

AXA IM CLO Market Update

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US economy loses steam, CLO market still at full speed



Dear Investors,

The US economy under President Trump shows signs of weakness, particularly in the labour market. In August, only 22,000 jobs were created, well below the expected 76,500, and June saw a loss of 13,000 jobs—the first decline since 2020. The unemployment rate increased to 4.3%, the highest since 2021, reflecting economic struggles due to tariffs, inflation, and immigration issues. The federal government also reduced its workforce, shedding 15,000 jobs, with

manufacturing and construction sectors experiencing declines.

The pace of job growth has slowed since the post-pandemic recovery, raising concerns about economic stability. President Trump responded by firing the head of the Bureau of Labor Statistics, accusing her of manipulating data, while blaming the Federal Reserve and Jerome Powell for the slowdown. White House officials criticized the Fed for being too slow to lower interest rates, despite the weak labour market.

September 2025

Inflation remained steady at 2.7% in July, with core inflation at 3.1%, prompting strong speculation that the Federal Reserve may finally cut interest rates in September to support growth.

In Europe, the ECB is expected to keep interest rates at 2% at its September meeting due to steady inflation near target and resilient growth. Most economists believe the ECB will pause rate cuts, with some predicting no further easing in 2025, while markets imply a possible rate cut in December. Inflation in August was 2.1% close to the target, while growth forecasts remain modest.

Overall, the US faces economic headwinds, while Europe maintains stability with cautious policy, both navigating uncertainties like trade tensions and political risks.

Leverage Loan Markets

The Morningstar LSTA US Leveraged Loan Index rose by 0.45% in August as secondary prices declined. The market value decreased by 0.21% — the first decline since April after gaining nearly 1% from May to July.

Primary market activity, including repricings, dropped to \$52 billion from July's record \$224 billion — yet it was still the busiest August on record. Repayments continued to recover from their recent drop, rising to \$54 billion — the highest monthly total on record. This year's massive repricing wave has pushed the weighted average spread on outstanding loans to 323 bps as of Aug. 31st — the tightest level since 2010.

Year-to-date, the leveraged loan market has returned 4.17%, with interest income helping to offset market value losses. Elevated rates have made 2025 an above-average year so far. In comparison, the LSTA US Leveraged Loan Index returns from January through August over the past 10 years is 3.95%.

The weighted average bid of the index fell 22 bps, to 97.19. The share of loans priced at par or above slipped to 41%, from 47% a month ago, but still well above May's 27%.

A clear risk-off tone has emerged and is reflected on the lower-rated names. Single-B loans returned 0.52% for the month, slightly outperforming the 0.50% gain of the BB loans, while the riskiest end of the spectrum, CCC loans

slipped 0.76% — their first monthly loss in four months — after rallying nearly 6% between May and July.

Unlike the US, which saw its busiest August on record for loan activity, Europe experienced a seasonal summer slowdown after a lively July that market the 3rd busiest month for institutional issuance. In August, only €120 million was issued, the smallest August total since 2015.

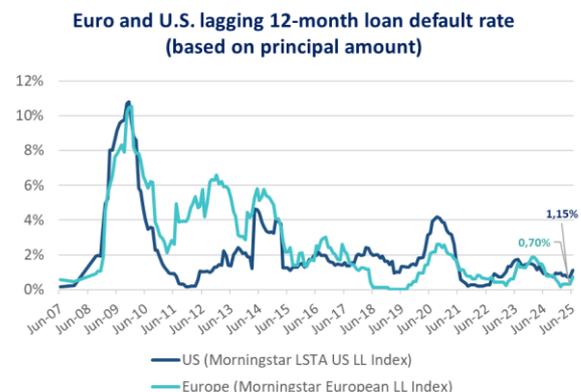
The European leveraged loan market finished August barely positive, supported by interest income, as July's heavy issuance and tight valuations weighed on secondary performance. The Morningstar European Leveraged Loan Index (ELLI) returned just 0.09% in August, well below the 12-month average of 0.45%, with a year-to-date return of 2.8%, trailing the overall 2024 performance.

After tightening to a near three-year low in July, the average yield to maturity increased by 17 bps in August, marking the largest monthly rise since October 2023.

Secondary prices pulled back from recent gains since April's sell-off. With easier primary sourcing and stretched valuations dampening demand, the weighted average bid of ELLI loans declined to 97.38 by August 31—a 37 bps drop from July and a partial retracement of April's Tariffs disruption.

The share of loans trading between 99-99.9% dropped to 19% from 26% in July, while loans above par rose to 56%—the highest since March.

On the default side, the 12-month Euro and US loan default rates remain healthy.



CLO Primary Markets

Call activity has been surging, as August was the busiest refi/reset month of all time, with 121 US CLOs priced totaling \$55.5bn (\$19.1bn new issue and \$36.4bn refi/reset). It was the 3rd and 9th heaviest month for gross and new supply, respectively.

