

Bank Loans

Bank Loans Clip Coupons as Technicals Bolster Returns

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

Subdued M&A and LBO activity limits issuance to refinancings and repricings.

Bank loans delivered a 1.68 percent return in the third quarter, bringing year-to-date performance to 4.69 percent, supported by robust CLO issuance that continues to exceed record 2024 levels. Ratings performance was mixed, with CCC-rated loans underperforming while B-rated loans slightly outpaced BB-rated counterparts. Limited net new issuance, driven by subdued mergers and acquisitions (M&A) and leveraged buyout (LBO) activity, has concentrated primary market activity on refinancings and repricings. The importance of credit selection remains amid elevated tail risks and expected market volatility. Market volatility could present opportunities for investors moving forward.

Sector Commentary

- The S&P UBS Leveraged Loan Index posted a total return of 1.68 percent in the third quarter, bringing year-to-date performance to 4.69 percent.
- CCC-rated loans underperformed with 3.73 percent returns, reversing their second-quarter outperformance. B-rated loans marginally outperformed BB-rated loans, delivering returns of 4.67 percent and 4.65 percent, respectively, reflecting mixed performance across credit ratings.
- The three-year discount margin on the index tightened from 459 to 451 basis points during the quarter, while three-year bank loan yields remained relatively unchanged at 7.8 percent.
- By the end of September, 37 percent of loans traded above par, down from 40 percent at the end of June, as the overall index price declined by 6 cents during the quarter.

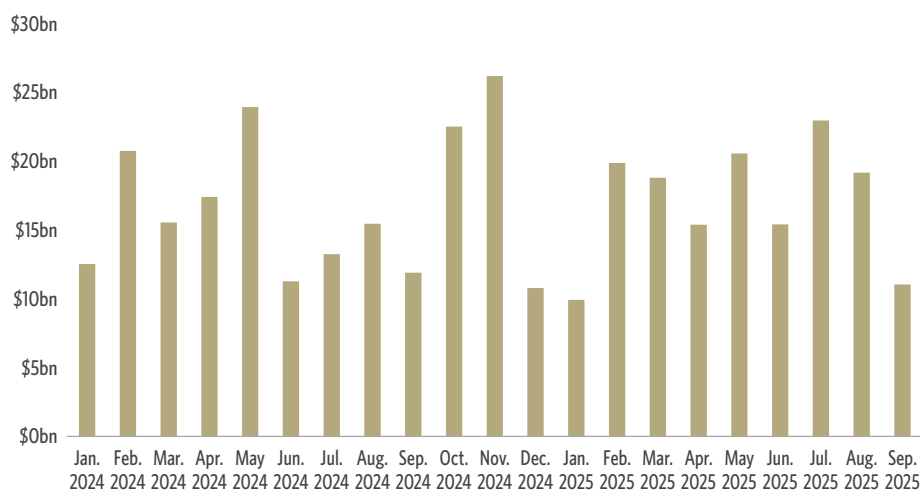
Investment Themes

- Strong CLO issuance continues to support the bank loan market, with volumes surpassing record 2024 levels. September 2024 year-to-date CLO issuance totaled \$141 billion, while year-to-date CLO issuance totals \$154 billion. However, 82 percent of the \$404 billion 3Q25 issuance was refinancing and repricing related, as M&A and LBO activity remain subdued.
- Bank loan fund flows were negative in the third quarter, reversing inflows from the end of the second quarter. Year-to-date outflows stand at \$4.4 billion.
- Credit selection is increasingly critical. The B3/B- portion of the S&P UBS Leverage Loan Index now represents greater than 20 percent of market value, versus the long-term average of -5 percent. The Fed's most recent interest rate cut may be supportive of overall credit metrics, but the elevated market value percent of B3/B- credits increases tail risk in the market.

By Thomas Hauser, Joe Bowen, and Brian McAuliff

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CLO Issuance Continues to Surpass 2024's Record Levels



Source: Guggenheim Investments, Pitchbook. Data as of 9.30.2025.

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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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