AXA IM CLO Market Update

Once again, the CLO machine kept going

Dear Investors,

July was marked by economic resilience and cautious optimism in growth, despite persistent uncertainty surrounding global trade. US equity markets rebounded strongly, erasing losses from the April tariff fallout and reaching new all-time highs. The S&P 500 closed the month above 6,300 and the NASDAQ above 21,000. This rally was mirrored by other global equity markets, which were buoyed by tariff-related announcements and macroeconomic data that exceeded expectations. The International Monetary Fund (IMF) raised its global growth forecast to 3.0% for 2025, up from 2.8% in its April report, citing front-loading ahead of tariffs and lower effective tariff rates as key factors for the upward revision.

During its July meeting, the Federal Reserve kept interest rates at 4.25-4.50%, despite internal divisions and persistent pressure from President Trump to lower rates. Market expectations shifted significantly, with the probability of a

September rate cut falling to less than 50% and the odds of a reduction in October dropping to around 85%, down from full pricing before the meeting. Fed Chair Jerome Powell emphasized the Fed's data-driven approach to rate cuts, acknowledging the erratic geopolitical backdrop. The decision came on the heels of the June Consumer Price Index (CPI) report, which revealed a 0.3% month-over-month increase, one of the fastest of the year. On an annual basis, the CPI advanced 2.7%, highlighting the ongoing tug-of-war among policymakers over the path of interest rates. This data underscored the conflicting forces influencing monetary policy, with some officials concerned about tariffs driving up prices and others worried about a softening labour market and potential retrenchment in consumer spending.

In Europe, business activity showed modest expansion in July, with the Composite Purchasing Managers' Index (PMI) rising to 50.9, the highest level in 11 months. This slight growth was driven by strengthening services, particularly in Italy, Spain, and Germany. Employment continued to tick upward, but overall confidence dipped, and export sales remained weak. Inflation across the eurozone held steady at 2% year-on-year, in line with the European Central Bank's (ECB) target for the second consecutive month. Consequently, the ECB paused its rate-cutting cycle, maintaining rates at 2%, with markets pricing in no further rate cuts for the year. To cap off the month, the EU reached a pivotal trade agreement with the US, capping tariffs on most EU exports at 15% and averting an initially threatened 30% increase. This agreement provided a measure of stability and optimism for European exporters, helping to mitigate some of the uncertainty surrounding global trade.

Leverage Loan Markets

In July, the US leveraged loan market witnessed a significant surge, driven by investor optimism. The month brought record primary market activity of $222 billion, surpassing the previous high set in January, largely due to an unprecedented wave of repricing.

Repricing activity, which had been dormant earlier in the year, surged to record levels in July. Over 100 companies sought amendments to reduce borrowing spreads, totalling $159 billion, the highest tally on record. This repricing blitz was largely driven by loans signed in the second half of 2024.

This bullish trend was underpinned by a surge in collateralized loan obligation (CLO) issuance and a rebound in loan repayments, all occurring against a backdrop of muted net supply. The secondary spread-to-maturity fell to a six-year low of 387 basis points by mid-July, signalling stronger risk appetite.

The Morningstar LSTA US Leveraged Loan Index rose by 0.88% in July, with secondary prices continuing to climb. By the end of the month, the index's weighted average bid reached 97.41, just 29 basis points below the intra-year peak. Notably, 59% of loans were priced at par or above by mid-July, indicating strong investor demand, particularly for higher-quality borrowers.

Performance by rating highlighted investors' increasing risk appetite. B-rated loans, the largest segment of the index, returned 0.97% for the month, outpacing the double-B sub-index. The riskiest triple-C rated loans led performance with a robust 1.50% return, fully erasing previous declines.

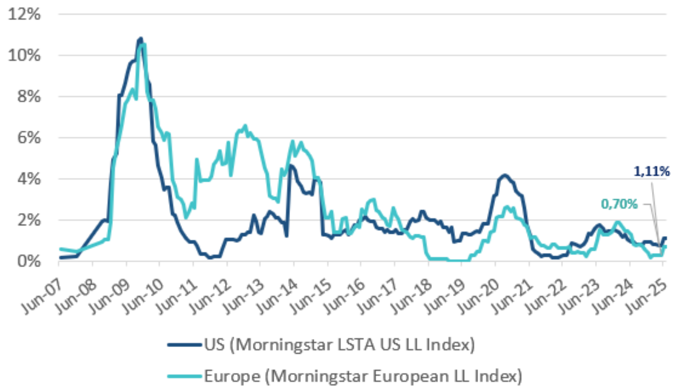
The Morningstar European Leveraged Loan Index returned 0.55%, driven by interest-rate carry and robust demand. This performance exceeded the 12-month average of 0.49%, building on May's rally and June's modest gains. The primary market saw the third-highest monthly issuance ever, with €15.9 billion syndicated, as falling yields and low funding costs fuelled borrowing and refinancing activity.

The average yield dropped to 6.34%, a near three-year low, while secondary market valuations saw a slight rise, with the weighted average bid ending at 97.75, up six basis points from June. The weighted average loan age shrank to its lowest since March 2020, indicating a healthy market. However, the market-value component remained a drag on performance, with a year-to-date loss of negative 0.78%.

