

AXA IM CLO Market Update **For Professional Investors Only**

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

Healthy CLO spreads



Dear Investors,

June 2025 was defined by easing geopolitical risks, resilient financial markets, and diverging economic signals across major economies.

The month opened with heightened tensions in the Middle East, as Israel and Iran exchanged strikes. Oil prices surged to a five-month high, but a ceasefire later in the month helped unwind the geopolitical risk premium. This supported a broad rally in equities and credit markets, with

the S&P 500 and Nasdaq 100 nearing record highs.

In the U.S., economic data pointed to a slow-down. Retail sales declined for a second month, ISM Manufacturing fell to 48.5, and jobless claims rose. However, inflation surprised to the downside: May CPI rose just 0.08%, and core CPI came in at 0.1%, both below expectations. These figures boosted market expectations for monetary easing, with futures pricing in two rate cuts by year-end. Fed Chair Powell, however,

emphasized caution, citing potential inflationary effects from tariffs.

In Europe, the ECB cut rates by 25bps to 2% and lowered inflation forecasts. Germany announced a €200 billion 2025 budget focused on defense and infrastructure, with military spending set to reach 3.5% of GDP by 2026. NATO also committed to raising defense spending to 5% of GDP by 2035. Meanwhile, the Swiss National Bank cut rates to zero, and the Bank of England held steady.

Japan maintained its policy rate but announced a gradual reduction in bond purchases starting in 2026.

Overall, June was marked by strong equity performance, falling inflation, and renewed investor confidence, as markets responded positively to geopolitical de-escalation and supportive macro signals.

Leverage Loan Markets

In June 2025, the European leveraged loan market experienced a robust resurgence, with issuance reaching €17.4 billion—the highest monthly volume since June 2021. This surge was driven by a rebound in M&A-related activity, which contributed €7.8 billion in loan issuance. Year-to-date, the European loan market is up +10% compared to 2024, with sponsored loan volume growing +24% to €61.5 billion, while non-sponsored volume declined -31%. The Morningstar European Leveraged Loan Index (ELLI) posted a modest +0.17% total return for June, bringing the year-to-date return to +2.39%. Notably, high-yield bonds also saw record issuance at €23.5 billion, signaling strong investor appetite.

In contrast, the US leveraged loan market posted a +0.80% return in June, lifting the year-to-date return to +2.81%. The market reached a record size of \$1.5 trillion, growing at its fastest annual pace since 2022. Despite subdued M&A activity, new issuance rebounded to \$65.4 billion, including \$28 billion in repricings. Risk appetite improved, with CCC-rated loans outperforming at

+1.11% for the month. However, higher-rated BB loans still lead year-to-date performance. Secondary prices rose, with 41% of loans priced at par or higher, reflecting strong investor demand. CLO new issuance remained robust, totaling \$15.4 billion in June, while retail fund flows turned modestly positive after a prolonged out-flow period.

Both markets showed signs of strength and recovery, with Europe benefiting from record bond issuance and a rebound in M&A-driven loan activity, while the US market demonstrated resilience through repricings, strong demand, and a record market size.

CLO Primary Markets

Both U.S. and European CLO primary markets continue to be very active maintaining spreads healthy.

In the U.S., first half of 2025 has seen a robust primary supply, with new issuance at \$92bn which is split \$76bn for broadly syndicated CLOs and \$16bn for private credit CLOs. Net issuance is positive at \$32bn and \$18bn for AAAs only. The net issuance doubles the amount in 2024 as amortization and liquidation volumes slow. Reset volume is \$101bn and refinancings is \$46bn. Together the total refinancing/reset volume is \$147bn which is up +46% year-on-year.

The median primary AAA spread in June was SOFR 3M + 133bps up from SOFR 3M+116bps February. ETF inflows in January and February drove a lot the AAA tightening but yield curve steepening has reduced CLO AAA relative value. As result, ETF inflows have slowed albeit still positive.

