Playing Defense and Offense in Today's CLO Markets

Today's markets remain volatile. Escalating conflict in Iran and rising oil prices have reignited concerns around inflation and global growth. Equity and credit markets have sold off as investors reassess the path of monetary policy, and February's U.S. job market report surprised to the downside.[1] In this month's edition of *Clarion Credit Snaps*, we explore the sector-level impacts of the oil price spike and highlight higher returning opportunities that could emerge during periods of market dislocation.

Sector Impacts of the Oil Price Spike

Market volatility increased through March, following last month's software-led sell-off in the leveraged loan markets. Over the past weeks, operations in Iran escalated across the region, introducing more geopolitical uncertainty to global markets. The conflict disrupted shipping transit through the Strait of Hormuz, driving oil prices higher and potentially impacting a broad range of companies and sectors.[2] In evaluating the impact on our existing CLO equity portfolios, we examined our industry exposures and identified the following sectors as most likely to face pressure from higher prices: Retail, Consumer Products, Food and Beverage, and Chemicals (Figure 1).[3]

Figure 1[4]:

Sector	% BSL Holding
INDUSTRIALS	6.60%
GAMING LODGING AND LEISURE	5.30%
FOOD AND BEVERAGES	4.10%
CHEMICALS	3.60%
HOUSING	3.30%
PAPER AND PACKAGING	3.20%
TRANSPORTATION	2.90%
AUTOMOTIVE	2.90%
RETAIL	2.30%
CONSUMER PRODUCTS	1.80%

With the situation in Iran ongoing, the long-term impact remains uncertain. Key indicators to watch include the duration of operations and whether additional disruptive factors emerge. Consumer-oriented sectors — Retail, Food & Beverage, and broader Consumer Products — are vulnerable due to demand destruction from persistently higher inflation. Products tied to discretionary spending may be hit harder, as consumers shift toward essential goods and services. A sustained rise in fuel prices could also weigh on new vehicle purchases and create headwinds for the Automotive sector. That said, U.S. labor market conditions — particularly job creation and stability — remain the primary driver of domestic auto demand[5], which limits the standalone impact of higher oil prices on automotive demand. Companies with heavy

[1] CNBC, as of March 6, 2026.
[2] J.P. Morgan Research, as of March 12, 2026.
[3] J.P. Morgan Research, as of March 12, 2026.
[4] J.P. Morgan Research, as of March 12, 2026.
[5] J.P. Morgan Research, as of March 12, 2026.

manufacturing costs and supply chains tied to the Middle East face the greatest risk — particularly footwear, apparel, and big-ticket items, which could experience pressure from both higher production costs and consumer demand destruction.[6] We are monitoring new developments closely and watching for ripple effects across specific sectors and individual loan borrowers.

Compared to BDCs, broadly syndicated loan (BSL) CLOs benefit from tighter diversification requirements — typically limiting exposure to 10% per industry and 1% per borrower — while BDCs face no formal sector concentration limits[7]. In a scenario involving prolonged conflict with broad-based industry impacts, we believe BSL CLOs' diversification requirements position them more favorably than BDC portfolios. The AI-induced software sell-off offered a recent illustration: BDCs had approximately 20% exposure to software, compared to substantially lower concentrations in CLOs.[8] That structural difference helped limit downside for CLO investors. Similarly, BSL CLOs currently hold lower exposure to Chemicals, Consumer Products, Paper and Packaging, and Food and Beverage relative to one of the largest publicly traded BDCs[9] — a potential advantage if these sectors come under pressure.

Market Dislocations Can Provide Higher Returning Opportunities

We believe an attractive and broad opportunity set is starting to emerge through three channels: secondary CLO equity purchases, potential dislocation in CLO mezzanine, and print-and-sprint new issue deals — all of which can yield higher returns during periods of market volatility. Recent market weakness has pushed secondary CLO equities to significant discounts, with prices near the current net liquidation asset values of the underlying loan portfolios. This creates better relative value compared to primary market opportunities. When loan prices decline, secondary CLO BB prices typically fall in tandem, as lower loan prices compress CLO BB Market Value Overcollateralization Cushions ("MVOCs") — a ratio that market participants often focus on when evaluating long-term asset coverage of CLO BBs. Year-to-date, secondary CLO BB prices have dipped below 90, down from a year-to-date high of around 96[10].

