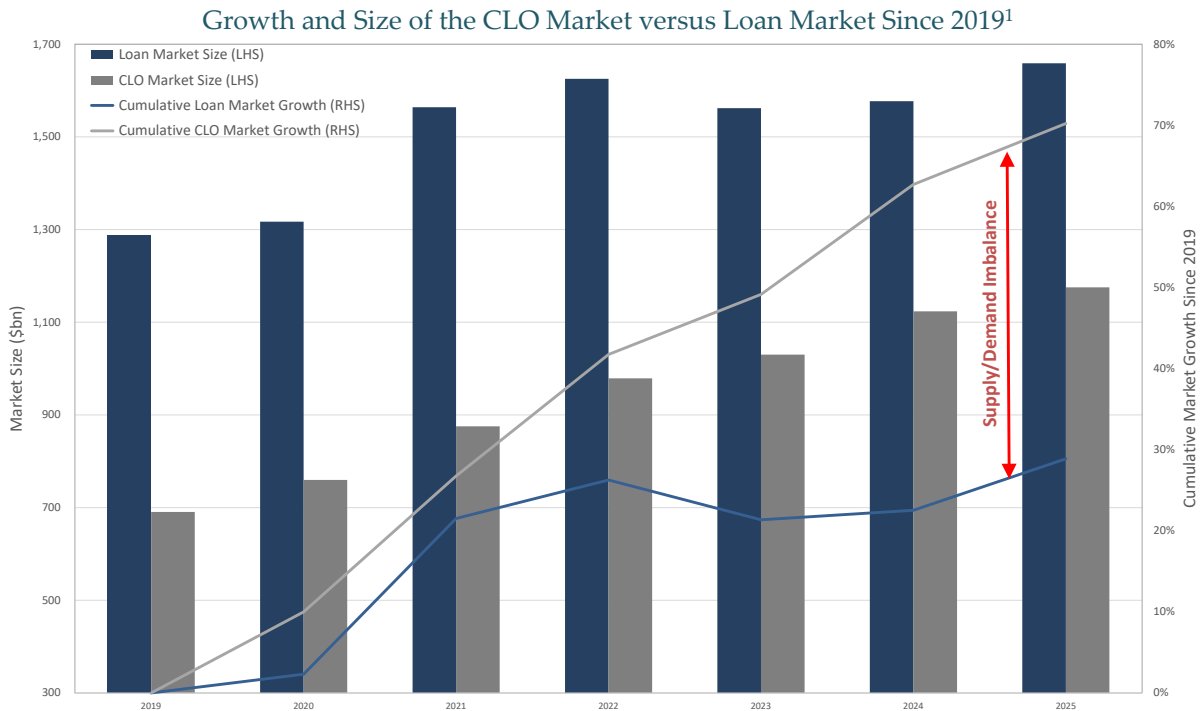


Loan Market vs CLO Market Growth and Implications to CLO Equity

Over the past few years, the growth of the CLO market has outpaced that of the loan market by a large margin. Since the start of 2024 through year-end 2025, the CLO market grew three times that of the loan market, and since 2019 has grown 70% compared to 30% for that of the loan market.<sup>1</sup> The chart below highlights the stark magnitude of this supply and demand imbalance.



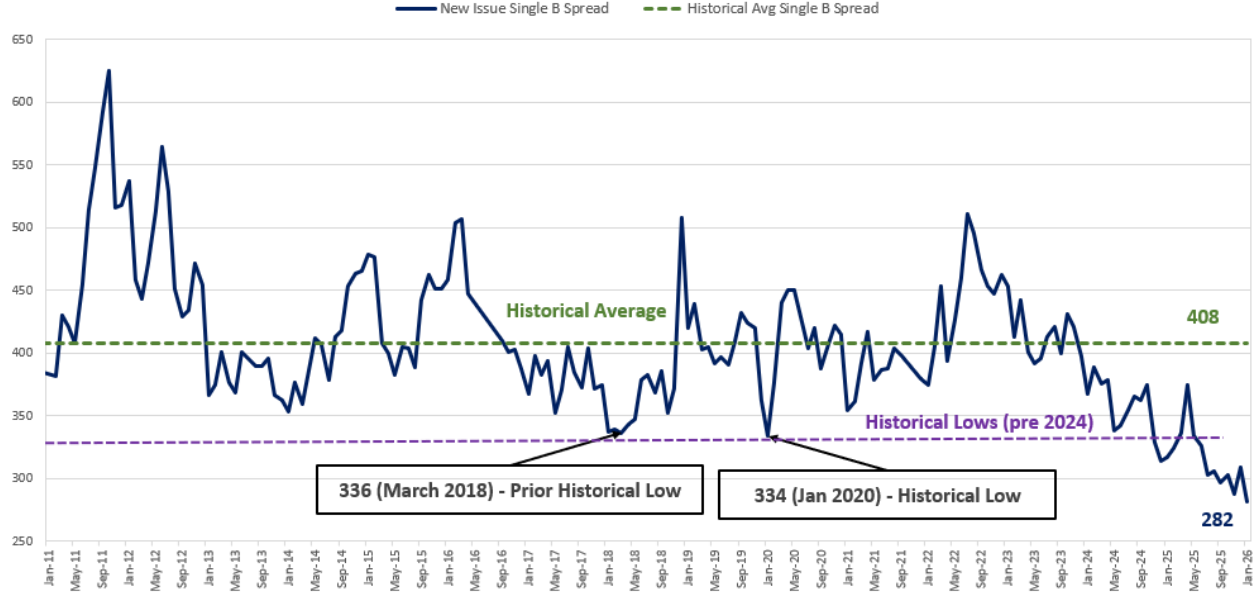
A substantial part of the outsized growth of the CLO market is the ever-growing captive equity buyer base which is accepting lower returns for AUM growth – just in 2025, Bank of America estimates that roughly 70% of CLO equity funding was out of captive funds.<sup>2</sup> With more CLOs being created (and as a result higher demand for loans) alongside lower new issue loan supply growth, existing loans have been bid up to prices high enough to allow loan borrowers to refinance at lower spreads. The result is loan spreads breaking through past historical lows as seen in the chart below.<sup>3</sup>

<sup>1</sup> J.P. Morgan Research, as of January 5, 2026.

