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.

Keep calm, keep trading

Dear Investors,

The beginning of the second quarter of 2025 was dominated by highly volatile markets driven by a confluence of macroeconomic and geopolitical events. On April 2, 2025, President Trump announced aggressive tariff policies aimed at addressing trade imbalances and bolstering U.S. economic sovereignty. Key measures included a 10% baseline tariff on all countries, with higher reciprocal tariffs reaching up to 49% on countries with significant trade deficits. These tariffs prompted swift responses from trading partners, notably escalating tensions with China, which retaliated with tariffs on US imports, leading the U.S. to further increase tariffs on Chinese products to 145%. The announcements triggered immediate market reactions, causing U.S. and European stock indices, including the S&P 500 and Euro Stoxx 50, to experience sharp declines amid fears of disrupted supply chains and higher costs. Markets partially recovered by month's end as the Trump administration declared a 90-day tariffs pause on all countries that did not retaliate. The S&P 500 closed indeed slightly negative for April.

From a macroeconomic perspective, sentiment was mixed. The April U.S. jobs report indicated resilience, with 177,000 jobs added — surpassing expectations — and the unemployment rate holding steady at 4.2%. However, GDP data painted a less optimistic picture, with a -0.3% annualized contraction in Q1 2025, sharply down from the previous quarter's 2.4% growth. Increased imports and reduced government spending drove this decline, prompting the IMF to revise recession risks upward from 25% to 40%, while the Federal Reserve lowered its 2025 GDP growth forecast to 1.7%.

In Europe, the ECB proactively cut interest rates by 25 basis points to 2.25% amid weakening growth prospects and tariff-related uncertainties, also revising the bloc's 2025 growth forecast down to 0.9% from 1.1%. The Euro Stoxx 50 closed the month down 1.68%, though still positive year-to-date (+7.71%), contrasting the S&P 500's year-to-date decline (-3.67%). The U.S. dollar weakened nearly 4% against a basket of major currencies, while gold prices strengthened as investors sought safety amidst ongoing geopolitical and economic uncertainties.

Leverage Loan Markets

Secondary loan markets experienced a significant downturn following President Trump's announcement on April 2nd: in the two days after this "Liberation Day" declaration, loan prices fell by over a point, with the weighted average bid of the Morningstar LSTA US Loan Index dropping to 95.01px. By April 9th, the average price decreased nearly two points from March levels, reaching 94.41px — its lowest point since July 2023 and lower than the year-end 2024 figure of 97.33px. However, loan prices began to stabilize after Trump announced a 90-day pause on most new tariffs, excluding those on China, to facilitate trade negotiations. In the last week of April, the average bid recovered some of its earlier losses, and the US Leveraged Loan index eventually closed 95.77px.

Loans rated BB showed a year-to-date increase of 0.94% after a brief decline in early April, while single-B loans were up 0.35%. Conversely, CCC-rated loans performed the worst: after a 1.62% gain year-to-date through February 26, the CCC sub-index plummeted to a 3.23% loss by April 9 and finished April down -2.30% for the year.

Year-to-date, the US leveraged loan market recorded overall a modest gain of +0.43%, supported by the carry of the asset which offset declines in market value. Over the past 15 years, the Morningstar LSTA US Leveraged Loan Index has averaged a 1.9% return from January to April, with only two years showing weaker results: a mere 0.11% gain in early 2022 and a significant 9.13% loss at the beginning of the pandemic in 2020.

The issuance of new broadly syndicated loans came to a halt in the last days of March and did not pick up again until late April, when a few transactions began to explore the market. Excluding the typical slowdowns in August and at year-end, this represented the loan market's longest issuance pause, lasting 15 days, since a 24-day interruption in March and April of 2020. Changing tariff policies and broader market uncertainties impacted M&A activity as well, since both corporations and private equity sponsors faced growing difficulties in getting accurate deal valuations and securing financing. There were 416 private equity-backed deals announced or closed in the U.S. in April, marking a 20% decrease from the same time last year. This figure is the lowest since 2020, when the pandemic severely affected the deal market.

Industries most exposed to tariffs and declining consumer confidence naturally experienced the most significant declines. Specialty Retail emerged as the largest underperformer in April, suffering a decline of 2.20%. Similarly, Chemicals, which represent 3.4% of the index (or $48 billion in loans), saw a decline of 1.15% in April. Other sectors that underperformed included Automobile Components, Oil, Gas & Consumable Fuels, and IT Services. On the brighter side, among the sectors that posted gains last month, Building Products rebounded with an increase of 1.95% in April after suffering a significant drop of 3.48% in March. Additionally, Construction & Engineering loans rose by 0.74%, recovering from a loss of 0.46% the previous month.

A very similar pattern played out in the European Loan markets, with prices sharply correcting through the month then retracing roughly half of the losses over the second half of April. This impacted negatively issuance and the limited amount of CLOs pricing over the month (6 transactions) was not enough to create technical support. On the bright side, the widening in Loans marked the return of OID. While CLO managers had to operate in a Par+ market so far in 2025 – which limited their ability to build par – good quality sub-100.00px assets were available in Secondary. In terms of total returns, European Loans closed -0.40% for the month, which took the year-to-date return +0.65%.

