

# The current opportunity in *CLO equity*

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Periods of volatility in the broadly syndicated loan market have historically created compelling entry points for CLO equity investors—and today’s environment is no exception.

Lower secondary prices mean many senior secured loans are now trading at discounts, refocusing attention on entry price for CLO equity strategies designed to reinvest through market cycles.

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## A dislocated loan market creates an attractive entry point

Recent market dislocations have pushed secondary loan prices lower and spreads wider, leaving many senior secured loans trading below par. For CLO managers deploying capital today, this environment can enable the acquisition of high-quality assets at more attractive entry points.

Buying loans at a discount can enhance total return if those assets repay at par or recover toward par over time. This “pull-to-par” dynamic has historically been an important contributor to CLO equity outcomes, particularly for managers able to deploy and reinvest capital through market volatility.

CLO structures are particularly well-positioned to capitalize on these environments, as managers can actively deploy capital during periods of stress while maintaining long investment horizons.

## CLO structures are designed to navigate volatility

At a time when liquidity dynamics across parts of the private credit universe are under increased scrutiny, CLOs offer several structural features that can be advantageous during volatile periods:

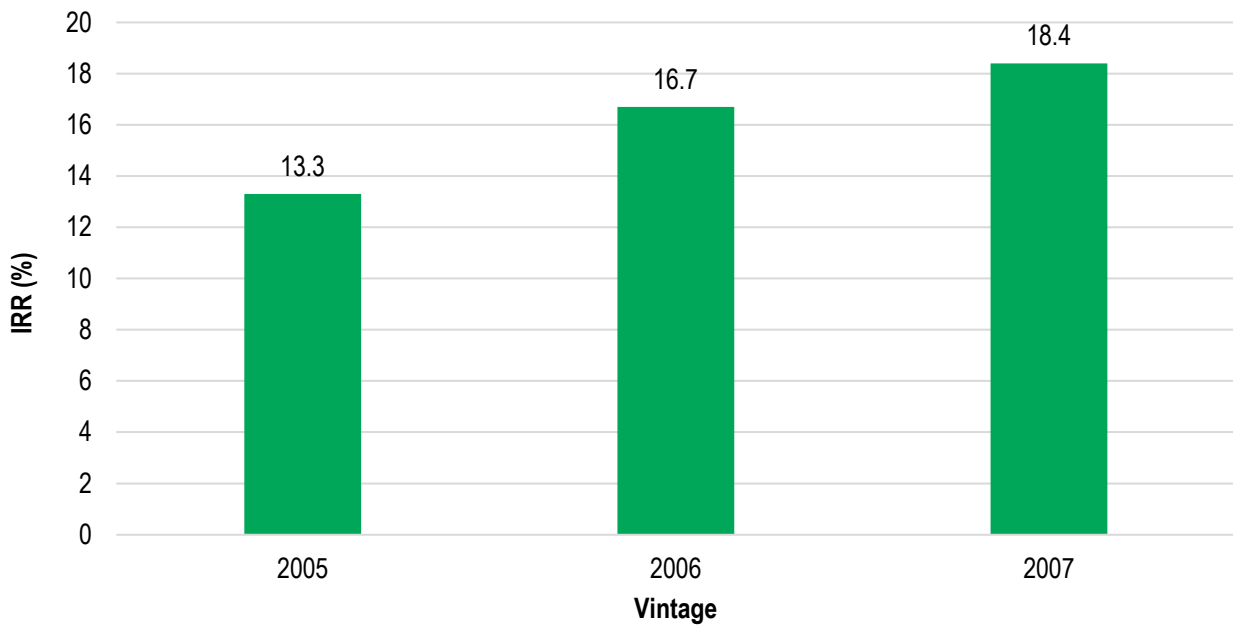
- *Long-dated financing*—CLO liabilities are typically locked in for several years, providing stable financing that is not subject to investor redemptions or short-term liquidity pressures.
- *No forced selling*—Unlike open-ended vehicles, CLOs are not subject to redemption-driven selling pressures and are not forced sellers in response to mark-to-market volatility. This allows managers to hold positions through volatility and, where appropriate, reinvest or add exposure when loan markets dislocate.
- *Flexibility to refinance liabilities*—As credit markets normalize, managers may refinance or reset CLO liabilities, reducing financing costs and potentially improving equity economics.
- *Active management and reinvestment flexibility*—CLO managers actively manage portfolios over the life of the transaction. As loans repay or are sold, proceeds can be reinvested into new opportunities, allowing managers to respond to changing market conditions and access relative value across the loan market.
- *Transparency of underlying assets*—Underlying loan portfolios are actively priced in the secondary market, providing clear visibility into credit fundamentals and valuation trends. This allows skilled managers to identify relative value opportunities when prices are dislocated by technical factors or market mispricing, within a long dated, non redemption driven structure.

## Why dislocations have historically favored CLO equity

CLO equity vintages issued or actively reinvesting during periods of market stress have historically delivered some of the strongest outcomes, including through episodes like the Global Financial Crisis, the European sovereign debt crisis and the COVID-19 market dislocation. In these environments, managers have been able to acquire loans at discounted prices, positioning portfolios to benefit as markets stabilize.

As an example, CLO equity vintages issued during 2005–2007, ahead of one of the most stressed periods of the past two decades, delivered approximately 13–18% lifetime IRRs. These vintages benefited from locking in relatively low pre-crisis liability costs and reinvesting through the downturn at wider loan spreads.

