



# The CLO Investor

Brief insights into trends and news shaping CLO investing

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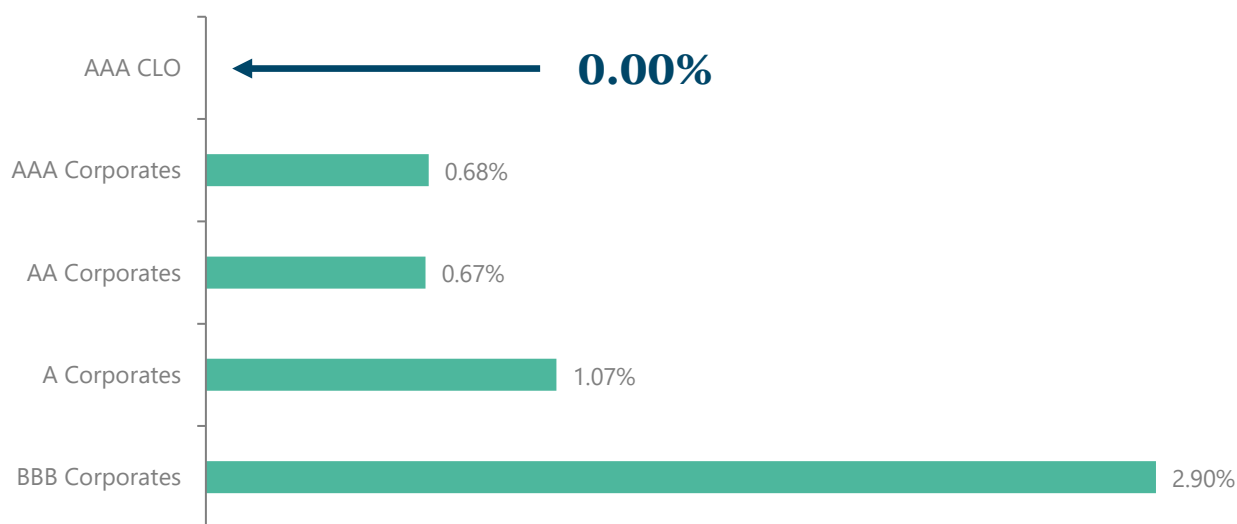
## What do Macy’s, Kodak and General Motors have in common?

Macy’s, Kodak and General Motors are 3 of the 8 corporate issuers initially rated ‘AAA’ which have defaulted between 1981-2023.<sup>1</sup> In the same period, 33 issuers initially rated ‘AA’, 101 issuers initially rated ‘single-A’ and 234 issuers initially rated ‘BBB’ defaulted – a good reminder to investors that an investment grade rating does not equate to a risk-free investment...

Further complicating matters for fixed income investors, current EUR IG corporate spreads are clearly tight. iTraxx Main is currently at 53bps<sup>2</sup> and has a median rating of BBB.<sup>3</sup> We think AAA EUR CLOs present an interesting alternative to traditional EUR IG corporate credit by offering a pickup both in rating and in spread. They are currently pricing at Euribor+127bps<sup>4</sup> and have not experienced a single default in over 25 years (the beginning of rating agency data for the product).<sup>5</sup> A track record that covers the Asian Financial Crisis (1997), Russian default (1998), Dot-com bubble (2000-2002), Global Financial Crisis (2007-2008), Eurozone crisis (2009-2012), and COVID (2020).

### Global corporate defaults vs AAA CLOs

10-year cumulative default rates of global CLOs and corporates between 1997-2023 and 1981-2023, respectively<sup>1,5</sup>



Source: S&P Global Ratings

Macy’s defaulted on 27<sup>th</sup> January 1992 and Kodak on 19<sup>th</sup> January 2012. This January, as we pass their 33<sup>rd</sup> and 13<sup>th</sup> anniversaries, we think it is worth investors reflecting on the potential benefits of a CLO allocation in corporate credit portfolios!

Should you have any queries, please do not hesitate to contact us.

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## Endnotes

1. S&P, "Default, Transition, and Recovery: 2023 Annual Global Corporate Default And Rating Transition Study", 28-Mar-24.  
Other AAA defaults: Ally Financial Inc. (formerly known as GMAC Financial--a subsidiary of General Motors Corp.), Ambac Assurance Corp., Mutual Benefit Life Insurance Co., Executive Life Insurance Co. CA. and Confederation Life Insurance Co.
2. S&P's "Default, Transition, and Recovery: 2023 Annual Global Corporate Default And Rating Transition Study", 28-Mar-24.
3. Bloomberg and Fair Oaks Capital, reference obligation/entity ratings as at 28-Jan-25.
4. JP Morgan as at 24-Jan-25. Euro AAA CLO primary DM.
5. S&P's, "Default, Transition, and Recovery: 2023 Annual Global Leveraged Loan CLO Default And Rating Transition Study", 27-Jun-24.

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