

ABS Holds Steady as CLO Spreads Widen

This report is excerpted from the [Second Quarter 2026 Fixed-Income Sector Views](#).

ABS issuance remains steady and we expect senior and near-senior CLO tranche spreads to remain stable.

ABS credit spreads have been slow to respond to broader market weakness. The spread differential relative to investment-grade corporates compressed to its 53rd percentile from its 74th percentile as of year-end 2025. First quarter ABS issuance was \$90 billion, in line with last year's record levels, with refinancings accounting for most issuance. CLO spreads widened in line with corporate credit markets in the first quarter and higher CLO borrowing costs dampened new issuance. We expect senior and near-senior CLO tranche spreads to remain stable.

Sector Commentary

- ♦ **ABS:** New issuance has been concentrated in digital infrastructure deals backed by data centers and fiber networks, as well as aircraft and whole business royalties. Data center ABS issuance reached over \$14 billion in 2025 and is up 27 percent year-over-year in the first quarter. We expect supply to remain elevated to support the secular digital infrastructure buildout. Supply of fiber network-backed deals has also increased as companies seek to diversify funding sources from the traditional corporate markets.
- ♦ **CLOs:** CLO spreads widened in step with corporate credit markets in the first quarter. Underlying loan prices saw declines with movement concentrated in AI-disintermediation exposed industries. CLO manager views on obligor health remains cautiously optimistic in aggregate but idiosyncratic credit issues exist. CLO overcollateralization ratios and exposure to lower rated collateral are at a favorable starting point to buffer credit headwinds in selected underlying industries.

Investment Themes

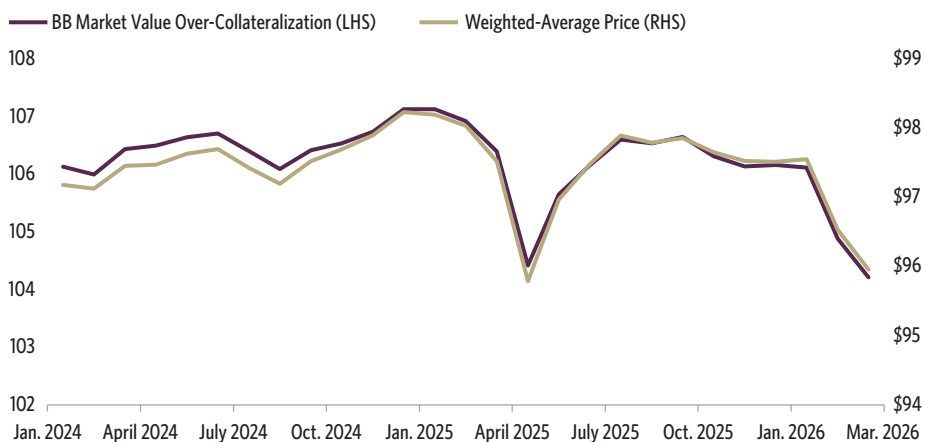
- ♦ **ABS:** We favor senior tranches in commercial ABS backed by stable, cash-generative collateral including franchise royalties, fiber networks, and aircraft. In consumer ABS, subsectors such as home improvement loans offer exposure to higher quality borrowers with structural downside protection through amortization and credit enhancement. In digital infrastructure, selectivity is increasingly important as unprecedented capital expenditures drive large ABS supply and new capacity. Our focus is on supply/demand dynamics and the impact of technological advances on legacy assets.
- ♦ **CLOs:** Attractive relative value and structural protection against weaker loan fundamentals support our constructive view of CLOs, especially for AAA–BBB rated tranches. In the near term, we expect the market to approach BB and equity CLO tranches tentatively as it digests idiosyncratic risks emanating from the software sector and the Middle Eastern conflict. The cautious sentiment should dampen new CLO creation in the near term.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

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We Expect Caution Around BB and Equity Tranches Amid Volatility

Weighted-average loan price vs. CLO BB market value over-collateralization



Source: Guggenheim Investments, Intex. Data as of 3.31.2026.

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One **basis point** is equal to 0.01%.

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Investing involves risk, including the possible loss of principal. In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate. S&P bond ratings are measured on a scale that ranges from **AAA** (highest) to **D** (lowest). Bonds rated **BBB-** and above are considered investment-grade while bonds rated **BB+** and below are considered speculative grade.

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