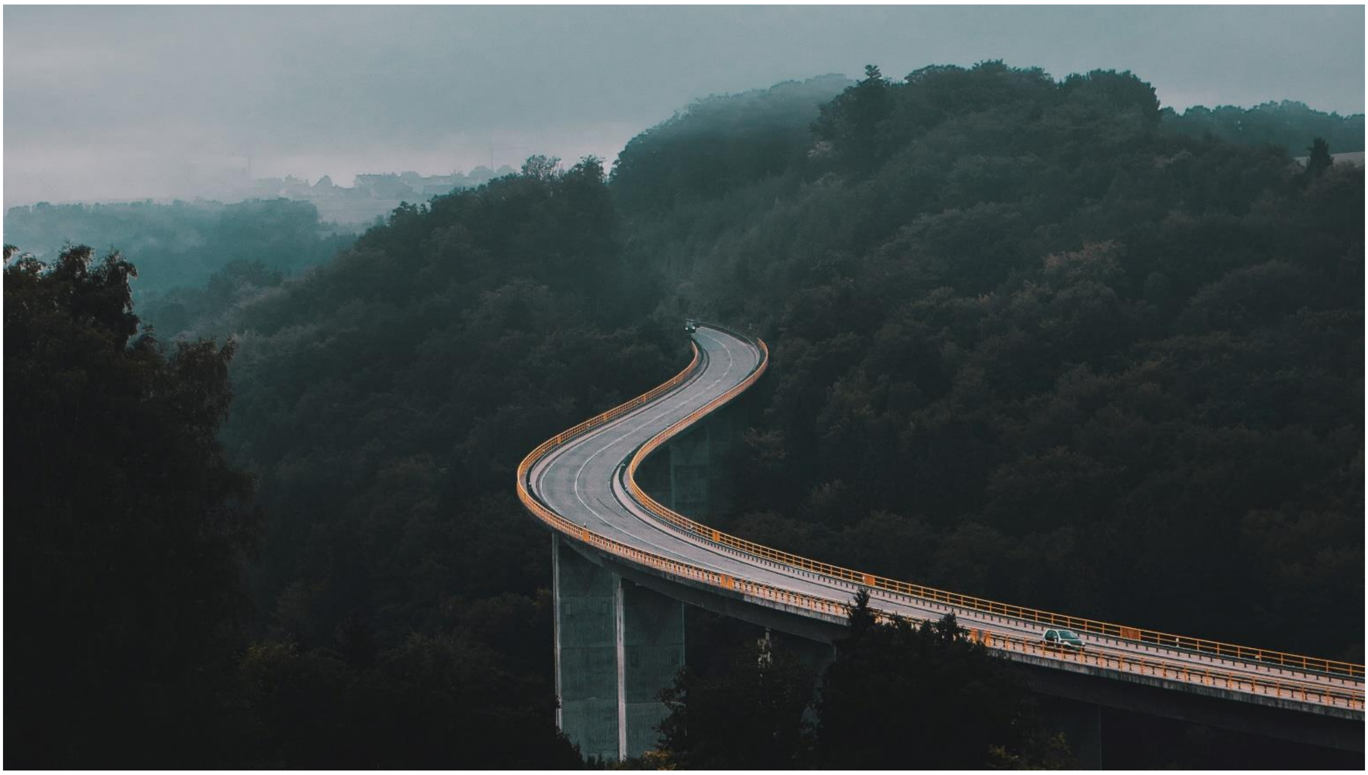
AXA IM CLO Market Update

Not for retail distribution: this document is intended exclusively for Professional, Institutional or Wholesale Clients / Investors only, as defined by applicable local laws and regulations. Circulation must be restricted accordingly.

