

## Asset-Backed Securities and CLOs

# Aircraft ABS Is Flying Off the Shelves



**Peter Van Gelderen**  
Managing Director

Investor demand for investment-grade credit is increasing competition for aircraft ABS.

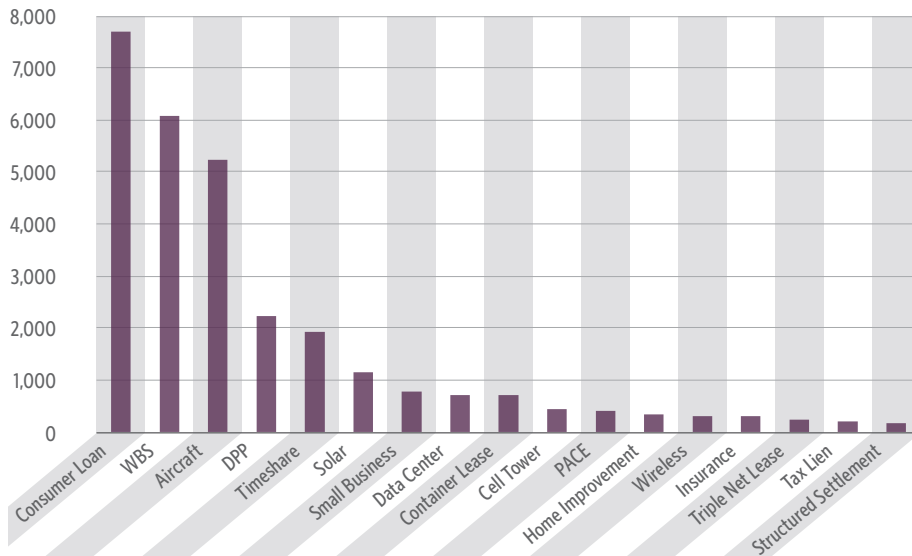
Investor demand for CLOs regained its footing in the second quarter of 2019, causing pricing spreads to tighten and new issuance to match prior volume records. Investors shrugged off negative press relating to the growth and evolution of the CLO and leveraged loan markets, and investment-grade CLO spreads tightened 10–20 basis points throughout the second quarter. Refinance and reset activity increased marginally as pricing spreads improved, but they still only amount to 30 percent of 2018 volumes. New issuance volumes remained strong in the second quarter, however, and are on pace to match 2018's record. We remain constructive on short maturity, senior tranches of middle-market CLOs, where we have been able to uncover compelling risk-adjusted value.

Issuance in esoteric ABS varied greatly by subsector in the first half of 2018, but unsecured consumer loans, aircraft, and whole business ABS accounted for two thirds of all esoteric ABS issuance (see chart, top right). We previously highlighted the strength in the whole business ABS market, and here we will focus on the growth in the aircraft ABS market. Aircraft ABS issuance year to date in 2019 has already almost reached the total issuance volume of 2018, one of the strongest years of issuance on record for aircraft ABS (see chart, bottom right). Ongoing strength in air traffic growth, continued good credit performance, and syndicated equity transaction structures have increased investor sponsorship of aircraft ABS. While we remain skeptical about the marketed economics of syndicated equity investments, investor enthusiasm for the space is undeniable and has contributed to the growth in the aircraft ABS market.

We expect our investment focus to remain on bespoke opportunities, middle-market CLOs, commercial ABS, and aircraft ABS.

**Esoteric ABS Centers on Consumer Loans, Aircraft, and Whole Business ABS**

Issuance in \$millions, YTD 2019

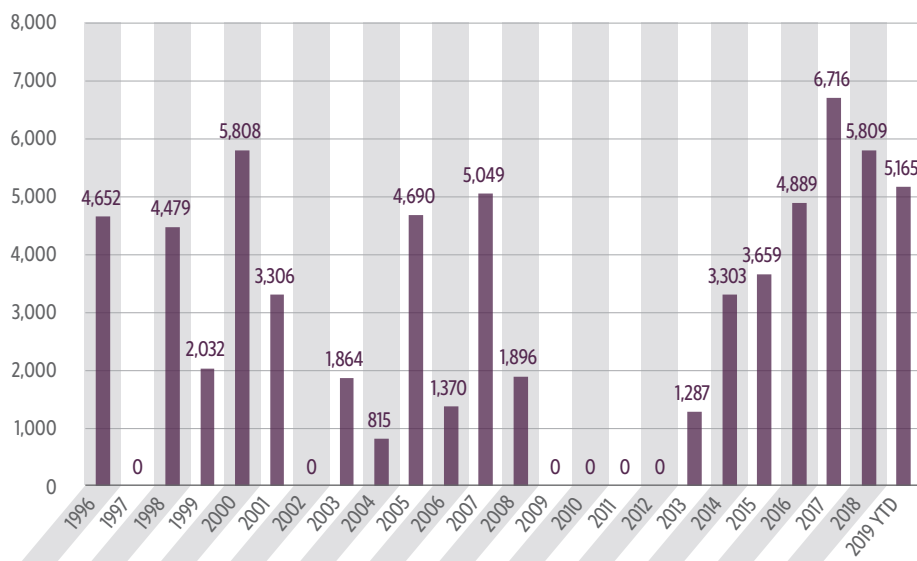


Source: Guggenheim Investments, Bloomberg, Citi. Data as of 7.16.2019.

Unsecured consumer loans, aircraft, and whole business ABS accounted for two thirds of all esoteric ABS issuance in the first half of 2019.

**2019 Sets Record for Aircraft ABS**

Issuance in \$millions



Source: Guggenheim Investments. Data as of 7.15.2019.

The number of lessors accessing the aircraft ABS market and the issuance of aircraft ABS has surged in recent years. Ongoing strength in air traffic growth, continued credit performance and syndicated equity transaction structures has increased investor sponsorship of aircraft ABS.

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, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management. ©2019, 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.