

Managing Risk and Opportunity in ABS and CLOs

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

Strategic positioning in ABS and CLO markets for enhanced return potential.

Asset-backed securities (ABS) spreads have rebounded from April's widening, yet still trail IG corporate bonds, presenting potential opportunities. Year-to-date ABS issuance remains strong at \$164 billion, approximately 8 percent below record 2024 levels. This presents opportunities to invest in the primary markets, as secondary market activity remains subdued with few motivated sellers. Collateralized loan obligation (CLO) new issuance is also strong, at \$97 billion year to date, just 4 percent below record 2024 levels. As spreads have tightened, CLO refinance and reset activity have resumed, with high supply being met with strong investor demand across the capital stack.

Sector Commentary

- **ABS:** The spread differential between ABS and IG corporate bonds widened to the 66th percentile, presenting modest excess yield opportunities. In commercial ABS, new issuance has been concentrated in data centers, fiber telecommunications, and aircraft, while issuance in whole business restaurant franchises has been muted.
- **CLOs:** CLO spreads ended the quarter slightly tighter than the first quarter, despite significant volatility following April's tariff announcements. These announcements raised concerns about higher costs for corporate borrowers, temporarily depressing loan prices and allowing managers to enhance portfolio quality by acquiring discounted loans. As markets stabilized, loan prices rebounded, and CLO fundamentals remained robust, with decreasing CCC-rated portfolio concentrations and healthy overcollateralization cushions, indicating strong underlying credit quality.

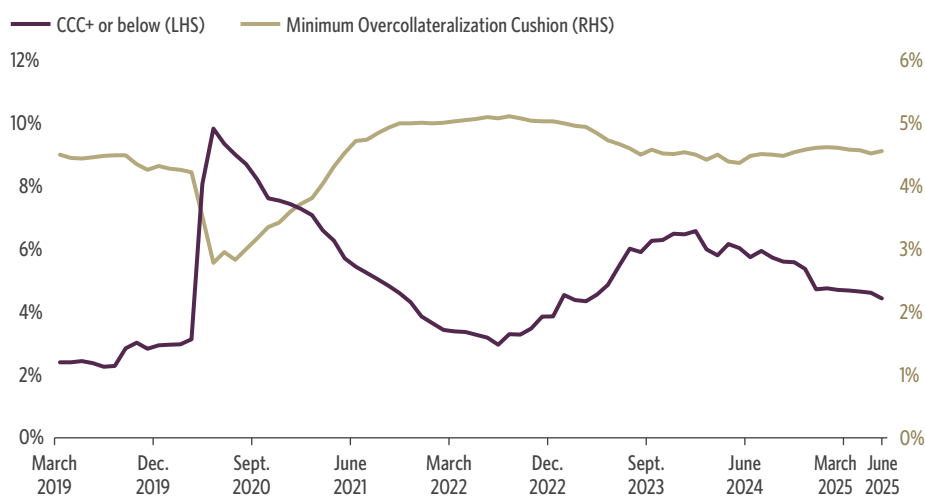
Investment Themes

- **ABS:** We prefer commercial ABS with senior exposures in longer-duration opportunities backed by higher quality collateral, such as franchise royalties, fiber networks, and shipping containers. Consumer subsectors, including home improvement loans, provide exposure to higher credit quality borrowers. However, policy uncertainty may pose challenges to certain subsectors, necessitating close monitoring.
- **CLOs:** Both senior and mezzanine CLO tranches offer attractive relative value compared to similarly rated corporate debt. Credit spreads between private credit (PC) and broadly syndicated loan (BSL) CLO tranches have begun widening from historically tight levels, and the absolute yields are appealing for both. CLO equity from top-tier managers presents an opportunity to capitalize on potential market volatility, as experienced managers can actively manage portfolios and opportunistically acquire quality loans at favorable prices.

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BSL Fundamentals Remain Healthy



Source: Guggenheim Investments, Intex. Data as of 6.30.2025.

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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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