The Trump Tariffs Tale



Dear Investors,

This month faced again new episodes in the Trump Tariffs Tale. On May 12, US and China agreed to cut post-"Liberation Day" tariffs to 10% for 90 days, reducing most US tariffs on Chinese goods to 30%. On May 28, two federal courts ruled that Trump overstepped his authority with the "fentanyl" and "reciprocal" tariffs. Despite the ruling, these tariffs stayed in place temporarily as appeals were underway. Meanwhile, on June 4, tariffs on steel and aluminium imports were sharply increased from 25% to 50%. These twists underscore the ongoing tug-of-war between legal limits and trade policy ambitions, as the US navigates complex economic and political pressures. The U.S. economy faced mounting pressures in May 2025, largely driven by the implementation of the 10% blanket tariff on all imports by the Trump administration. This protectionist move led to rising input costs, increased inflationary pressure, and significant market volatility. The Federal Reserve maintained a cautious stance, with Governor Adriana Kugler stating that upside risks to inflation warranted holding interest rates steady. The labour market began showing signs of strain, as jobless claims climbed to 247,000 — the highest in eight months —. Reflecting these uncertainties, the OECD revised its 2025 U.S. GDP growth forecast down to 1.6% from 2.8%. Meanwhile, the administration continued to promote its signature legislative package, the "One Big Beautiful Bill" — a sweeping domestic economic plan combining tax incentive, infrastructure funding, and manufacturing subsidies aimed at revitalizing American industry. While supporters argue it could boost long-term investment and employment, critics warn it may further overheat the economy and strain public finances in the short term. Despite these challenges, the U.S. continued to attract substantial foreign investment. Notably, the UAE announced plans to invest $1.4 trillion in the U.S. over the next decade, with Saudi Arabia also pledging $600 billion. These deals could help offset some of the economic drag from reduced trade flows, especially if they translate into infrastructure development and job creation.

In Europe, falling inflation and cautious monetary easing shaped the economic landscape. On 5th of June, the European Central Bank cut interest rates by 25 basis points to 2%, responding to a drop in eurozone inflation to 1.9%. ECB President Christine Lagarde suggested this might mark the end of the current easing cycle unless economic conditions weaken further. The broader global economic outlook also weighed heavily on Europe's prospects. The OECD downgraded its forecast for global growth in 2025 and 2026 to just 2.9%, citing the disruptive effects of U.S. tariffs, policy unpredictability, and slowing growth in major economies like China. This external drag may limit the effectiveness of domestic monetary and fiscal measures in Europe, especially in export-driven economies like Germany and the Netherlands.

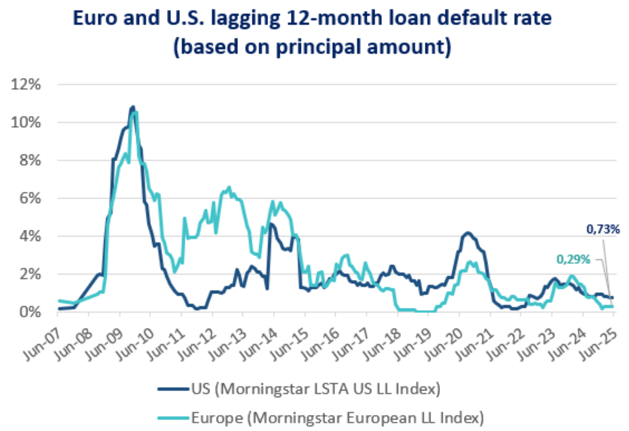
Leverage Loan Markets

The US leveraged loan market rebounded sharply in May, posting a 1.55% return — the strongest monthly gain since December 2023 — driven by improved market sentiment, easing trade tensions, and rising consumer confidence. A 0.87% market value return led the rally, marking the first positive result since January and the highest in nearly two years. Despite May's strength, year-to-date returns stand at 1.99%, supported mainly by interest income. Despite high base rates that usually benefit floating-rate assets, 2025 is on track to be one of the weakest years for the US loan market since the Global Financial Crisis. From January to May, the Morningstar LSTA US Leveraged Loan Index has averaged a 2.26% return over the past 15 years, yet only three years performed worse: 2017 (+1.96%), early 2022 (-2.45%), and 2020 (-5.68%) during the pandemic's onset. So far in 2025, the index is down 1.30% on a market value basis — the third-worst post-GFC performance for this period. Loan prices recovered from April's tariff-related dip, with the index's average bid rising to 96.70 — up 229 bps from the April low but still below the January peak of 97.70. The share of loans priced at par or above jumped to 27%, up from just 4% in April, still well below the 36% level observed prior to Liberation Day. Lower-rated loans outperformed, led by CCC-rated loans which gained 2.98%, recovering much of their earlier losses. Single-B loans rose 1.57% — their best in 17 months — while double-Bs returned 1.39%. On the new-issue front, volumes remain 24% below 2024 levels at $179 billion, as refinancing activity slows. However, M&A-related issuance rose 45% year-over-year to $66.8 billion. Repayments dropped sharply to $9.7 billion, the lowest since August 2020, as deal activity stalled amid market uncertainty.

