CLO Monthly Monitor
April 2022

• April returns were mixed across the CLO capital structure, which were modestly negative for Investment Grade rated CLO tranches (AAA-BBB) and positive for High Yield rated CLO tranches (BB-B).

Loan Market Review

• The CS Leveraged Loan Index returned 0.17% for April, bringing the YTD return of the asset class back into positive territory at 0.07%. On a relative basis, loans again fared better than High Yield bonds, outperforming by the largest monthly margin in a decade at 356 bps.

• April's institutional leveraged loan issuance was $35.5bn, the highest amount since the war in Ukraine began, but still just half of January's level.

• Leveraged loan returns remained positive throughout the month, even with continued rising rate and recession fears weighing on returns at the tail-end of the month. The ability to pass-through higher interest rates into higher coupons for investors, without pressuring prices, has made loans very attractive relative to fixed rate credit products this year.

• Retail fund flows had another strong month, which saw over $6bn come into the asset class. The year-to-date strength of retail inflows and CLO origination have provided an incredibly supportive technical backdrop for Bank Loans.

• Sector performance was mostly positive across the 20 industries in April, with only three sectors in negative territory. Leading the way were Commodity-related and Covid-impacted sectors, which includes Utilities, Energy, Aerospace and Gaming/Leisure. Consumer Durables, Housing and Retail lagged the rest of the index as rising input costs and falling consumer confidence continue to take their toll.

• Credit quality returns favored higher versus lower ratings for the month. BBB-B rated loans were the best performers, returning 0.20%, while CCC rated and lower returned -0.57%.

• There were three loan issuer defaults (Dunn Paper, PSS Industrial Group and Sungard AS) in April, which were also the first three issuer defaults of the year. Despite the larger than usual number of defaults, the defaults represent less than $1bn in loans in aggregate. This brings the trailing 12-month issuer default rate to 0.61%, which remains well below the long-term average of 3%.

CLO Market Review

• CLO tranches had mixed total returns in April. CLO returns were -0.08% (AAA), -0.05% (AA), -0.28% (A), -0.24% (BBB), 0.70% (BB), and 0.18% (B).

• CLO issuance for April totaled $13.6bn, which puts cumulative issuance for 2022 at $44.2bn. Issuance had positive month-over-month growth, which came despite several AAA prints widening into the 150s, with the last deal of the month reaching the 160s. CLO new issuance this year has come from 91 deals by 60 managers (Source: LCD).

• In response to the current wider AAA spreads, refinance and reset volume has been rather muted, with no broadly syndicated loan CLO repricing activity in March or April.

• Also contributing to wider spreads are elevated BWIC ("bids wanted in competition") supply and lower-than-expected demand from Japanese institutional investors, who are now facing rising hedging costs from a weakening of the Yen versus U.S. Dollar.

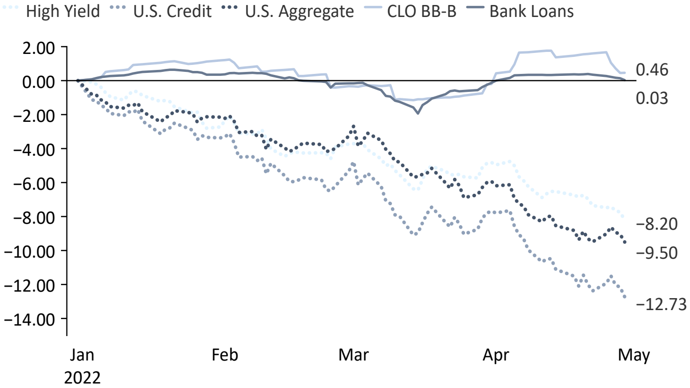
• The higher primary spread levels have created a difficult environment for the new issue market (WACC is 25 bps higher YTD), which is currently dislocated from the underlying leveraged loan market. New issue conditions are expected to improve over time, as CLOs are still well-positioned as the Federal Reserve continues to prepare the market for higher interest rates.

• The recent widening spreads, along with a steep forward rate curve, have further strengthened the already attractive relative value of CLOs. The yield pickup relative to corporate bonds at each credit rating is substantial, without the addition of interest rate risk. BBB-rated CLOs are out-yielding BBB-rated investment grade bonds by 206 basis points (6.66% versus 4.60%) and moving to BB-rated CLOs provides a 465 basis point advantage over BB-rated high yield bonds (10.52% versus 5.87%).

Charts of the Month

1. Bank Loans and CLOs continue to show resilience in the current risk-off market

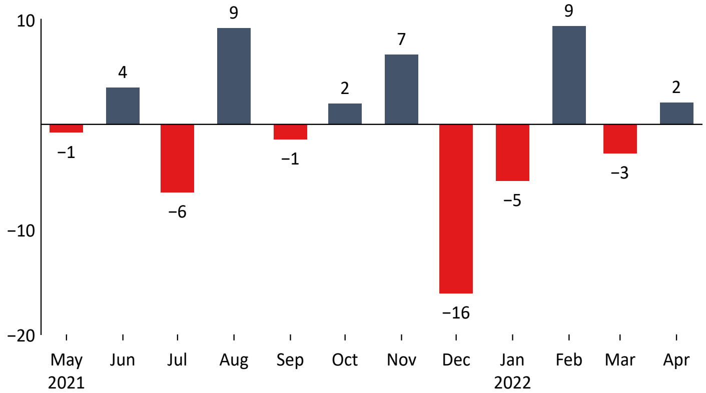
YTD Cumulative Returns



Source: JPM, Credit Suisse, Barclays, as of April 30, 2022

2. CLO issuance rebounded this month, despite widening AAA spreads

Month-Over-Month CLO New Issuance Change ($bn)



