Asset-Backed Securities and CLOs

Opportunities in ABS and CLOs

This report is excerpted from the Second Quarter 2025 Fixed-Income Sector Views.

Finding opportunities amid uncertainty.

Asset-backed securities (ABS) sector spreads widened modestly amid heightened macroeconomic volatility, but the sector continues to offer excess yield relative to expected credit risk. Year to date, commercial ABS supply is tracking the record supply experienced in 2024. While collateralized loan obligation (CLO) new issuance was strong in the first quarter and we saw elevated refinance/reset activity, volatility has extended marketing timelines for new issue deals and created secondary market opportunities.

Sector Commentary

- The spread differential between commercial ABS and investment-grade corporate bonds compressed, currently near historical averages and in our view offering fair value. Whole business securitization (WBS) sales figures reflect inflationary pressures on lower-income consumers and challenging fundamentals for limited-service restaurant concepts. Private liquidity from sponsors, amid increased restaurant bankruptcies and C-Suite transitions, has hampered ABS issuance.
- As market volatility increased, CLO spreads widened in March and early April, with senior tranches 20–25 basis points wider and mezzanine tranches 40–125 basis points wider compared to the beginning of the year. Consequently, secondary market prices adjusted, with most tranches currently trading below par. Loan prices have decreased, offering CLO managers opportunities to build par in their portfolios.

Investment Themes

- In commercial ABS, we prefer senior exposures in longer-duration opportunities backed by higher quality collateral, such as franchise royalties, fiber networks, and shipping containers. Economic policy uncertainties may further strain individual borrowers, which have shown resilience thus far. Despite this, subsectors like home improvement loans provide exposure to higher credit quality borrowers with structural downside protection through amortization and credit enhancement.
- Both senior and mezzanine CLO tranches offer attractive relative value compared to similarly rated corporate debt. As uncertainty has risen, we expect new issuance volumes to moderate and refinance/reset activity to slow. CLO equity from top-tier managers appears attractive in an uncertain macro environment. Experienced managers can build new portfolios or actively trade existing portfolios amidst market volatility and acquire quality assets at discounted prices while seeking to avoid losses.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

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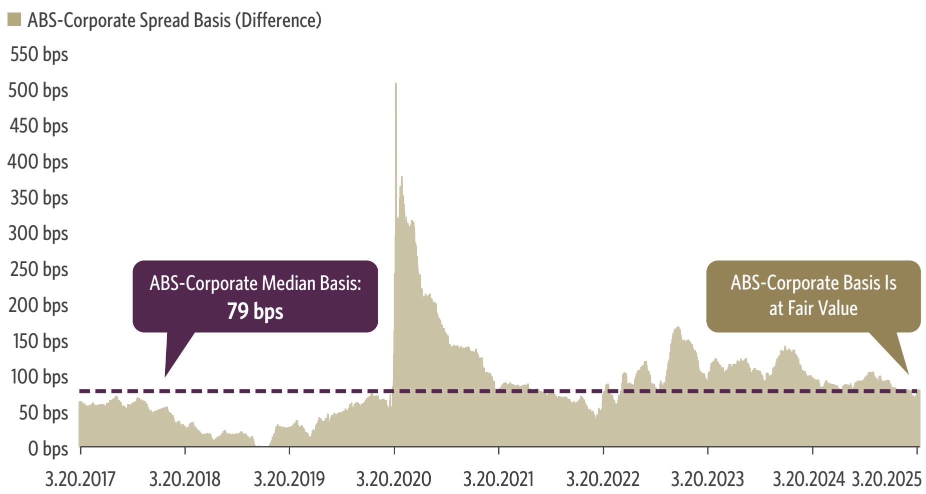
Commercial ABS Spreads Look Fair with Attractive Opportunities in Select Subsectors



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2025.

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