GUGGENHEIM

Asset-Backed Securities and CLOs

Challenging Market Conditions Create Pockets of Opportunity

With volatility and rising rates pressuring issuance, lower supply is creating opportunities to buy high-rated debt from seasoned managers.

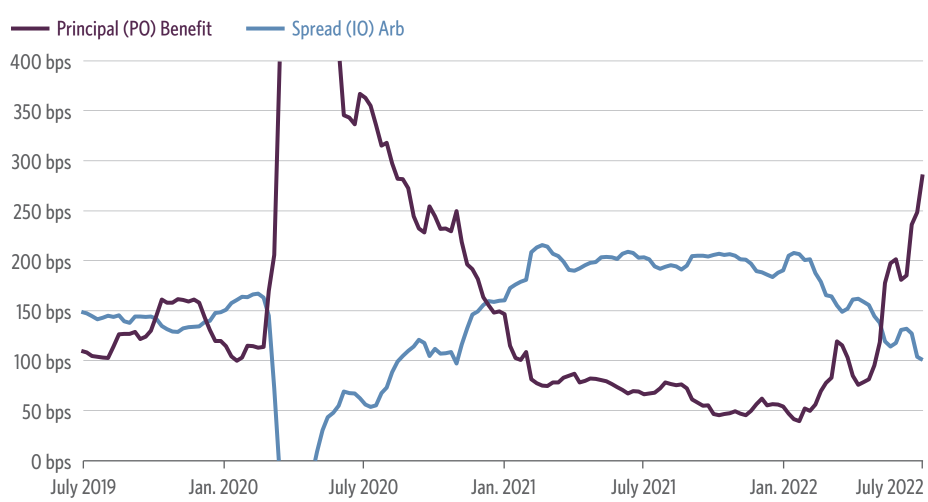
CLO spreads widened in the second quarter, although new issuance remained resilient amid increasing volatility and uncertainty in the markets. As of June 30, U.S. CLO new issuance was $72 billion, while CLO refi/reset volumes were $22 billion. During the quarter, CLO spreads were 70–110 basis points wider for AAA through A tranches, BBB tranches widened by 180 basis points, and BB tranches widened by 215 basis points. There has been increased dispersion in the primary markets, as established managers with a deeper investor base have been able to lock in liabilities at more favorable levels. The discounted prices in the leveraged loan market have created an interesting dynamic for CLO equity. Even though the traditional spread arbitrage has compressed as CLO liability costs have increased more than spreads on the underlying loan assets, loans have sold off and can be purchased at a meaningful discount to par. This has created a principal benefit from the expected pull to par of the loans that is at a post-COVID high, resulting in "print and sprint" type of transactions pricing. However, AAA demand has dampened, and we expect slowing issuance through year end. We prefer senior tranches from up-in-quality managers with a proven track record of navigating difficult market environments.

Esoteric ABS spreads widened approximately 30–50 basis points in the second quarter, depending on subsector. The spread widening was generally in line with corporate bonds of similar ratings and maturity. Total ABS issuance was 10 percent higher year to date versus 2021, though esoteric ABS issuance was 40 percent lower year to date versus 2021, and 12 percent lower than the average of 2018 and 2019. Year-to-date issuance declined in whole business securitization, containers, and triple-net lease, but increased in rate-reduction ABS. Marketing periods have increased and syndicate desks look for anchor investors before engaging in broad marketing. We have seen deals pulled from marketing and downsized; correspondingly, issuers are more willing to offer spread and structural concessions in exchange for certainty of execution. Credit fundamentals remain sound across the vast majority of commercial ABS underlying asset types, and ABS continues to offer incremental spread versus similarly rated corporate credit alternatives. We remain vigilant about the potential for rollover risk as higher interest rates could pressure future asset values and debt coverage.

By Michael Liu, Scott Kanouse, Josh Erde, and Dominic Bea

Even though the traditional spread arbitrage has compressed as CLO liability costs have increased more than spreads on the underlying loan assets, loans have sold off and can be purchased at a meaningful discount to par. This has created a principal benefit from the expected pull to par of the loans that is at a post-COVID high, resulting in "print and sprint" type of transactions pricing.

Heavily Discounted Loans Push Principal Benefit to a Post-COVID High



Source: Guggenheim Investments, Credit Suisse, Bloomberg Data as of 7.1.2022.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Investing involves risk. In general, the value of fixed-income securities fall when interest rates rise. High-yield securities present more liquidity and credit risk than investment grade bonds and may be subject to greater volatility. Asset-backed securities, including mortgage-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 risk. Investments in floating rate senior secured syndicated bank loans and other floating rate securities involve special types of risks, including credit risk, interest rate risk, liquidity risk and prepayment risk.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Partners Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Fund Management (Europe) Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management.

GPIM 53597