Investors maintained selectivity, Triple-C rated loans returned -0.70%, while single-B loans outperformed at 0.61%. About 49% of loans traded above par, the highest since February, as pricing moved towards par levels. The loan index expanded to €326.3 billion, driven by increased M&A and LBO activity.

On the default side, the 12-month Euro and US loan default rate remained healthy and well below historical average despite a slight recent uptick.

Euro and U.S. lagging 12-month loan default rate
(based on principal amount)



CLO Primary Markets

Year-to-date US CLO issuance is setting records, surpassing 2024 levels, as managers wrap up what is poised to be the busiest month for new deal pricings in 2025. However, net new CLO supply growth remains minimal, with substantial paydowns and amortizations in existing deals offsetting the new issuance.

July saw a significant surge in CLO activity, defying the typical summer lull. Total issuance reached $54 billion, with $23 billion from 45 new deals—the highest monthly volume and deal count since November 2024 —and $31 billion dedicated to refinancing and resets.

Pricing dynamics varied across tranches. AAA-rated spreads showed modest rallies, with only a few managers pricing inside 130 basis points above SOFR. In contrast, most BBB tranches priced within 300 basis points above SOFR, reflecting a competitive yet cautious market environment. This pricing behaviour underscores the delicate balance between demand and supply in the current CLO market.

In July, the European CLO market closed its busiest month on record, with 40 deals totalling €16 billion. This was evenly divided, with 20 new issues worth €7.5 billion and 20 refinancing or reset deals amounting to €8.5 billion. The increased supply has kept a floor on liability spreads and partly explains the price dispersion observed across deals. Notably, AAA-rated tranches are still facing challenges in pricing tighter than 130 basis points above Euribor, remaining considerably wider than the narrow spreads seen in the first quarter of 2025. On the high-yield part of the capital structure, limited appetite at the start of the month gave way to strong oversubscription, resulting in a significant rally. However, in line with AAA-rated tranches, spreads for BB and B-rated tranches remained wider than those in the first quarter of 2025.

On the ETF front, several new managers continue to announce the launch of their ETFs focused on €AAA-rated tranches of CLOs.

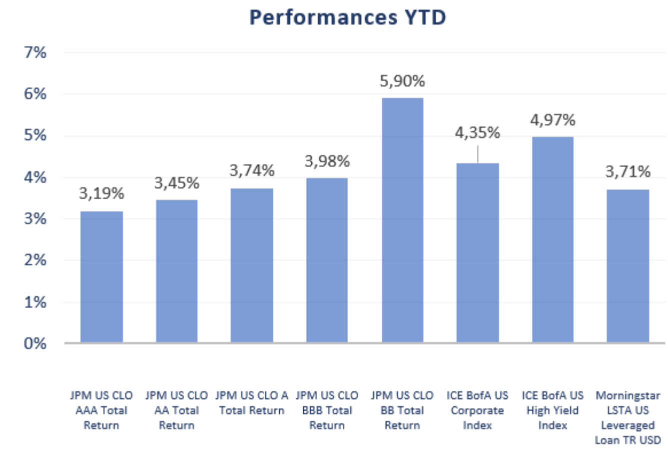
CLO Secondary Markets

In July, a month usually characterized by low secondary market activity ahead of the summer slowdown, activity defied typical patterns. Following strong engagement in the primary market, both US and European CLO markets saw an increase in TRACE-level trading and BWIC volume. The US traded $19.7 billion of CLO tranches, marking a 53% rise compared to July 2024. Similarly, European BWIC volume grew to €1.3 billion, up 50% versus same period last year.

Although AAA-rated tranches supply remains the largest segment of the capital structure, US CLOs experienced a notable peak in CLO Equity supply, making up 26% of the BWIC volume amid a positive market tone. The large supply from both markets balanced investor appetite across AAA and AA-rated tranches. Spreads at the top of the structure tightened slightly, with AAA spreads averaging 115-120bp and AAs trading with a convexity premium. Limited supply caused spreads of BBB-rated tranches to tighten by 30-35bp to 300bps, while single-A spreads traded comfortably inside 200bp—levels close to pre-Liberation Day trading. BB-rated tranches continued to trade strongly, tightening by 35-40bps month-on-month, inside 500bp. By month-end, reduced tiering and a steepening DM curve indicated ample liquidity before August's typically quiet period, with significant cash still available for deployment.

Performance & strategy

Year-to-date, the returns on CLO remain solid across the capital structure supported by floating rate, high embedded carry and price appreciation:



Source: Bloomberg as of July 31st, 2025

In terms of fund positioning, we have selectively deployed risk on BB-rated and B-rated tranches in early July to capture double-digit returns and convexity. This opportunity vanished quickly in sympathy with the global financial market. Generally, we like every part of the capital structure. While current and expected strong CLO supply is likely to limit spread tightening, we think that both US and Europe CLOs lag other fixed income markets despite providing attractive forward yield on a risk adjusted basis.

In conclusion, the current landscape still favours CLO investments across the board. CLO tranches benefit from strong structural safety and are designed to navigate turbulent times while offering significant income, resulting in potentially superior returns over the long term.

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

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