"Print-and-sprint" CLO equity presents another compelling opportunity that is starting to emerge from today's volatile loan market. In a print-and-sprint, a CLO manager prices the deal's liabilities before assembling a fully ramped loan portfolio — the liabilities are "printed," and the manager then "sprints" to ramp the portfolio. Managers typically execute these deals during periods of volatility, allowing them to acquire loans well below par in the secondary market. This creates opportunities to build par over the CLO's life as volatility eases and the loan portfolio's market value recovers — a natural pull to par as borrowers pay down their loans at par. This dynamic can contribute to higher returns for CLO equity investors, driven primarily by excess par build that can benefit equity investors.

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[6] J.P. Morgan Research, as of March 6, 2026.

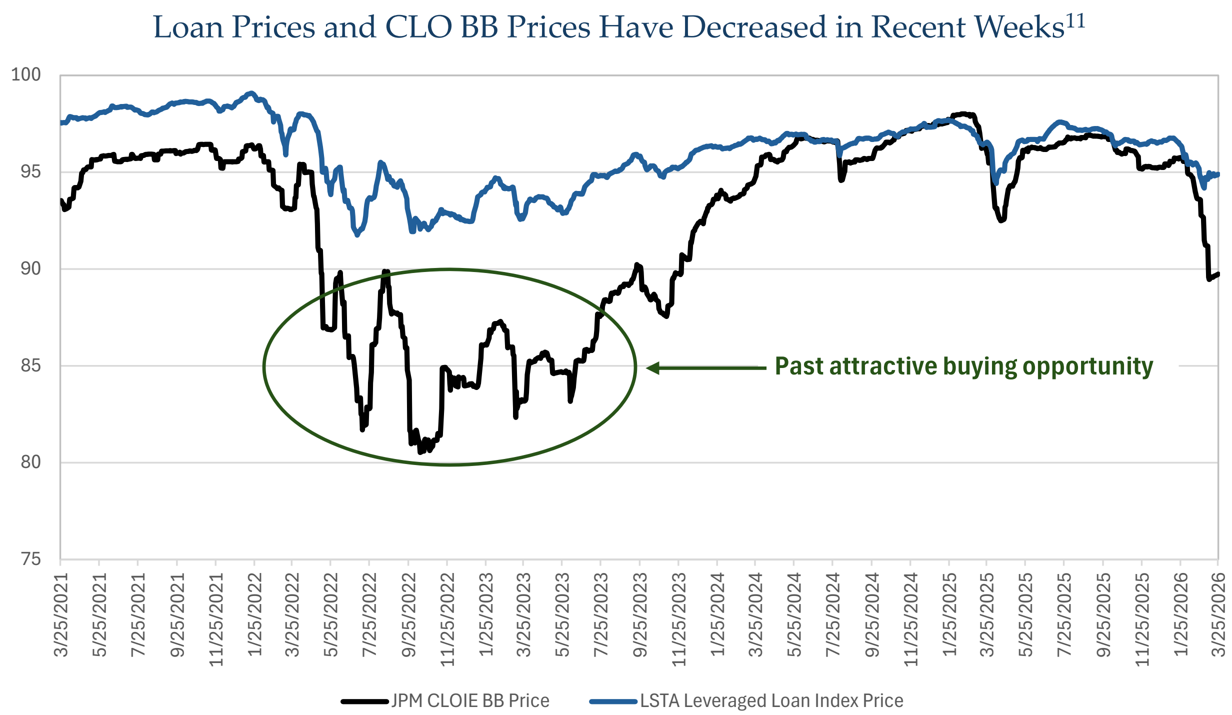
[7] Morgan Stanley Research, as of March 17, 2026.

[8] Morgan Stanley Research, as of February 2, 2026.

[9] Blue Owl ODBC, as of December 31, 2025.

[10] J.P. Morgan Research, as of March 24, 2026.

Figure 2:



[11] J.P. Morgan CLOIE Index, Pitchbook LCD, as of March 25, 2026.