

CLOs: Resilience by Design

Collateralized Loan Obligations (CLOs) have a reputation for complexity that sometimes overshadows what we believe to be a resilient historical track record: CLO debt tranches have demonstrated remarkably low impairment (default) rates and have significantly outperformed comparably rated corporate bonds in the process.¹ Across several decades, we believe CLOs proved to be durable structures through multiple credit cycles. This strong historical track record is not only compelling for CLO debt investors, but also equally compelling for CLO equity investors. The robustness of a CLO's overall structure is a key part of a CLO's ability to withstand periods of market stress. Unlike open-ended loan mutual funds or leveraged vehicles, CLO assets are not mark-to-market structures so CLO managers should not be forced sellers during periods of volatility. This gives CLO managers the flexibility to take longer, constructive views on their loan portfolios rather than crystallizing losses at the worst possible time.

A Robust and Long Historical Track Record

Across all CLO vintages, the cumulative default picture is impressive:

- CLO AAA and AA tranches have never experienced a principal default²
- There has been only 1 CLO A tranche default (occurring in 2006)³
- CLO BBB tranches: a near zero (0.02%) cumulative default rate following the Global Financial Crisis (GFC)⁴
- CLO BB tranches: just 1% cumulative default rate following the GFC⁵

Following the GFC (which introduced more structural protections in CLOs), no CLO AAA through single A tranche has ever experienced a default (and the cumulative default rate for CLO BBBs is a mere 0.02%). This is driven by the structural protections built into a CLO's waterfall, including overcollateralization and interest diversion tests. These structural mechanisms insulate senior and junior debt noteholders from underlying loan losses. Even the riskier parts of a CLO's debt structure (the CLO BB tranches) benefit from these protections. Only a very small share of these tranches has ever experienced a principal impairment—a further testament to the resilience of the CLO structure. Moreover, these CLO debt impairments are a fraction of the historical defaults of similarly rated corporate debt. CLOs demonstrated their durability across multiple credit cycles including the 2015-2016 oil & gas downturn, the 2020 COVID pandemic, and more recently in 2022 and 2023 with the backdrop of the Ukraine War and swift rise in interest rates.

CLOs vs Corporates: A Compelling Comparison

¹ Nomura Research, "Default in Our Stars: Revisiting CLO Impairments," as of May 7, 2026.

² Moody's Investor Service, "Impairment and loss rates of global CLOs: 1993-2022," as of June 26, 2023.

³ Moody's Investor Service, "Impairment and loss rates of global CLOs: 1993-2022," as of June 26, 2023.

⁴ Nomura Research, "Default in Our Stars: Revisiting CLO Impairments," as of May 7, 2026.

⁵ Nomura Research, "Default in Our Stars: Revisiting CLO Impairments," as of May 7, 2026.

Often overlooked by the investment community, CLO tranches have performed well relative to corporate bonds carrying the same rating. According to Nomura, CLOs have delivered lower default rates than their equivalently rated corporate peers at every rating level when measured over a seasoned eight-year time horizon.⁶

Figure 1: Cumulative default rates⁷

Rating	BSL CLOs	Corporates
AAA	0.0%	0.7%
AA	0.0%	0.8%
A	0.0%	1.1%
BBB	0.1%	2.9%
BB	2.7%	10.6%

At the investment grade level (AAA through BBB), CLOs have nearly 0% defaults compared to higher rates of default seen across corporate bonds of similar ratings. CLO BB defaults are roughly a quarter of BB-rated corporate defaults. This outperformance reflects several structural features that differentiate CLOs from single-issuer corporate credit: diversification across several hundred different loans, active portfolio management with reinvestment flexibility, and structural subordination that means losses must work through multiple layers of the capital stack before losses are absorbed.

CLOs Are Not Forced Sellers—And That Matters

One of the most misunderstood aspects of the CLO asset structure is how it behaves during periods of market stress. A common misconception—often resurfacing when rating agency loan downgrades increase—is that CLOs will become forced sellers of CCC-rated or distressed loans, crystallizing losses at distressed prices. However, in practice, the opposite is true. CLO indentures limit CCC-rated loan holdings (typically 7.5% of the total portfolio), but crucially CLO indentures never force CLO managers to sell loans and allow CLO managers to approach their portfolio through a long-term, fundamental credit lens. If the permitted limit is ever exceeded, the manager is only limited in ability to add CCC-rated loans by purchase (as permitted under the CLO indenture). One prominent CLO manager states, "CLO documents never require managers to sell loans that they (and the equity investors) would prefer not to sell."⁸

This structural feature has significant implications for how CLOs weathered credit downturns. Because CLOs are long term-financed vehicles, CLO debt investors do not have rights to redeem their tranches during a CLO's life. A CLO's call option is held by the majority CLO equity holder. This means a CLO manager is never beholden to CLO debt investors and

⁶ Nomura Research, "Default in Our Stars: Revisiting CLO Impairments," as of May 7, 2026.

⁷ Nomura Research, "Default in Our Stars: Revisiting CLO Impairments," as of May 7, 2026. Data sourced by Nomura Research through Intex and S&P. CLOs include both realized defaults and any outstanding CLO tranches with negative par subordination across 2012-2018 vintages, and Corporates default rates measured through cumulative issuer-level corporate default rates through an eight year time horizon.

⁸ Oaktree Capital, "CLO Myth-Busting: The Top Three Misconceptions," as of March 2, 2023.

then forced to liquidate their CLO loan portfolio at depressed prices. This investor dynamic (between debt and equity holders) historically helped limit credit losses—unlike open-ended loan mutual funds or other leveraged private credit or direct lending vehicles that are subject to redemptions or margin calls in market downturns. CLO manager PineBridge Investments notes, "term financing ensures that CLOs do not become forced sellers during periods of market disruption, which prevents CLOs from being redeemed and realizing significant principal losses at a time of abnormally low loan prices."⁹ For CLO equity investors, this is an important structural advantage—a manager with the flexibility to hold through volatility is far better positioned to recover and create equity value than one forced to sell into a volatile market.

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⁹ PineBridge Investments, "CLO Equity: How Investors Can Benefit From and Access a Compelling Asset Class," as of April 21, 2025.

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