

# CLO MONTHLY MONITOR

## DECEMBER 2023

- CLOs closed the year with strong returns throughout the capital stack, driven by further spread tightening.

### LOAN MARKET REVIEW

- The CS Leveraged Loan Index returned 1.61% in December, finishing the quarter with yet another strong return at 2.85%. With a full-year return of 13.04%, loans had their strongest annual return since the inception of the Credit Suisse Leveraged Loan Index, trailing only the 44.87% return from 2009.

- On a relative basis, the performance of loans markedly surpassed that of high yield corporate bonds for most of the year, with loan returns through October at 9.94% compared to 4.62% for high yield. However, owing to a substantial rally in rates during November and December, high-yield bonds achieved a return of 7.16% for the fourth quarter. As a result, high-yield bonds narrowly outperformed loans for the year, returning 13.45% versus 13.04%.

- Leveraged loan issuance was notably subdued in December, totaling just \$8.5 billion, a significant decrease from November's \$24.7 billion. Although December traditionally sees limited issuance, the recent figure of \$8.5 billion fell short of the 10-year average, which had typically exceeded \$12 billion. Loan issuance for the quarter was \$55.7bn, bringing full-year issuance to \$234.1bn, just above of 2022's total at \$225.2bn.

- Similar to leveraged loan issuance, CLO origination also cooled from a very active November, with new issuance finishing the month at just \$4.9bn. Retail funds flows were essentially flat with a \$0.1bn inflow in December, however they were slightly negative for the quarter at -\$1bn. Total measurable demand was \$30.9bn for the fourth quarter, the highest level since 2Q2022.

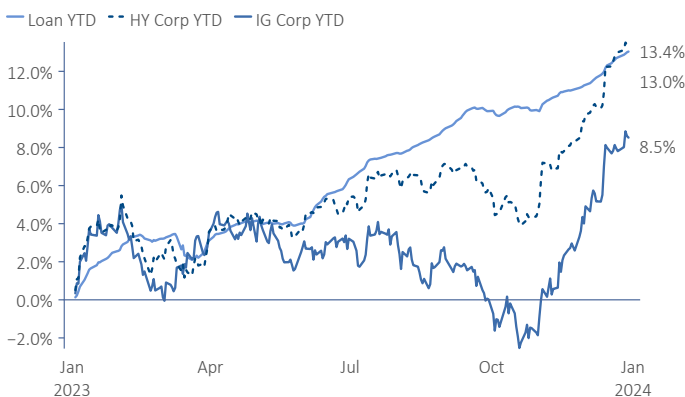
- Sector performance was positive across all 20 industries in December. Performance was led by Consumer Durables (2.39%), Retail (2.39%) and Housing (2.24%), while Energy (1.03%), Food (1.11%) and Utilities (1.16%) lagged the rest of the index.

- Rating performance in December favored lower rated CCC and Single B loans, returning 2.10% and 1.73%, respectively. For the year, returns by rating were 10.05% (BB), 14.41% (B), 16.13% (CCC), -17.60% (CC & Below).

### CHARTS OF THE MONTH

**1. With a strong finish going into year-end, U.S. Corporate Credit had remarkable total returns in 2023.**

#### 2023 Corporate Credit Total Returns



Source: Bloomberg, Credit Suisse, as of December 31, 2023

### CLO MARKET REVIEW

- CLO tranches had strong total returns in December. JP Morgan estimated returns for December were 0.83% (AAA), 1.07% (AA), 1.35% (A), 2.25% (BBB), 2.89% (BB), and 3.34% (B).

- Although liability spreads continued to tighten into December, CLO Origination volumes tapered off significantly from November with just \$4.9bn issued. Still, CLO origination ended the quarter with the second highest issuance of the year at \$31.9bn, bringing the 2023 total to \$115bn. CLO new issuance this year has totaled \$115.8bn and has come from 266 deals by 108 managers (Source: LCD).

- New issue AAA-spreads for larger issuers fell to a 2023 low of 160bps over SOFR. However smaller issuers continued to be impacted by a pre-vailing gap. According to JP Morgan, AAA spreads for broadly syndicated CLO are forecasted to continue tightening to 150 bps by mid-year 2024, moving into the 140-150 bps range by the end of the year.

- With earnings through September 2023 released, credit fundamentals for loan issuers continued to slow, although revenue and EBITDA growth remained positive year-over-year. Margin deterioration stemming from sticky inflation and higher wages remains a challenge for several sectors. Companies have been responding to slowing growth and higher interest rates by limiting new borrowing and reducing capital expenditures.

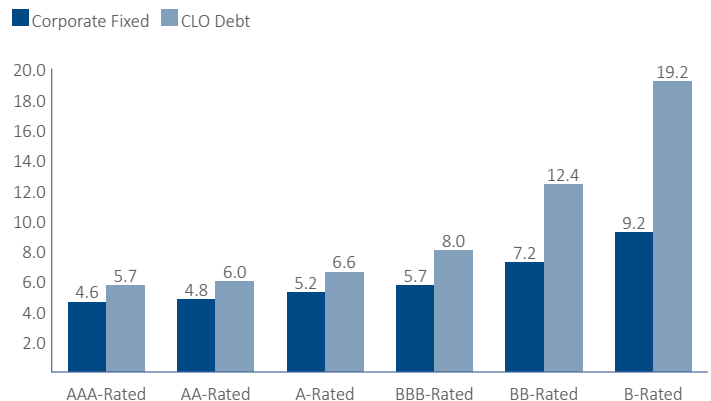
- There was one loan issuer default (Mobileum) in December and four defaults for the quarter, impacting \$7.5bn in loans outstanding. The trailing 12-month default rate finished the year at 2.10%. A total of 35 companies have defaulted year-to-date totaling \$30.7bn in loans.

