yield on the 10-year note rose 19 bps in the first half of May, only to give ground in the second half, ending 5 bps higher month over month at 4.45%.
- The Strait of Hormuz remained closed by Iran for a third consecutive month, which has cut the world off from about 14 million barrels of oil per day and underpins a worldwide scramble for refined products, liquid natural gas, and fertilizer. The effects of rising energy prices can already be seen in data, with May 2026 annual CPI coming in at 4.2%, the highest reading in three years. 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 April meeting, but the market began to price in one potential rate hike in 2026 as of May month end. While the impact of the war on the U.S. economy remains to be seen, current Fed policy is positive for the income generation that loans provide to investors.
- Institutional loan issuance, representing refinancings and non-refinancings, was \$41.4 billion as conditions for primary issuance improved relative to the drought witnessed in the prior three months. While M&A activity has been muted year to date, it is worth noting that Paramount Skydance was able to place an upsized \$15 billion deal in May across dollar and euro denominated term loans in support of the purchase of Warner Brothers Discovery, which represents the largest term loan deal since the great financial crisis.
- CLO issuance picked up from the April doldrums with \$16.8 billion in new issues and roughly 78% dedicated to broadly syndicated loans. Retail fund flows remained positive for a second consecutive month, with \$910 million inflows, but the year-to-date total reflects over \$4 billion of withdrawals as AI-induced volatility and spillover effects from private credit funds dampened investor enthusiasm for the asset class during the spring of 2026.
- Monthly performance was positive for 23 of the 24 GICS II industries, with insurance the only material underperformer. Leading industries were household and personal products (+2.30%), automobiles and components (+1.24%), and materials (+0.96%), while insurance (-0.41%), health care equipment and services (+0.06%), and consumer staples distribution and retail (+0.08%) lagged.
- Performance dispersion was evident across quality cohorts with single B issuers taking the lead in May. The breakdown of one-month returns by rating was: BB (+0.48%), B (+0.59%), and CCC (-0.49%). The lingering effects of AI and Iran-conflict

volatility can be seen in year-to-date performance, with BB rated loans enjoying a nearly 6-percentage-point performance advantage relative to CCC loans (+2.26% vs. -3.71%) as of month end.

- There were no loan-issuer payment defaults in May. Looking at the par-weighted default rate, the trailing 12-month rate decreased by 11 bps to 1.28%. Including distressed-exchange activity, the 12-month default rate ended the month lower at 2.62%.

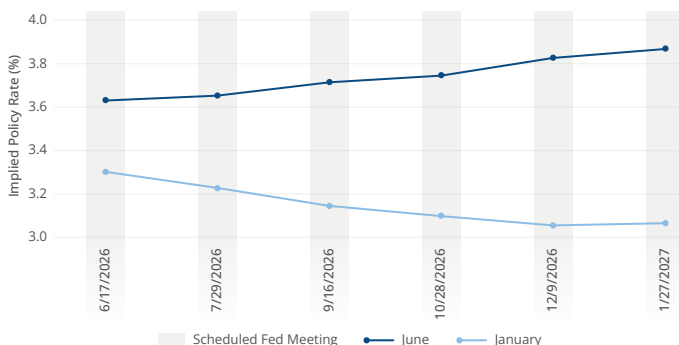
### CLO MARKET REVIEW

- CLO tranche performance was positive in May with mezzanine tranches leading the way and the JP Morgan CLOIE Index reporting returns of +0.43% (AAA), +0.45% (AA), +0.53% (A), +0.66% (BBB), and +1.37% (BB).
- New CLO origination during the month was \$16.8 billion across 35 deals, which brought the 2026 year-to-date total to \$70 billion, about 15% behind the record-setting pace of 2025. AAA tranches remained well bid in light of a yield pickup of almost 50 bps relative to similarly rated intermediate U.S. corporates as of May month end.
- 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. AAA dedicated ETFs enjoyed inflows each week of May with \$619 million in the final week alone. That said, a wide gulf has emerged in investor risk appetite as senior tranche ETFs have taken in over \$8 billion year to date, while mezzanine ETFs were flat during the same period following outflows in February and March.
- The amount of high-quality loans used for ramping CLO warehouses fell in May as an uptick in repayments, retail demand, and CLO issuance all impacted the market. When factoring in demand (CLO creation and retail fund flows) versus leveraged-loan supply (issuance less repayments), the market experienced a supply deficit of roughly \$20 billion, consistent with market conditions in most of the last 12 months.
- With the first-quarter earnings season finished, high-yield issuers posted a remarkable quarter despite geopolitical risks and industry specific challenges. More than double the number of high-yield companies beat EBITDA expectations as missed during the first quarter, but this was partially offset by an uptick in companies' warnings of inflation pressure, which rose from 27% at the end of 2025 to 34% in March. One interesting take away from earnings was the lack of conviction in earnings sustainability for energy companies in light of the Iran conflict. According to J.P. Morgan, of the 31 issuers in scope, roughly 61% had no change in outlook at quarter end despite West Texas Intermediate (WTI) oil futures rising 52% since the start of the year to close at \$87.36 at May month end.
- 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 interest rates 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 The path of Fed Funds has changed materially since the start of the year

