CLO Monthly Monitor
June 2024

• CLOs delivered positive returns across the capital stack, despite senior tranche spreads widening back out from their recently tighter levels.

Loan Market Review

• The CS Leveraged Loan Index returned 0.27% in June, reflecting a modest slowdown compared to the strong performance in the first half of the year. This was driven by elevated coupon returns partially offset by price erosion, with the average price of the loan asset class falling from $96.06 to $95.68.

• Economic data indicated a softening labor market, with job creation and unemployment figures falling short of expectations. Interest rates declined in response to the weaker job data, however the 10-year U.S. Treasury rates remained nearly 20 bps above where they entered the second quarter.

• Institutional leveraged loan issuance remained high, with $54.0bn issued in June. Including repricings and amend & extend activity, total issuance reached $404.9bn, surpassing the entire 2023 total of $389bn. The lack of net supply growth from LBO and M&A activity continued to support loan technicals (Source: LCD).

• CLO origination slowed to $11.26bn in June following a record issuance month. Despite this slowdown, CLO issuance for the second quarter reached $52.6bn, the second-highest quarterly volume on record. Retail fund flows were flat in June, with a $5.4bn inflow for the second quarter.

• Sector performance was positive across 18 of 20 industries, breaking the 2024 streak of five months without a negative returning sector. Leading sectors included Food (0.71%), Consumer Non-Durables (0.70%), and Manufacturing (0.56%), while Information Technology (-0.11%), Metals/Minerals (-0.04%), and Housing (0.13%) underperformed.

• Performance by rating favored lower-rated CCC-rated loans, which returned 0.45%. While there limited dispersion observed across BB-rated and B-rated loans, distressed loans (CC & Below) significantly trailed the broader index. The breakdown of returns by rating was as follows: BB (0.32%), B (0.36%), CCC (0.45%), and CC & Below (-2.63%).

• There was one loan issuer default in June, Vyaire Medical, affecting $0.3 billion in loans outstanding. This reduced the trailing 12-month default rate to 1.09%, an 18-month low. However, the percentage of loans trading at distressed levels (<$80) increased from 5.4% to 5.8%, which is often an early indicator of potential future defaults.

CLO Market Review

• CLO tranches delivered positive total returns in June, with the JP Morgan CLOIE Index reporting returns of 0.41% (AAA), 0.50% (AA), 0.63% (A), 0.80% (BBB), 0.80% (BB), and 1.38% (B).

• New CLO origination volume in June was $11.5bn, bringing year-to-date issuance to $101.4bn, nearly double the issuance for the same period in 2023. This includes the second-highest quarterly volume on record for new deals at $52.6bn. Issuance year-to-date originated from 214 deals by 104 managers (Source: LCD).

• Although primary-market prints slowed in June and paydowns have begun to reverse net supply, market forecasts for full-year issuance continue to be raised. Expectations have increased, with Morgan Stanley now projecting $165bn, BofA Securities $145bn, JP Morgan $130bn, Deutsche Bank $145bn, and Barclays $135-145bn.

• An expected $700bn of CLOs will be outside their non-call period by the end of 2024, with $550bn already beyond their non-call date. Additionally, approximately 32% of outstanding deals are already past their reinvestment date. As a result, Reset/Refinance activity could reach up to $200bn this year.

• Investor demand for floating rate debt has driven higher CLO issuance, reflected in narrowing spreads. The average AAA coupon for broadly syndicated CLO deals was 150bps in the second quarter, down from 157bps in the first quarter and 176bps at the end of 2023. Spreads between resets and new issue deals were similar (Source: Citi Research).

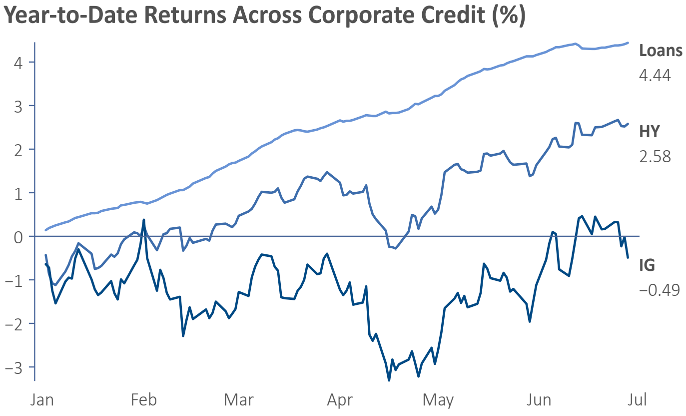
• In the second quarter, the impact of manager size on securing favorable coupons diminished. Both smaller and mid-sized issuers achieved average AAA spreads of 153 bps, with no difference between the two groups. The gap between the largest and smallest issuers also narrowed, decreasing from 12bps in the first quarter to just 4bps.

• With diminishing expectations for Fed rate cuts in 2024 and the anticipation of sustained higher interest rates, we believe CLO debt may present an attractive investment opportunity. Strong technical dynamics, characterized by limited net new issuance and high demand for floating rate assets are expected to support prices remaining near or above par throughout the capital stack.

