Bank Loans

Loans Gain Support from Firm Technical Backdrop

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

Bank loans outperformed other risky assets during the first quarter.

While bank loans have retreated from yearly highs, they continue to outperform other risky assets, like stocks, highlighting the importance of elevated yields and coupon carry in mitigating volatility. This resilience is supported by strong technical factors, including steady demand and limited new supply. That said, bank loans underperformed higher quality fixed income as falling yields favored longer-duration assets. Nonetheless, their relative strength against equities underscores their appeal in today's uncertain environment.

Sector Commentary

- Bank loans recorded a total return of -0.11 percent, with performance supported by high floating-rate coupons that contribute to income returns and offset price declines.
- The three-year discount margin on the S&P UBS Leveraged Loan Index widened by 23 basis points during the quarter, ending March 31 at 498 basis points. Bank loan yields stood at 8.56 percent by the end of the first quarter.
- Approximately 8 percent of loans traded above par at the end of March, a significant decline from 62 percent at the end of 2024. This decline results in fewer loan issuers seeking to re-price existing loans, thereby preserving current coupon levels.
- The combination of high yields and stable coupon levels continues to make bank loans an attractive option for investors in the current market environment.

Investment Themes

- We anticipate the technical backdrop will continue to support the bank loan market. Although the pace of fund inflows has slowed since the beginning of the first quarter, the supply of newly issued loans in the primary market has also decreased.
- Continued support is expected from the CLO market, which issued $46 billion during the first quarter, comparing favorably to growth in the loan market outstanding, which has only increased by $32.1 billion since the end of 2024.
- We remain cautious about tail risks in the loan market, as elevated rates may impact issuers' interest costs. Eventually, rate cuts will provide a tailwind to debt servicing. Until then, credit selection is crucial to navigate the current environment and capitalize on potential opportunities as market conditions evolve.

By Christopher Keywork and Christopher Squillante

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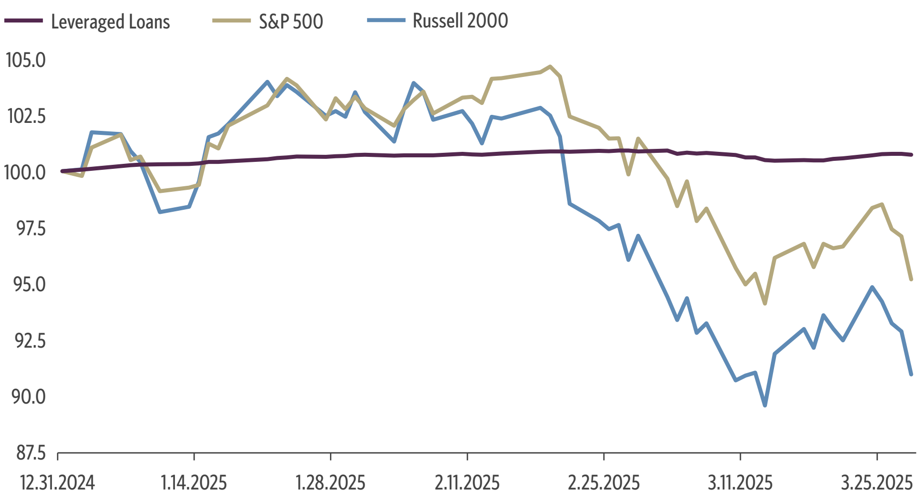
Leveraged Loans Outperformed Equities in Q1



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

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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.

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