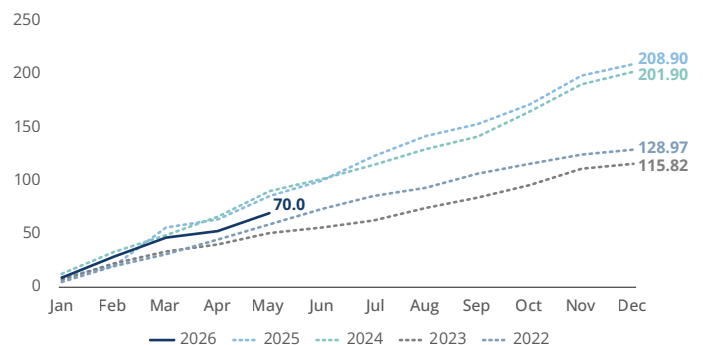
#### IMPLIED FED FUNDS RATE AND NUMBER OF HIKES/CUTS



Source: Bloomberg as of June 1, 2026.

### 2 Fits and starts to 2026 CLO new issuance

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



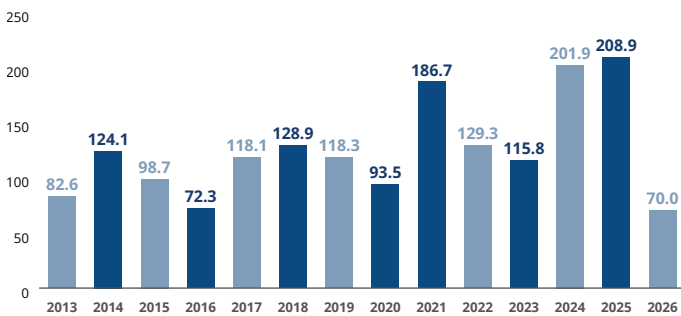
Source: Pitchbook/LCD Research as of May 31, 2026

Market Data	May 2026 Return (%)	1 Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
<b>J.P. Morgan CLO Indices</b>						
AAA-Rated	0.43	5.30	4.8	0.0	99	100.1
AA-Rated	0.45	5.73	5.1	-0.1	128	100.2
A-Rated	0.53	5.88	5.4	0.0	165	100.1
BBB-Rated	0.66	6.90	7.0	0.1	310	99.5
BB-Rated	1.37	7.56	11.5	0.0	746	92.9
<b>Morningstar LSTA Leveraged Loan Index</b>						
BB-Rated	0.48	6.18	6.1	0.0	252	99.5
B-Rated	0.59	5.30	7.3	0.0	441	96.4
CCC-Rated	-0.49	-2.56	11.9	0.2	1722	70.5

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

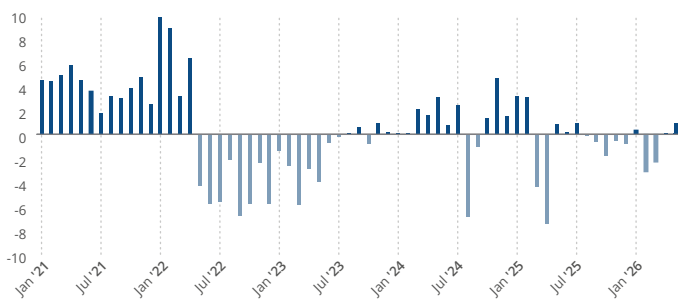
### TECHNICALS

#### ANNUAL CLO NEW ISSUANCE (\$BN)



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

#### MONTHLY BANK LOAN FUND FLOWS (\$BN)



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

### VALUATIONS

#### YIELDS ON VARIOUS ASSET CLASSES (%)



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

#### MORNINGSTAR LSTA LEVERAGED LOAN INDEX (\$)



Source: Morningstar as of May 31, 2026

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