In Europe, new issuance in first half of 2025 is €28.1bn up +23% year-on-year while last year was already a record year at €47.2bn. Net issuance is positive at €16.5bn and €9.2bn for AAAs. The strong demand for CLO mezzanine tranches, and some net loans supply are the driving forces for supporting CLO issuance.

The European market is expanding, with 54 different CLO managers active so far this year, including several debut CLO managers.

Looking ahead, we expect the supply/demand dynamic to stay balanced as the CLO pipeline build up through the year leading to CLO spreads evolving in a range.

CLO Secondary Markets

June was an active and constructive month for the secondary CLO markets in both the US and Europe, supported by strong investor demand, balanced technicals, and resilient trading volumes.

In the US, secondary activity remained robust throughout the month. TRACE-reported volumes consistently exceeded \$3 billion per week, peaking at \$5.5 billion. Spreads stay firms across the capital stack. AAAs pay SOFR 3M +100bps to +135bps depending on the maturity, while BBs offer SOFR 3M +475bps to +675bps depending on the maturity, quality and manager liquidity. Sub-IG tranches saw solid prints, with dealers ending as net buyers.

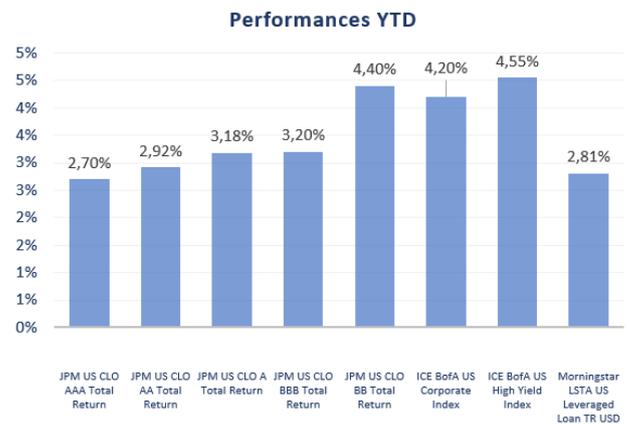
In Europe, activity rebounded after a slow start to the month. Weekly auctions volumes ranged from €300–360 million, with a notable uptick in CLO equity trading and long-dated AAAs. The Global ABS Conference in Barcelona temporarily muted activity mid-month, but sentiment remained positive. Long AAAs traded in the 128–138 bps range, while mezzanine and equity tranches saw firm prints, supported by tightening credit indices. Investors showed renewed interest in mezzanine and equity tranches, with new entrants such as family offices and hedge funds joining the space. EUR CLO BBs pay Euribor 3M +500bps to +700bps depending on profile, while high coupons trading back above par at 102 cash price, which provides with a spread of +350bps to call.

Overall, June reflected a well-supported secondary CLO market. Despite healthy demand, CLO

spreads lag credit indices and offer an appealing relative value.

Performance & strategy

Year-to-date CLOs returned solid performances. Fixed income outperformed in June with two rate cuts expected for the second half of 2025.



Source: Bloomberg as of June 30th, 2025

We view CLOs as a strategic asset class in credit allocations, serving as diversifiers and offer excess returns compared to traditional corporate credit instruments for equivalent ratings.

While AAA spreads normalized post Liberation Day, CLO senior tranches offer attractive spreads at 128bps-138bps, still 15-20bps off their recent tights.

For our mezzanine funds, facing a relatively flat CLO credit curve, we prefer a rather neutral stance in terms of rating allocation and stay focus on carry opportunities. Being agile across geographies, markets (primary/secondary), and ratings are for us key drivers to generate superior returns.

Finally, for investors chasing yields, the front-ended profile of the CLO equity with quarterly cash flows complements other alternative strategies such as PE with back-ended returns.

Best regards,

The Secured Finance team

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	<ul style="list-style-type: none"> ▶ Low liquidity offered to investors during the life of the strategy.
CLO structure risk (leverage, maturity, subordination/rating migration)	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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.