

Attractive Relative Value Amid Brisk New Supply

We favor senior commercial ABS and CLO tranches.

ABS continues to offer relative value with excess yield compared to similarly rated corporate bonds, and upside price potential if that relationship compresses. We expect new commercial ABS supply to remain elevated, as digital infrastructure will require continued capital investment to fund high growth needs. Meanwhile, both middle market (MM) and broadly syndicated loan (BSL) CLOs offer attractive absolute yields (similar to bank loans), and relative value compared to other credit categories. Net supply remains muted, which is a favorable technical backdrop.

Sector Commentary

- **ABS:** The spread difference between ratings-matched ABS and corporate bonds currently ranks at its 78th percentile, suggesting attractive relative value for commercial ABS sectors. New issuance has been biased toward whole business securitizations and capital-intensive growth sectors such as fiber internet.
- **CLOs:** We saw elevated levels of both new issuance and refinancing activity in the third quarter, which was met with strong investor demand. As spreads tightened throughout 2024, the arbitrage between asset spreads and the cost of debt has improved, leading to increased interest among investors in CLO equity. CLO managers continue to improve the credit quality of their portfolios, reducing CCC concentrations to about 6.1 percent in the third quarter from 6.6 percent in the same period last year. Minimum overcollateralization cushions—which determine when cash flows are diverted away from junior tranches—are at healthy levels of roughly 4.2 percent.

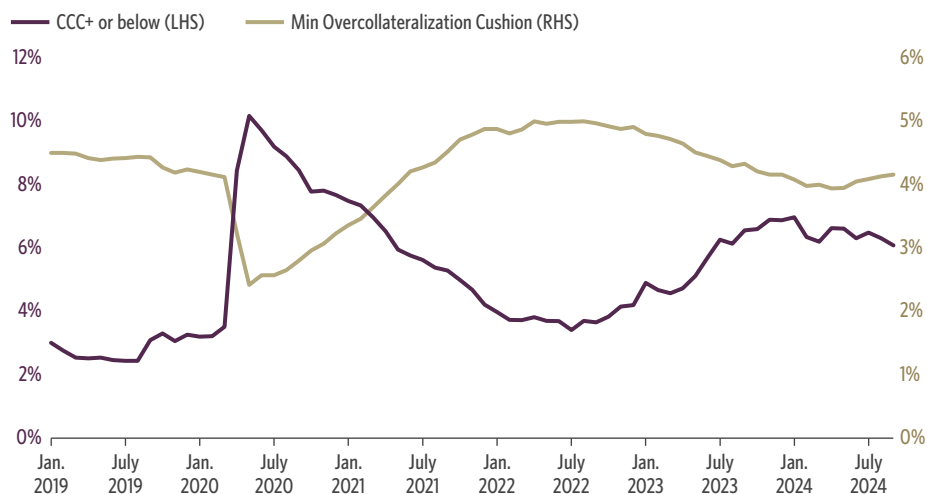
Investment Themes

- **ABS:** We favor senior exposures in longer duration opportunities backed by high quality commercial collateral such as franchise royalties, fiber networks, and containers. Additional areas of focus are in senior positions in esoteric consumer ABS with conservative levels of credit enhancement.
- **CLOs:** We believe both senior and mezzanine tranches offer an attractive spread pickup compared to similarly rated corporate debt. While the basis between MM and BSL CLO tranches continues to remain at historically tight levels, the absolute carry profile is attractive for both. Manager and credit selection remain important as we anticipate increasingly divergent performance going forward.

By Michael Liu, Scott Kanouse, and Pooja Shendure

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CLO Portfolio Quality Has Improved Over the Last Year and Particularly in Q3



Source: Guggenheim Investments, Intex. Data as of 9.30.2024.

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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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