### Median CLO equity IRRs by vintage (2005-2007)<sup>1</sup>



More recently, a similar pattern was observed during the COVID-19 dislocation, with 2020 CLO equity vintages delivering median realized IRRs of approximately 22-23% across US and European markets<sup>1</sup>. European vintages associated with the 2022 dislocation have also continued this trend, with median realized IRRs exceeding 30%.<sup>1</sup>

### The current return opportunity

Today's spread and liability backdrop shares several characteristics with past periods of market dislocation. Based on current assumptions, newly issued or recently reset CLOs may offer:

- IRR potential of 10-15%<sup>2</sup>
- Current cash yields of 12-17%<sup>3</sup>

For investors seeking income and total return in credit markets, the current environment presents a compelling entry point for CLO equity investors.

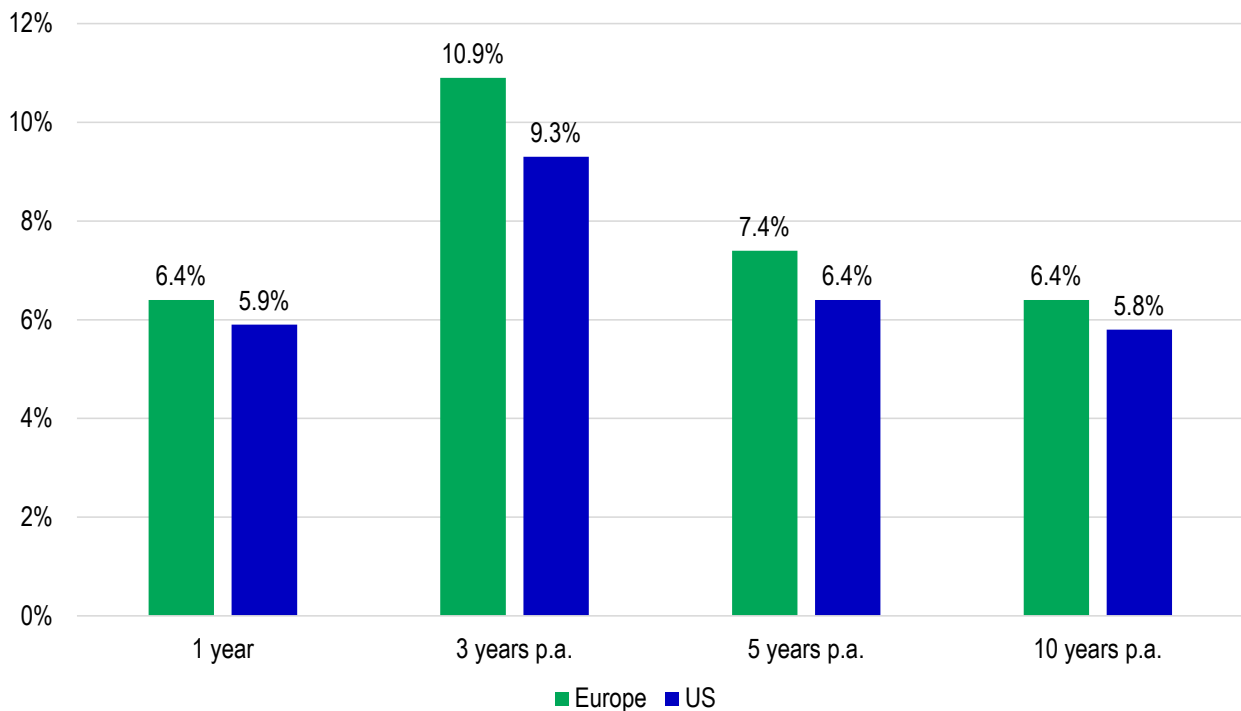
## The European perspective

Recent headlines around private credit, particularly concentrated exposure to software and technology companies, have highlighted the importance of diversification and underwriting discipline. With this in mind, the European loan market provides a meaningful source of diversification as European CLO portfolios typically exhibit:

- Lower exposure to technology and software
- Broader sector diversification
- Long-standing records of strong credit performance

Looking at European and US loans returns in the chart below, you can see that European loans have outpaced U.S. loans over 1, 3, 5, and 10 years (USD-hedged), reinforcing Europe's role as a diversifier and a source of relative value.

### European and U.S. loans (USD-hedged) returns over 1, 3, 5, and 10 years<sup>4</sup>



### A timely opportunity

Market volatility has pushed many senior secured loans to discounted levels, refocusing attention on entry price. When accessed through long-dated CLO structures designed to reinvest through volatility, this repricing creates a differentiated opportunity where entry price, structure and time can work together to shape long-term total-return outcomes.

## Sources

1. BofA Global Research, Intex, PriceServe. As of December 5, 2025.

Note: Leverage Ratio Filter applies. Past performance is not a reliable indicator of future results.

2. IRR ranges reflect average realised IRRs for EU (c. 15%) and US (c. 10%) CLO equity vintages from 2013 onwards, based on Bank of America data as at December 2025 (EU) and January 2026 (US).

3. Cash yield ranges reflect long-term averages based on JPMorgan data as of September 2025. Estimates incorporate EU and US CLO equity cash yields since the early 2000s (covering 1.0 and 2.0 CLOs).

4. MCQS, as of December 31, 2025. Indexes are shown for European loans and U.S. loans. Past performance is not a guarantee of future results.

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