<sup>2</sup> Bank of America Global Research, as of January 3, 2026.

<sup>3</sup> Pitchbook LCD, as of January 31, 2026.

New Issue Single B Loan Spreads (2011-2026 YTD)<sup>4</sup>



Meanwhile, the cost of debt of CLO liabilities have not tightened nearly to the same extent, which has compressed CLO equity net interest margins (and as a result CLO equity cash yields).<sup>5</sup>

CLO New Issue WACD (bps)<sup>5</sup>

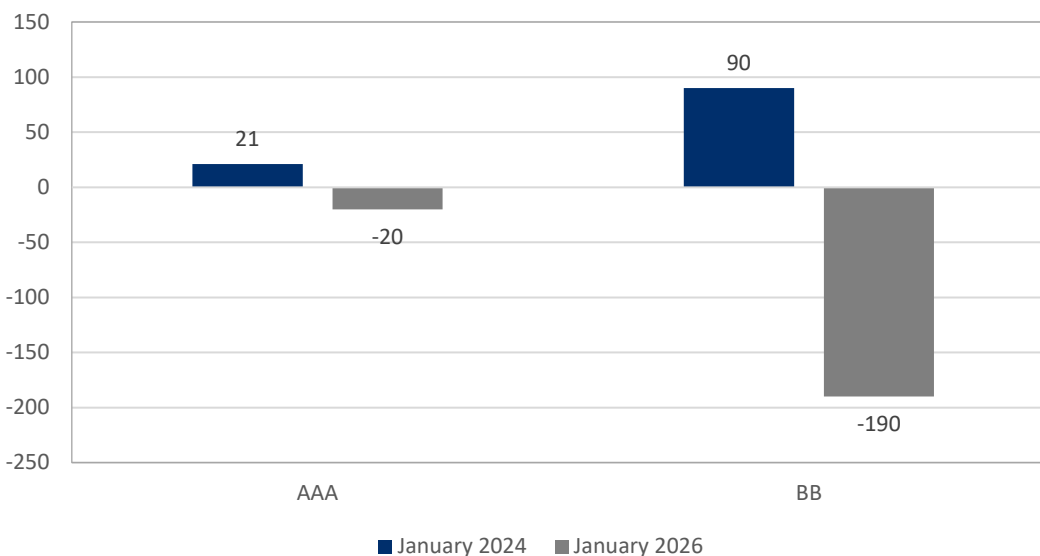


<sup>4</sup> Pitchbook LCD as of January 31, 2026.

<sup>5</sup> Bank of America CLO Research, as of January 26, 2026.

However, there are a couple mechanisms that could correct this imbalance and improve CLO equity net interest margins. The first is the projected increase in loan issuance via M&A and LBO activity which may drive loan spreads wider if new loan supply is robust. For example, we've already seen a couple of deals come at wider spreads. In recent weeks, Hillenbrand priced its \$1.335 billion term loan at SOFR plus 3.75% and Columbus Mckinnon priced its \$1.65 billion term loan at SOFR plus 3.50% for its acquisition of Kito Crosby.<sup>6</sup> However, earlier in the month, Hologic, which was the first large buyout deal of the year, priced its \$5 billion term loan tight at SOFR + 2.25% (and tighter than early pricing guidance). The second possible offset is a tightening of CLO liabilities. CLO AAAs (which are the largest tranche in a CLO) have lagged the tightening seen elsewhere across the CLO capital stack (notably the BBs) and further tightening would drive the overall cost of liabilities down, resulting in an improvement of CLO equity net interest margins. As seen in the chart below, CLO AAA spreads have tightened about 41bps since January 2024 compared to about 280bps of tightening for that of CLO BBs.<sup>7</sup>

AAA and BB CLO Distance from Historical Median (bps)<sup>7</sup>



Positive signs have emerged to start the year with the spread on CLO AAAs so far having broken through the 120 basis points over the SOFR resistance point from the end of last year.<sup>8</sup> Larger CLO managers look to be driving new issue CLO spreads tighter as GoldenTree recently priced its GLM 2024-19 reset with a CLO AAA spread of SOFR plus 1.15%<sup>9</sup>, and Blackstone recently priced its reset of Point Au Roche Park with a CLO AAA spread of SOFR plus 1.17%.<sup>10</sup> Ultimately, there is potential for improvement of the CLO equity net interest margin which has been compressed by the supply/demand imbalance between the CLO and loan markets, with the improvement coming from a combination of robust new issue loan supply that could help drive loan spreads wider and a tightening of the CLO liabilities (notably of the CLO AAAs).

<sup>6</sup> Pitchbook LCD, as of January 22, 2026.

<sup>7</sup> Bank of America CLO Research, as of January 26, 2026.

<sup>8</sup> Pitchbook LCD, as of January 27, 2026.

<sup>9</sup> Pitchbook LCD, as of February 3, 2026.

<sup>10</sup> Pitchbook LCD, as of January 27, 2026.

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