European loans rallied in May after the US extended the deadline to negotiate tariffs on imports from the European Union to July 9, easing trade fears. Led by a strong recovery from the lower quality bracket, the Morningstar European Leveraged Loan Index (ELLI) returned 1.44%, its best showing since January. Year-to-date, however, returns trail prior years at 2.22%, compared to 4.77% in 2024 and 6.59% in 2023. The average bid recovered to 97.74, fully reversing the April dip, retracing all losses from "Liberation Day", though still below the March peak of 98.70. The share of loans at par or higher rose to 41%, raising repricing and early repayment risks. Risk appetite favoured lower-rated credits: triple-C loans outperformed with a 2.46% return, ahead of double-B (1.67%) and single-B (1.41%) loans. This was supported by continued CLO demand. Refinancings dominated issuance in May, accounting for 67% of volume. Overall issuance remained low, but some M&A activity reemerged. Meanwhile, European high-yield bond issuance hit a record €16.2 billion for May.

The ELLI index expanded slightly to €324 billion, continuing its post-November growth. Risk markets rally and limited new supply pushed the average yield to maturity down to

6.44%, the lowest since August 2022. While market technicals remain supportive, investors are cautious heading into July's tariff deadline. Default rates continue to fall, though agencies like Fitch are now projecting higher defaults in 2025 due to a weaker macroeconomic outlook.



CLO Primary Markets

The European CLO market roared back to life in May after the April lull, logging €9.6bn of issuance across 14 new issues and 9 resets. It also recorded its busiest week for pricings this year, with 8 new issues and 3 resets clearing during the May 26-30 period. This brought 2025's combined issuance to €42bn by end-May, which is ~43% ahead of the same point last year. Looking at just new issues, volume at end-May was €24.4bn, which is ~13% higher than the same point last year. Refi and reset volumes slowed since spreads widened following the Liberation Day tariff announcements with € 2.7bn issued in May, which is still below the 12-month average of €3.3bn. But CLO spreads, generally speaking, have now moved back to pre-"Liberation Day" levels, so Refi and Reset activity is expected to pick up. There is around €50bn of EUR CLOs in the money to be refi or reset exiting their non-call periods by the end of 2025. CLO spreads have retraced roughly 50-70% of the sell-off, but with some underperformance from CLO AAAs — due partly to the fact that senior CLO AAAs did not undergo as large of a sell-off. AAA priced at an average of 134bps, with a dispersion between 133-140bps compared to a range of 124-140bps in April. This dispersion of 7bps greatly contrasts with the US where there were 32bps of spread dispersion for primary AAAs. Spread tightening in the mezzanine tranches was more acute. Single-Bs for example have come in to around the 850bps mark on a discount margin basis, while double-Bs have been pushed to 550 bps and below on recent prints, ~70bps tighter than the April average

Despite the current fair amount of macro volatility, the CLO-specific fundamentals still screen fairly healthy. The median CCC exposure rose slightly by both Moody's and S&P: The S&P CCC bucket is 4.3% which increased 0.2% since December. For Moody's it is 6.0% which is up 0.3% from February. But the median WARF continue to improve slightly further by 6pts to 2944 in April.

US BSL CLO new issuance surged in May, as spreads stabilize on steady demand, with 43 new issues tallying to $20.5bn, compared to $12.5bn across 27 deals in April. May delivered the strongest BSL volume since November ($20.8bn, 45 deals), as CLO managers saw a window of stability to print deals, including new issuers like Obra Capital and Polus Capital. Similarly to EUR CLO Market, Refi and reset volumes slowed as well in US market since spreads widened since Liberation Day, with April and May combined refi and reset volume reaching $18bn, which is well below the 12-month average of $28bn. But with recent spread tightening and around $130bn of BSL CLOs in the money to be refi or reset exiting their non-call periods by the end of 2025, Reset/Refi activity is expected to increase. Year-to-date, 435 US CLOs (BSL & PC/MM) have priced totalling $200.1b, roughly 18% above issuance level at the same period last year, with Private Credit issuance significant in this market, representing 16% of YTD new issuance. Primary AAA spread dispersion for standard duration BSL CLOs was 32bps in May with the tightest print at S+128bps and the widest at S+161bps for debut manager Macquarie Asset Management. Current spread levels confirm a tightening bias that has developed over the past month as the market recovers from sluggish pricing activity in the wake of "Liberation Day" tariff worries and as investors grow reacquainted with CLOs' ongoing relative-value advantage against other fixed-income assets. This tightening was seen across the cap stack: 2bps narrower for AAA notes (128 bps), 15 bps tighter for AAs (165 bps), 30 bps for single As (180 bps), 20 bps for BBBs (280 bps) and 5bps for BBs (525 bps). US CLO technicals remained steady in May with a Median CCC exposure at 4.5% (50bps below the 10-year historical average) and with an average WARF around 2783. Junior OC tests cushion remain very healthy, with only 2 reinvesting BSL CLOs currently failing their Junior OC cushion tests, well below 1% of all reinvesting deals.

