

## Bank Loans

# Loans Conclude a Mostly Coupon-Clipping Year

This report is excerpted from the *First Quarter 2026 Fixed-Income Sector Views*.

## Price decrease slightly drags down returns in the fourth quarter, year-to-date trends continue.

The leveraged loan index returned 1.19 percent in the fourth quarter, which brought full-year returns to 5.94 percent. The positive print represents 14 consecutive positive quarters for bank loans. Looking at the year to date, loans experienced some spread tightening, mostly driven by a lowering of nominal spreads via robust repricing activity. A persistent demand surplus driven by record CLO issuance provided support for secondary levels, although they were slightly lower year over year. Defaults hovered closer to long-term averages, but we anticipate them to move higher in the near- to mid-term.

### Sector Commentary

- After back-to-back banner years, the 5.94 percent annual return for loans in 2025 brings the asset class more in-line with its 10-year and 20-year average annualized returns of 5.78 percent and 4.93 percent, respectively. The return for 2025 was all coupon driven, with price return slightly negative.
- For the year, BBs outperformed, up 6.42 percent, with single-Bs close behind at 5.86 percent. CCCs underperformed amidst sustained credit stress, returning 3.08 percent.
- The weighted average price of the index dropped by 0.5 basis points during the quarter, moving from 96.42 to 95.92. The full-year price move was approximately the same.
- The three-year discount margin of the index widened marginally during the fourth quarter, ending the year at 455 basis points, 20 basis points tighter year to date. The three-year yield of the index decreased by around 100 basis points in 2025, finishing at 7.86 percent as base rate expectations and nominal spreads decreased.

### Investment Themes

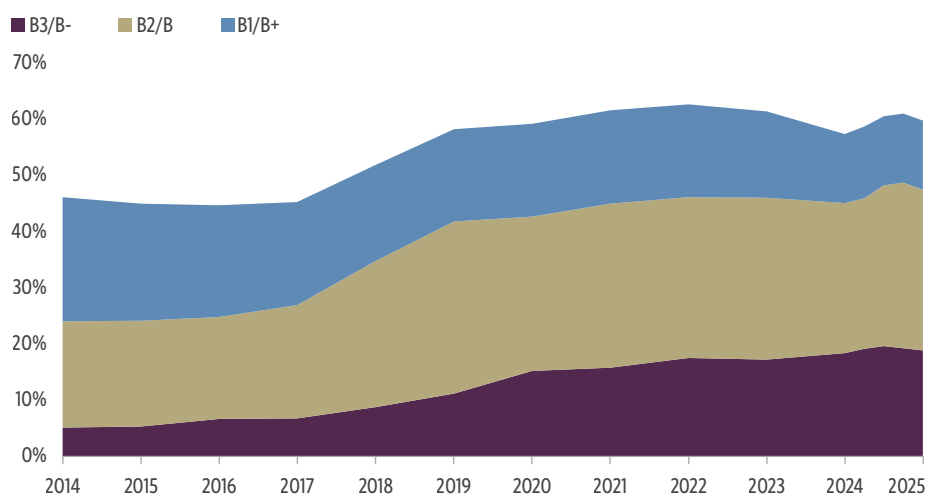
- On the primary issuance front, 2025 was the second busiest year ever with around \$1 trillion in total issuance, although a pickup in M&A-related issuance did not materialize with the majority (about 70 percent) of issuance related to loan repricings and refinancings. We expect more of the same in 2026.
- On the demand front, CLO issuance hit an all-time record with \$207 billion issued during the year, slightly offset by retail fund outflows of \$7.4 billion.
- In terms of positioning, we believe it is prudent to trim risk ahead of what we expect to be a prolonged period of volatility.
- While we expect the U.S. economy broadly to perform well, the bank loan market remains susceptible to increased volatility given these risks. Positioning the portfolio appropriately today will put us in a good position to take advantage of a market selloff.

By Thomas Hauser, Joe Bowen, and Brian McAuliff

Credit selection remains important amid some signs of fundamentals weakening and recovery rates under pressure. The B3/B- portion of the Index now represents around 20 per-cent of market value, versus around 5 percent a decade ago, exemplifying the increased tail risk in the market.

### Rise in B3/B- Credit Indicates Elevated Tail Risk, Highlighting Credit Selection

S&P UBS Leveraged Loan Index Single-B Composition



Source: Guggenheim Investments, S&P UBS, Pitchbook. Data as of 12.31.2025.

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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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