Year-to-date, 766 US CLOs have priced totaling \$350bn (\$137.8bn new issue and \$212.1bn refi/reset), with Private Credit/MM CLO Issuance representing 16% of YTD new issuance.

August saw a slight tightening across the capital stack, with the most noticeable one on the AAA tranches. Tier-one AAA US CLOs tranche went firmly in the 125 area, 5bps tighter than last month, and now making their way to 122-123bps. With investors searching for yield, Tier 2-3 CLO managers AAA tranches are now slowly tightening as well.

Credit curve is inverted, with refinanced AA-BB tranches pricing 5-75bps wider across the stack versus standard CLOs.

With the tightening of spreads, and AAA reaching Mid120s, arbitrage is improving (91bps versus an average 106bps in the last 12 months) but remains challenging. US CLO warehouses are in an all-time high as managers eagerly wait for a pickup in loan new issuance.

With the expected heavy pipeline towards year-end, and CLO floaters being in the front-line of a scenario of Fed easing in response to a deteriorating labor market, we could expect a slight spread widening bias for year-end. However, inflation remains above target, and it remains to be seen if evolving expectations of rate cuts materialize.

The **EUR CLO primary market** had a busy eight months with YTD supply tracking a post-GFC record. CLOs have had record-breaking issuance volumes so far with over €40bn pricing. We expect issuance to reach 50bn by the end of the year (versus 48.2bn in 2024).

The number of CLO warehouses registered in Europe is at a new high, with 22 new vehicles opened in August, bringing the European CLO warehouses to 132 year-to-date.

While warehouse activity was high in August, CLO issuance did not follow the same trend: only 5 new issue deals priced for €2.1bn, versus July's 20 deals for €8.4bn. Instead, CLO refinancing and reset transactions accounted for most of the

primary activity in August, with 14 deals worth €5.8bn.

YTD, 172 Euro CLOs have priced totaling €70.9bn (€39.7bn new issue and €31.2bn refi/reset).

AAA tightened by 4-5 bps but seems to have now stabilized around 130bps. The rest of the capital structure is seeing a strong demand leading to a significant tightening (15bps on AA, 25bps on A, and respectively 30bps and 50-60bps on BBB and BB).

Supply picked up even before the end of the summer break and is likely to remain high into year-end. Meanwhile, strong demand continues to support spreads.

EBA Clarification

On 8th of August, in response to a question posed in 2021, the European Banking Authority (EBA) has issued a new legislative interpretation of the 'originator' definition under the EU Securitisation Regulation, stating that a risk retention vehicle that enter into a conditional sales agreement 'does not qualify as an originator and therefore cannot fulfil the risk retention requirement on this basis'.

While this new EBA ruling caused initial shockwave in the market, lawyers have quickly told that their view the update as a 'medium headache, not a migraine' and confirmed that fixes were already implemented to ensure manager compliance.

CLO Secondary Markets

In line with the usual market seasonality, August was one of the calmest months of the year in terms of trading activity. The summer lull however was more pronounced in Europe than in the US.

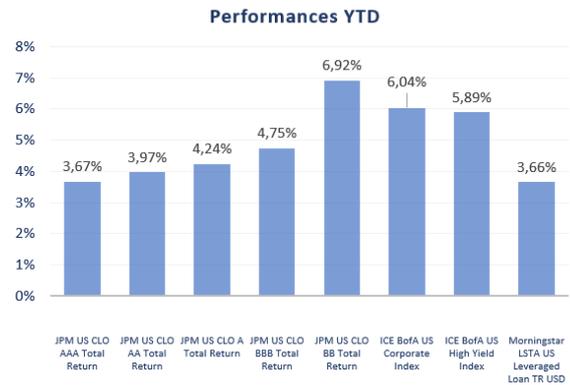
Over the month, TRACE reported \$11.6bn of US CLO trading volume – including 83% of IG tranches – and \$2.75bn of BWIC supply (lower compared to an annual monthly average of \$4bn). The secondary spreads tightened, in line with the ongoing tightening trend observed on the primary market, with AAA/AA/A CLO

tranches framing 5bps tighter over the month, and BBB/BB/B 10bps tighter.

In Europe, the supply volume dropped by 50%, with €620m of BWIC activity in August compared to a monthly average of €1.2bn. Most of the activity was concentrated on IG tranches representing 72% of the volumes. The lack of supply pushed dealers to increase their prices on both bid and offer sides. This effect, combined with the tightening on primary market, allowed the whole capital structure to tighten. The IG tranches ended stronger by 5-10bps, and Sub-IG tranches by 20-30bps.

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 August 29th, 2025

CLO AAA tranches remain the cheapest part of the CLO stack compared to historical levels on both European and US markets, and still offer attractive relative value versus Corporate Credit, especially in Europe.

The Mezz portion of the CLO capital structure has tightened more than the AAAs, both on primary and secondary markets. The belly of the stack is particularly tight, approaching its previous lows. Supply is expected to remain high though, which could create better opportunities to buy the belly of the curve as spreads may soften slightly.

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	<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

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