CLO Primary Markets

The primary CLO markets exhibited a cautious yet evolving behavior, marked first by an initial stage of volatility and then stabilization. The month began with moderate activity as investors' appetite for CLO bonds decreased as tensions and uncertainty rose, especially regarding the potential ripple effects from the US tariffs. This led to a global widening of Primary CLO credit spreads, with AAA tranches from Tier 1 US managers reaching +135bps (from the +110bps context at the tightest of the year), while the US MML CLO saw spreads in the +150-175bp range. In Europe, AAA spreads widened to +140bps, from +115bps context a month earlier.

As the month progressed, despite ongoing volatility, the CLO primary market remained open, primarily driven by transactions that had secured anchored investors. AAA tranches moved in the +140bp range while BBs moved past +600bps, from their YTD tights of 450bps. However, many new transactions faced delays as arranging banks struggled to lock-in pricing levels given the tumultuous market environment. To add confusion to the volatility, the European Banking Authority published proposals for changes to the EU Securitization Regulation. This created some uncertainty within the CLO market community as CLO managers were pushed to promptly evaluate their risk retention strategies then communicate action plans to their investors.

By mid-April, signs of stabilization in global markets contributed to a gradual pickup in Primary activity both in the US and Europe. Transactions benefiting from identified investors managed to price, but the range in terms of spread levels remained wide as some AAAs found home at +150bps. We noticed some interest from Asian investors, indicating the potential for higher attractivity of the product vs. domestic alternatives.

CLO market transitioned into a price discovery phase due to tighter arbitrage conditions: only established managers with captive equity funds successfully managed to tap the market. As broader markets retraced part of the losses, a sense of cautious optimism took over the market. Tighter spreads in Secondary eased off some of the pressure from the cost CLO liabilities and suggested a gradual reopening of the Primary markets.

In total, we recorded 56 deals priced in the US and 6 in Europe. These comprised 7 refinancings, 19 resets, and 37 new issues. Despite being initially impacted by volatility and regulatory uncertainties, the CLO markets demonstrated their ability to quickly adapt and remain open.

CLO Secondary Markets

We noted a very similar pattern with regards to Secondary markets, both in terms of volumes and spread variations. The tariffs announcement triggered a sharp widening of bid levels followed by a steady recovery phase then eventually some stabilization towards the end of the month. Both the US and the European markets recorded seasonally low trading volumes as client appetite for risk remained limited in the absence of clarity regarding the tariffs' implementation, their impacts and whether the US administration had more announcements to make.

By the second week however, trading surged dramatically especially in the US, which saw $11.5 billion of volumes and a substantial pick-up in BWIC supply ($4 billion — about four times the typical weekly average). There were significant outflows from the CLO ETFs ($1.2 billion), resulting in AAA spreads widening to +[140-175]bps. Lower-rated tranches were similarly affected, with AA tranches widening by approximately 25bps and BB tranches by over 150bps.

European markets mirrored this trend, with more than double the typical BWIC supply weekly average. As a result, we saw AAAs move 30bps wider while BBs moved by 100bps. The second half of April was marked by some degree of normalization. The BWIC supply returned to average levels while both end-accounts and dealers were keen to add risk. Spreads began to tighten, creating a virtuous cycle as cash-rich investors picked-up bargains. Market sentiment materially improved into month-end, US AAA spreads settled around +135bps while BBs were trading around +600bps. European markets followed that pattern although buyers remained cautious and particularly selective.

The month displayed robust overall trading volumes. In the US, the total BWIC volumes reached $7.4 billion, dominated by AAA tranches, accounting for approximately 60% of the flows. In Europe, the total BWIC volume reached €2.3 billion, with AAA tranches representing approximately 44% of the total activity. Overall, despite initial turbulence driven by macro-economic headlines and regulatory bombshells, CLOs demonstrated their adaptability and resilience.

Performance & strategy

As we wrap-up the first four months of the year, investors have certainly experienced quite a rollercoaster across their investment portfolios, just as we anticipated. Despite these dramatic ups and downs, we noted the resilience displayed by CLOs which emerged as a reliable source of returns amidst the turbulence. Particularly impressive were US CLO AAA tranches, ranking as the second-best performing credit instruments year-to-date, closely followed by AA and A-rated CLO tranches. European CLO AAA also demonstrated stability, ending the first four months on a positive +0.89% return.

While we have strategically booked some profits over recent months, we now see conditions turning favourable to redeploy capital actively. Both primary and secondary markets currently offer compelling opportunities: in the Primary market, longer-duration CLOs are especially attractive for locking in yields at appealing spreads, while the Secondary market presents excellent entry points for potential price appreciation, particularly due to their higher convexity.

The recently announced 90-day tariff pause will provide some relief across various industries. However, if aggressive trade policies persist in the longer term, their impacts could become significant. For this reason, we believe maintaining a balanced investment approach—blending steady income generation with targeted opportunities for price appreciation—is essential for navigating the ongoing volatility and unpredictability of the markets.

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.

April 2025