CLO ETFs ended May with a month-over-month gain in AUM totalling $900 million for funds strategizing in AAA/AA rated CLO note investments, and a gain of about $80 million for mezzanine CLO ETFs. US CLO ETF AUM is approximately $30 billion among 21 US market funds. The total does not include assets from the new ETFs launched by Canadian financial institutions.

CLO Secondary Markets

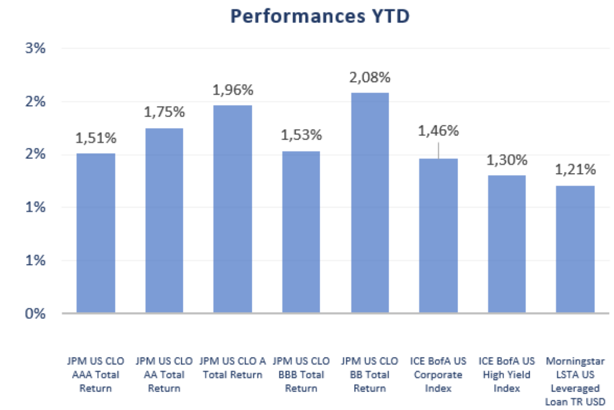
The US CLO market showed a sustaining level of activity over the month, with circa 5.8bn of BWIC volume for 25.7bn of total CLO trades, according to TRACE reports. These volumes are above average monthly usuals are closer to 4bn of BWIC supply for 15bn of total trades. In the meantime, the European CLO market experienced quietness over the month of May, with only 739MM of BWIC supply, which is the equivalent of 2 weeks of usually observed volumes. After April's market volatility and the widening both US and EUR CLO markets went through, the market's hunger for papers, the attractive DMs and the hunt for convexity helped for a fast recovery. The levels were supported by strong technicals as most accounts ended the month of April with still a lot of cash to deploy.

In Europe, except for AAAs, the whole capital structure retraced back to pre-Liberation Day levels, leaving a less attractive secondary market compared to New Issue levels - due to the combination to new issue premium and cash prices at par or below. At the exception of AAAs, the European market had insufficient options to rotate into. This explains the shy BWIC supply observed through the month. Long AAAs trade in a 125 to 135bp range on the secondary market and remain wide compared to the rest of the capital structure, due to the abundant supply brought by the primary market and balanced technicals at the senior level. European AAs tightened by 10-15bps in the MH100s, single-As tightened by 30bps, in the L200bps, BBBs in the 300a to LM300bp. In the US, single-As trade inside 200bp, 45bp tighter than April's level makes them the best performer across the US capital structure, with a limited basis with the AAs DMs.

In the meantime, the month was marked by the re-steepening of the WAL curve, with the recovery of the basis between short and long profiles that had significantly reduced during April. BBs remain well discriminated with an apparent tiering between the best profiles - printing in a 500 to 550bp range - and the weaker profiles - trading in a 700-800bp range.

Overall, the market tone remains positive thanks for the supportive technicals, with yet some cautiousness brought by the occurrence risk of further volatility events.

Performance & strategy



Source: Bloomberg as of May 30th, 2025

Value in current CLO markets tend to improve higher up the debt stack, with AAAs offering the best relative value both in US and in Europe. After tightening to post-GFC lows (110 bps in the US, 120 bps in Europe) in Q1, spreads widened during April's volatility. As of now, AAAs sit at 130–135 bps, still 15–20 bps off their recent tights.

Further down the stack, AAs are cheaper than As in both regions, offering better value for those seeking moderate risk. Mezzanine tranches have recovered much of their tariff-driven widening, though not fully.

BBBs currently look most attractive, with spreads in the low-to-mid-300s, offering solid carry and better value than comparable corporates. In contrast, BBs seem rich, with potential buying opportunities ahead if volatility resurfaces.

