Software: a partial recovery, not an all-clear

Earlier this year, concerns that AI could disrupt established software business models drove sharp repricing across software loans. Since the "Saaspocalypse", the sector has recovered some ground, but the rebound has not erased its year-to-date underperformance. October's trading activity suggests the market's focus broadened with a new interest rate hiking cycle more in view: cyclical and consumer-facing borrowers came under pressure even as software loans held up comparatively well. At the same time, AI infrastructure financings are bringing wider spreads, alongside new underwriting questions.[1] [2]

Rather than characterize software as recovered, the data points to a partial and uneven rebound. As of October 2026, Nomura CLO researchers reported the market-value returns of software loans were down 7.9% year to date, after retracing about 30% of the first half drawdown in Q3. [2] Researchers also have highlighted increased dispersion across issuers and subsectors, with refinancing risk and near-term maturities remaining important differentiators.[2]

The software loan sub-index was positive by +0.11% in October, while the broader Morningstar LSTA U.S. Leveraged Loan Index declined -0.22%. Software loan bids fell 41 bps to 87.33, a smaller decline than the 84 bps drop in performing non-software loans, whose weighted average bid reached 95.90.[1] Software remained at depressed price levels, so the monthly relative outperformance should not be mistaken for a full recovery.

Refinancing, rather than price recovery alone, may be the more meaningful test of software credit quality. Roughly $300 billion of software loans across private credit and broadly syndicated markets are expected to mature by 2030.[3] That puts the focus on whether individual borrowers can support new financing terms—not simply whether sentiment toward the sector improves.

Amend-and-extend activity shows how refinancing can improve terms for lenders. Recent software company loan extensions saw spread increases of 100 bps or more, often accompanied by tighter documentation.[2] These transactions give borrowers more time while offering lenders higher spreads and, in some cases, stronger contractual protections.

October's market weakness broadened into cyclical and consumer-facing loans.[1] For CLO investors, the takeaway is not to replace one sector concern with another, but to reassess whether a Fed rate hiking cycle (and reigniting recession fears) could strain borrowers' cash flows across the portfolio.

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[1] Pitchbook, "October Wrap: Leveraged loan prices fall as sell-off broadens beyond software", November 2, 2026.
[2] Nomura, "CLO Special Topics – Loan Sector Considerations and Downgrade Review", October 22, 2026.
[3] Pitchbook, "Software maturity wall to create opportunities for adept lenders – Thoma Bravo", October 19, 2026.

AI financing: a new source of spread

AI's financing needs are creating another way for CLO managers to earn additional spread. Recent Ba/BB-rated, neocloud new issue loans came with pricing more than 200 bps wider than other Ba/BB term loans.[2] The credit investment case rests on whether customer commitments and collateral can support repayment over the loan's life—not simply on continued growth in AI spending.

The bottom line

For CLO investors, the opportunity is to secure attractive lending terms where the underlying credit can support them. Wider spreads and stronger contractual protections for lenders on software extensions, alongside higher-spread AI financings, can provide potential openings to rebuild portfolio loan spreads.[2] The focus should be on converting those terms into durable income through careful borrower selection and structures built to withstand weaker conditions.

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