- The market's anticipation of a soft-landing scenario in 2024 intensified through December as inflation cooled and economic prints continued to exceed expectations. This shift led to a departure from the previous "higher for longer" sentiment, igniting a rally in U.S. credit markets.

- With a strong finish going into year-end, U.S. credit markets had remarkable total returns in 2023. Full-year asset class returns were: U.S. Corporates (8.52%), Leveraged Loans (13.04%), and U.S. High Yield (13.40%). For CLO tranches, JP Morgan estimated returns were: 8.68% (AAA), 10.89% (AA), 13.35% (A), 17.66% (BBB), 24.52% (BB), and 26.77% (B).

**2. Despite outperforming fixed rate corporate credit at each credit rating in 2023, CLO debt still provided a yield advantage entering 2024.**

#### 2024 Starting Yields - IG/HY Corporate Bonds vs CLO debt (%)



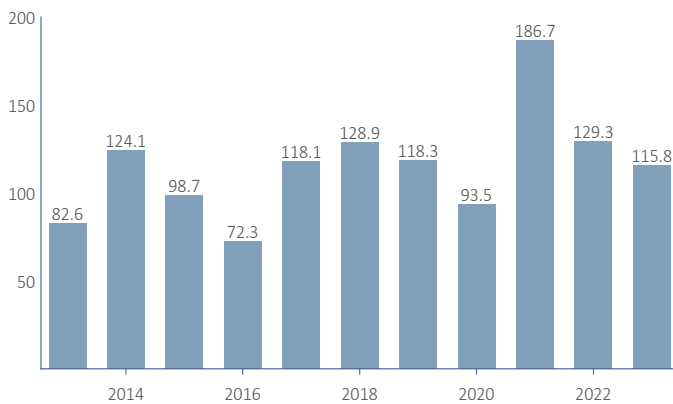
Source: Bloomberg, JP Morgan, as of December 31, 2023

Market Data	Dec-23 Return (%)	1-Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price (\$)
<b>JP Morgan CLO Indices</b>						
AAA-Rated	0.83	8.68	5.7	-0.5	148	99.9
AA-Rated	1.07	10.86	6.0	-0.5	215	99.4
A-Rated	1.35	13.35	6.6	-0.5	271	99.0
BBB-Rated	2.25	17.66	8.0	-0.6	409	98.1
BB-Rated	2.89	24.52	12.4	-0.8	850	92.5
B-Rated	3.34	26.77	19.2	-0.9	1,503	71.5
<b>Credit Suisse Leveraged Loan Index</b>						
BB-Rated	1.18	10.05	6.9	-0.6	332	99.6
B-Rated	1.73	14.41	8.71	-0.8	534	97.9
CCC-Rated	2.10	16.13	17.3	-1.2	1,445	79.4
Distressed (CC, C, and Default)	-0.20	-17.6	34.1	-4.32	3,447	37.3

Source: JP Morgan, Credit Suisse, as of December 31, 2023

### Technicals

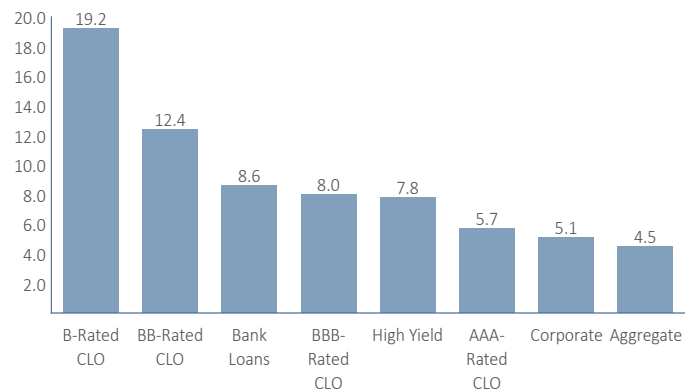
#### Annual CLO New Issuance (\$bn)



Source: Pitchbook/LCD Research as of December 31, 2023

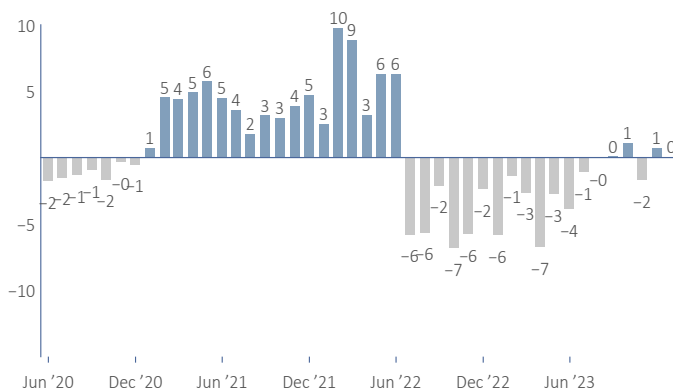
### Valuations

#### Yields on Various Asset Classes (%)



Source: JP Morgan, Credit Suisse, Barclays, as of December 31, 2023

#### Monthly Bank Loan Fund Flows (\$bn)



Source: Pitchbook/LCD Research, as of December 31, 2023

#### CS Leveraged Loan Index



Source: Credit Suisse, as of December 31, 2023

### ABOUT ARISTOTLE PACIFIC CAPITAL

Aristotle Pacific Capital, LLC specializes in institutional fixed income management with a focus on corporate credit. As of December 31, 2023 the firm managed \$25bn across bank loan, high yield, corporate, and CLO strategies.

### IMPORTANT NOTES AND DISCLOSURES

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