

Bank Loans

High Yields and Stable Coupons Attract Investors

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

Bank loans continued to deliver positive returns as discount margins tightened and a higher share of loans traded above par.

Bank loans have returned 3.0 percent year to date, bolstered by robust yields and tighter discount margins. The rebound in loans trading above par has invigorated refinancing activity, reflecting renewed investor interest after significant outflows. Despite favorable technical conditions, elevated rates and potential tail risks calls for caution. Focusing on higher quality issuers and prudent credit selection is crucial to navigate the current landscape effectively.

Sector Commentary

- The S&P UBS Leveraged Loan Index recorded a total return of 2.3 percent in the second quarter, bringing year-to-date returns to 3.0 percent. CCC-rated bank loans have outperformed year to date, with returns of 4.2 percent compared to 3.1 percent for BB-rated and 2.7 percent for B-rated loans.
- The three-year discount margin on the S&P UBS Leveraged Loan Index tightened from 567 to 459 basis points by the end of the second quarter. Three-year bank loan yields stood at 8.0 percent.
- Approximately 40 percent of loans traded above par at the end of June, rebounding from May lows, re-incentivizing refinancing and repricing activity.
- High yields and stable coupon levels continue to make bank loans an attractive option for investors in the current market environment.

Investment Themes

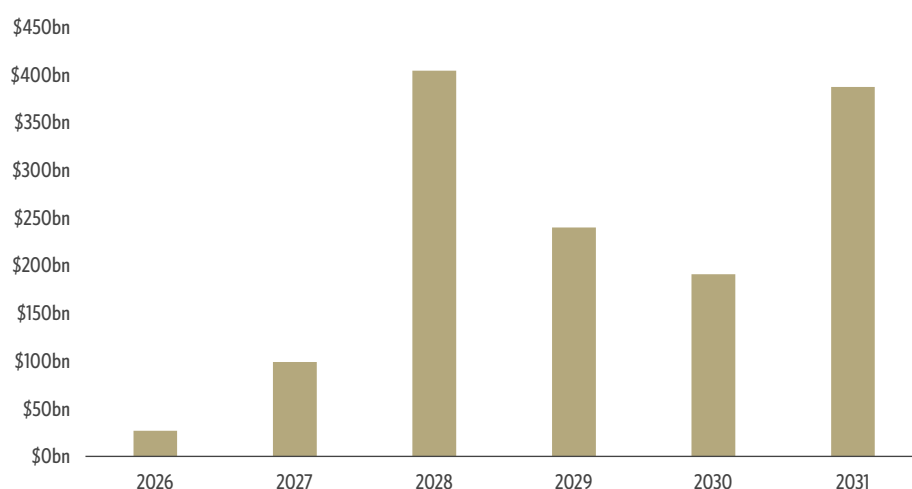
- The technical backdrop is expected to support the bank loan market, with a large share of loans trading above par. Refinancing and repricing activity should remain robust, keeping net supply limited.
- Bank loan fund flows have partially recovered from significant outflows in April but remain down nearly \$4 billion year to date.
- Caution is warranted due to tail risks, as elevated rates may impact issuers' interest costs. While eventual rate cuts will aid debt servicing, credit selection remains critical to navigating the current environment and capitalizing on evolving opportunities.

By Christopher Keywork and Christopher Squillante

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With Limited Near-Term Financing Needs, Issuers May Start Tackling Longer Dated Maturities Later This Year

Schedule Maturities in the Loan Index, \$bn



Source: Guggenheim Investments, Barclays Research, Pitchbook LCD. 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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