CLO equity remains attractive for long-term investors. While short-term volatility could affect returns, equity is well-positioned to outperform BBs in a falling rate environment. Before "Liberation Day," falling BB yields widened the gap between CLO equity income and BB returns — a trend seen in both the US and Europe.

Best Regards,

Risk factors

The list of risk factors as shown below is not exhaustive. Each prospective investor should carefully read the portfolio's final prospectus or portfolio management agreement (as applicable) in its entirety, including any of its amendments or supplements.

Liquidity Risk	▸ Low liquidity offered to investors during the life of the strategy.
CLO structure risk (leverage, maturity, subornation/rating migration)	▸ CLO are designed as leveraged exposure to a portfolio of loans. Depending on the rating of the CLO debt tranche, level of leverage varies and thinness of the tranche varies. Reaching a certain level of default and loss post recovery in the underlying portfolio could trigger a downward rating migration and even losses at tranche level. ▸ The subordination of any class of CLO securities will affect their right to payment in relation to the more senior securities. Interruptions in payments to subordinated classes may occur. Following acceleration of CLO securities, payments of interest proceeds and principal proceeds from the CLO issuer's assets will generally be applied on a strict seniority basis. ▸ The investment in CLO have an expected maturity that may be shorter or longer depending on market conditions and portfolio management. Market conditions may affect CLO tranche maturity and spread when for example there is a refinancing.
Underlying loan exposure risks	▸ CLO are exposed to performance of leveraged loans with inherent risks such as among other things default, recovery, prepayment, liquidity and interest rate risk.
Market Risk	▸ The investments contemplated herein may at any time be subject to significant price movements, which will impact negatively the valuation of the Portfolio and may lead to the loss in case of redemption.
Performance Risk	▸ The investment strategy's performance described herein may be lower than anticipated due notably but not limited to market drawdown, loss in underlying portfolio and forex impact.

Source: AXA IM

Disclaimer:

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There are no guarantees forecasts made will come to pass. Data, figures, declarations, analysis, predictions, and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain enough information to support an investment decision.

Before making an investment, investors should read the relevant Prospectus and the Key Investor Information Document / scheme documents, which provide full product details including investment charges and risks. The information contained herein is not a substitute for those documents or for professional external advice.

The products or strategies discussed in this document may not be registered nor available in your jurisdiction. In particular units may not be offered, sold or delivered to U.S. Persons within the meaning of Regulation S of the U.S. Securities Act of 1933. The tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. References to league tables and awards are not an indicator of future performance or places in league tables or awards and should not be construed as an endorsement of any AXA IM company or their products or services. Please refer to the websites of the sponsors/issuers for information regarding the criteria on which the awards/ratings are based. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short-term holding.
Information concerning portfolio holdings and sector allocation is subject to change and, unless otherwise noted herein, is representative of the target portfolio for the investment strategy described herein and does not reflect an actual account. The performance information shown herein reflects the performance of a composite of accounts that does not necessarily reflect the performance that any particular account investing in the same or similar securities may have had during the period. Actual portfolios may differ because of client-imposed investment restrictions, the timing of client investments and market, economic and individual company considerations. The holdings shown herein should not be considered a recommendation or solicitation to buy or sell any particular security, do not represent all of the securities purchased, sold or recommended for any particular advisory client, and in the aggregate may represent only a small percentage of an account's portfolio holdings.

Representative Accounts have been selected based on objective, non-performance-based criteria, including, but not limited to the size and the overall duration of the management of the account, the type of investment strategies and the asset selection procedures in place. Therefore, the results portrayed relate only to such accounts and are not indicative of the future performance of such accounts or other accounts, products and/or services described herein. In addition, these results may be similar to the applicable GIPS composite results, but they are not identical and are not being presented as such. Account performance will vary based upon the inception date of the account, restrictions on the account, along with other factors, and may not equal the performance of the representative accounts presented herein. The performance results for representative accounts are gross of all fees and do reflect the reinvestment of dividends or other earnings.

Issued by AXA INVESTMENT MANAGERS PARIS, a company incorporated under the laws of France, having its registered office located at Tour Majunga, 6 place de la Pyramide, 92800 Puteaux, registered with the Nanterre Trade and Companies Register under number 353 534 506, and a Portfolio Management Company, holder of AMF approval no. GP 92-08, issued on 7 April 1992. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.