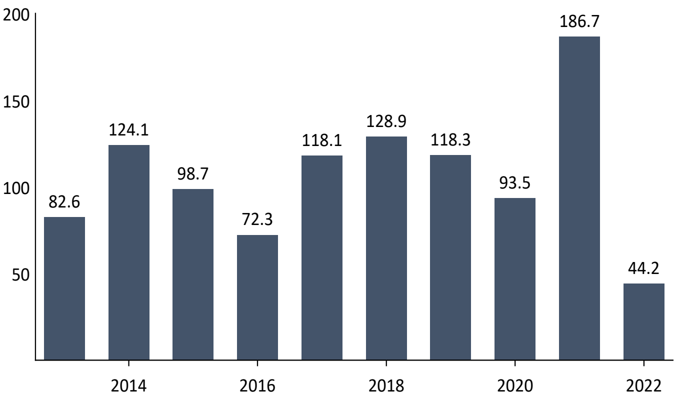
Source: Source: S&P Global Research as of April 30, 2022

Market Data	Apr-22 Return (%)	1-Year Return (%)	Yield (%)	Apr Yield Change (bps)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	-0.08	0.46	4.31	50	141	99.11
AA-Rated	-0.05	0.70	4.84	50	193	98.60
A-Rated	-0.28	0.59	5.43	56	253	97.81
BBB-Rated	-0.24	1.66	6.66	59	375	97.01
BB-Rated	0.70	5.43	10.47	46	750	93.74
B-Rated	0.18	12.11	13.82	71	1074	83.48
Credit Suisse Leveraged Loan Index						
BB-Rated	0.40	2.29	6.27	43	319	98.71
B-Rated	0.18	3.22	7.72	60	464	97.78
CCC-Rated	-0.58	3.26	13.74	88	1052	86.36
Distressed (CC, C, and Default)	-0.50	-7.63	28.19	687	2444	71.65

Source: JP Morgan, Credit Suisse, as of April 30, 2022

Technicals

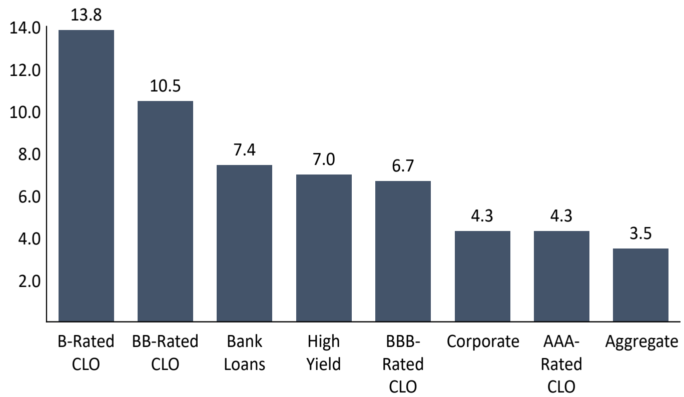
Annual CLO New Issuance ($bn)



Source: Source: S&P Global Research as of April 30, 2022

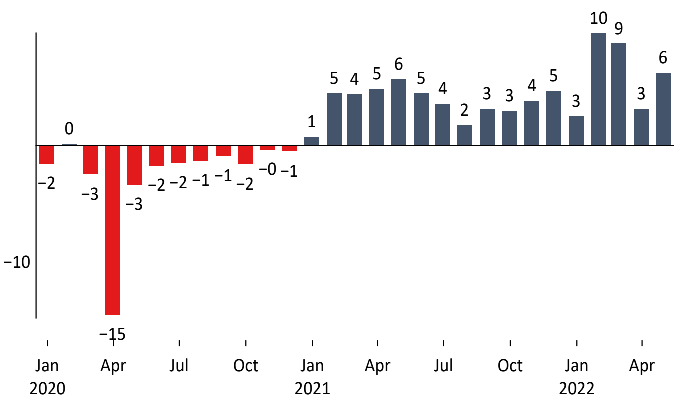
Valuations

Yields on Various Asset Classes (%)



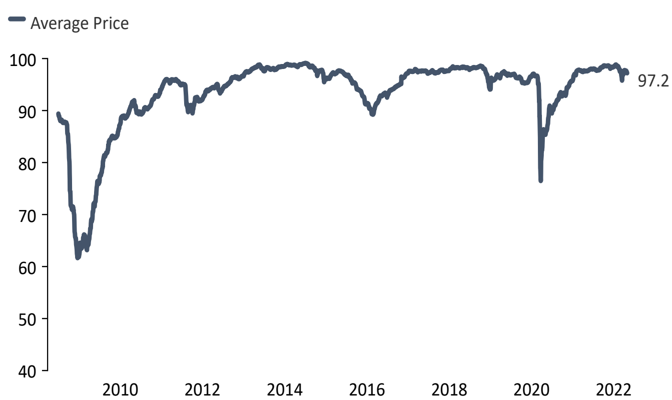
Source: JP Morgan, Credit Suisse, Barclays, as of April 30, 2022

Monthly Bank Loan Fund Flows ($bn)



Source: S&P/LCD Research, as of April 30, 2022

CS Leveraged Loan Index



Source: Credit Suisse, as of April 30, 2022

ABOUT PACIFIC ASSET MANAGEMENT

Founded in 2007, Pacific Asset Management LLC, specializes in institutional fixed income management. As of March 31, 2022 the firm managed $20bn across bank loan, high yield, corporate, and CLO strategies.

IMPORTANT NOTES AND DISCLOSURES