

Asset-Backed Securities and CLOs

The New Issuance Engine that Could



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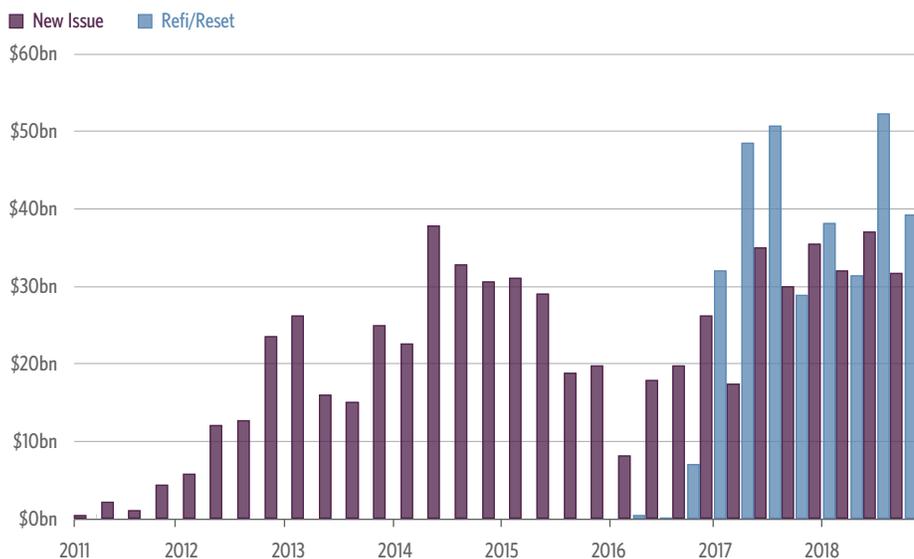
CLO new issuance is on track for a record year; esoteric ABS gains in popularity.

CLO spreads widened due to heavy new issuance supply throughout the third quarter. Year-to-date CLO issuance is currently outpacing 2017 by \$18 billion (see chart, top right) and has pushed CLO spreads to the widest levels in the last 12 months. Robust supply is likely to continue: the removal of risk retention requirements offers market access to smaller managers, and the favorable economics of refinance and reset transactions encourages activity from existing CLO equity investors. From a fundamental perspective, CLO documentation standards remained relatively unchanged in the third quarter. A recent rating agency whitepaper called attention to increased leverage in CLOs' bank loan collateral. As a result, that rating agency decreased the recovery assumptions for future loan defaults. While we do not expect the decreased recovery assumptions to immediately impact rating methodology, we are closely monitoring those collateral trends at this late stage in the credit cycle.

The esoteric ABS market continues to grow and currently stands at \$22.5 billion. New issuance of franchise finance, structured settlements, maritime container, aircraft, and a collateralized fund obligation ABS were all successfully marketed, as esoteric ABS continues to benefit from a broadening investor base. The increased attention has driven spreads in some sectors to post-crisis tights, and in the case of franchise finance to spreads comparable to investment-grade corporate bonds. In this rally, we remain focused on less-followed subsectors in which we can capture information premiums instead of taking on additional credit or leverage-based risk.

We currently find value in short-tenor CLOs and select esoteric ABS. CLO supply pressures have flattened the term curve for CLOs to the point where defensive short-spread duration CLOs are now comparably priced to riskier longer-spread duration CLOs. We will remain focused on esoteric commercial ABS in the fourth quarter.

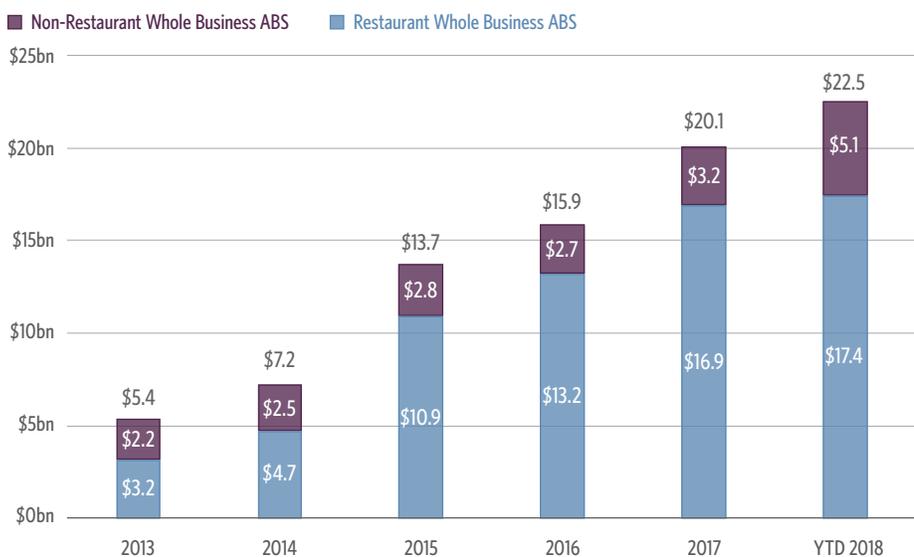
High New Issue, Refi, and Reset Transaction Volumes Have Pressured CLO Spreads



Source: S&P Global Market Intelligence, Guggenheim Investments. Data as of 9.30.2018.

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Non-Restaurant Whole Business ABS Market Share Is Growing



Source: Guggenheim Securities. Data as of 9.30.2018.

The esoteric ABS market continues to grow and currently stands at \$22.5 billion. The restaurant market share has grown over time, but non-restaurant businesses have recently accessed whole business ABS markets to meet financing needs. That market has grown from \$3.2 billion in 2017 to \$5.1 billion so far in 2018.

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 Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Real Estate, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management. ©2018, Guggenheim Partners, LLC. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission of Guggenheim Partners, LLC.