Charts of the Month

1. Through the first half of 2024, leveraged loans have outperformed fixed rate corporate peers, while avoiding significant volatility.

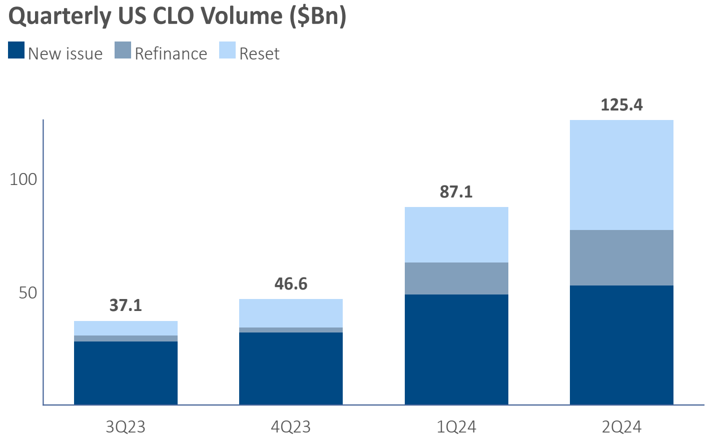
Year-to-Date Returns Across Corporate Credit (%)



Source: Bloomberg, Credit Suisse, as of June 30, 2024.

2. CLO issuance has continued to grow quarter-over-quarter, primarily driven by a surge in Refinance and Reset volumes.

Quarterly US CLO Volume ($Bn)



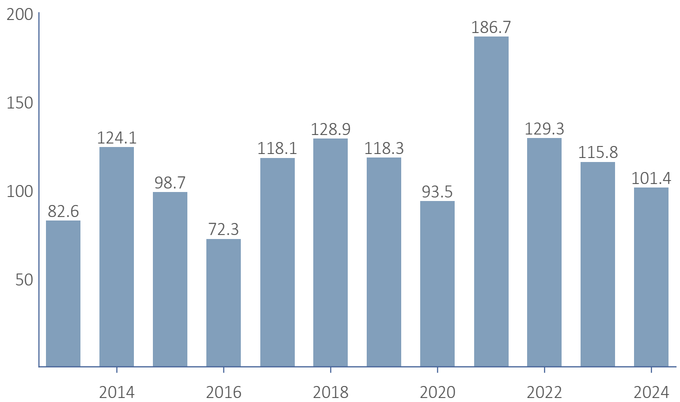
Source: Pitchbook/LCD, as of June 30, 2024

Market Data	Jun-24 Return (%)	1-Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.41	8.48	6.2	0.1	99	100.2
AA-Rated	0.50	10.39	6.5	-	139	100.2
A-Rated	0.63	12.53	6.9	-0.2	185	100.1
BBB-Rated	0.80	17.99	7.8	-0.2	279	100.0
BB-Rated	0.80	27.74	11.4	-0.1	649	96.6
B-Rated	1.38	42.51	17.0	-0.4	1,241	77.0
Credit Suisse Leveraged Loan Index						
BB-Rated	0.32	9.11	7.2	-0.2	290	99.7
B-Rated	0.36	11.89	8.9	-0.1	461	98.6
CCC-Rated	0.45	19.17	16.9	-0.3	1,271	80.0
Distressed (CC, C, and Default)	-2.63	-20.43	44.8	-0.5	4,115	32.9

Source: JP Morgan, Credit Suisse, as of June 30, 2024

Technicals

Annual CLO New Issuance ($bn)



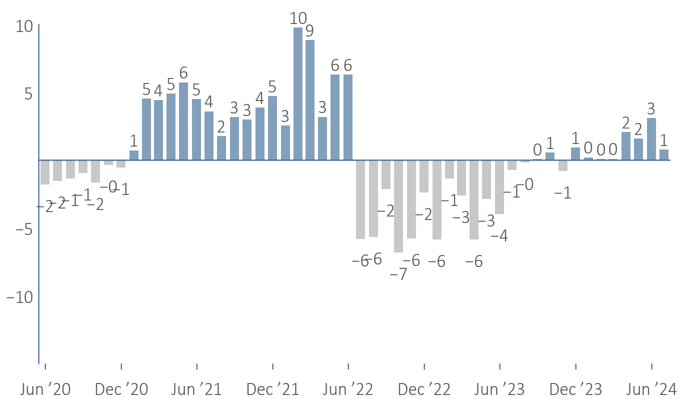
Source: Pitchbook/LCD Research as of June 30, 2024

Valuations

Yields on Various Asset Classes (%)

Source: JP Morgan, Credit Suisse, Barclays, as of June 30, 2024

Monthly Bank Loan Fund Flows ($bn)



Source: Pitchbook/LCD Research, as of June 30, 2024

CS Leveraged Loan Index ($)

Source: Credit Suisse, as of June 30, 2024

ABOUT ARISTOTLE PACIFIC CAPITAL

Aristotle Pacific Capital, LLC specializes in institutional fixed income management with a focus on corporate credit. As of June 30, 2024 the firm managed $28bn across bank loan, high yield, corporate, and CLO strategies.

IMPORTANT NOTES AND DISCLOSURES