Strong Issuance Meets Investor Demand

Opportunities in higher quality commercial ABS and CLOs.

Commercial ABS continues to offer an opportunity to capture excess yield relative to investment-grade corporate bonds. We expect issuance to outpace 2023 levels, driven by capital investment and growth in sectors led by digital infrastructure. We favor both private credit and broadly syndicated loan (BSL) CLOs for offering attractive yields and prefer to stay senior in the capital structure. Issuance has been strong, driven by both investor demand and technical factors such as captive manager equity funds.

Sector Commentary

- **ABS:** The ICE/BofA Commercial ABS Index yielded 6.4 percent as of quarter end, while senior commercial ABS with more defensive underlying collateral has recently traded between 5.6–6.1 percent. The credit spread difference between ratings-matched ABS and corporate bonds currently ranks above the 70th percentile, suggesting a historically attractive entry point for ABS. New issuance has been biased towards high growth sectors, such as data centers and fiber networks.
- **CLOs:** Near-record post-GFC issuance in the first quarter was met with strong demand, leading to spread tightening across the capital stack. Manager trading activity and strong underlying company performance have led to CCC balances in CLOs decreasing from 7.0 percent as of year-end 2023 to 6.8 percent by the end of April. We continue to see managers raising captive CLO equity funds to purchase the equity tranche in their deals, and we expect this dynamic to support issuance going forward.

Investment Themes

- **ABS:** We favor senior exposures in higher quality commercial collateral such as franchise royalties, fiber networks, data centers, containers, and triple net lease real estate. Relative value opportunities have emerged in consumer ABS, which look favorable compared to similarly rated corporate credit.
- **CLOs:** We prefer to stay senior in the capital structure given attractive yields and relatively low levels of credit risk. There has been increasing interest in private credit CLOs, which accounted for approximately 20 percent of overall CLO issuance in the first quarter. We find value in both private credit as well as BSL CLOs. However, the spread pickup that private credit CLOs offer at the AAA level has compressed from more than 50 basis points to start the year to approximately 30 basis points currently, shifting relative value in favor of BSL CLOs.

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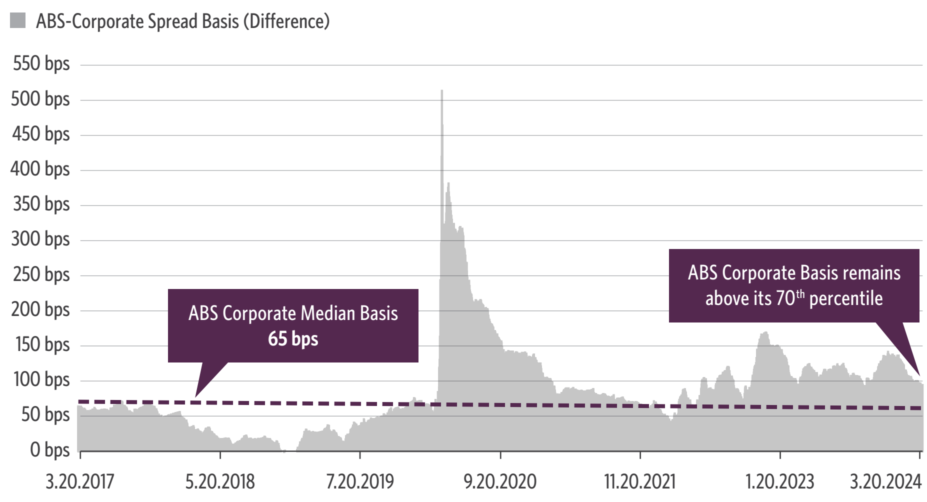
The Difference in Commercial ABS Spreads vs. Similarly Rated Corporates Remains Attractive



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2024. Indexes referenced include ICE BofA AA-BBB ABS Index and Bloomberg Corporate Investment-Grade Index. Past performance does not guarantee future results.