



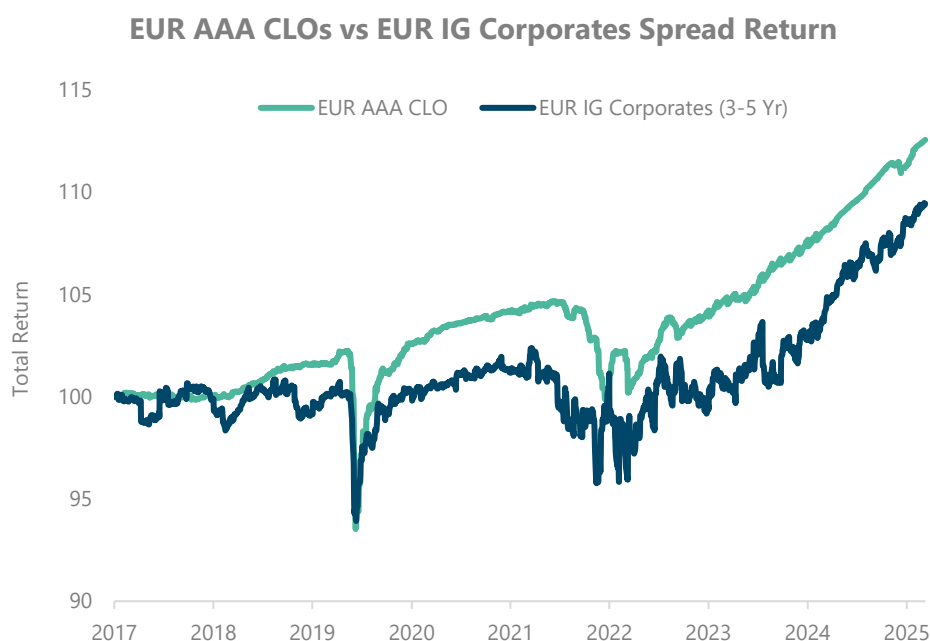
The CLO Investor

Brief insights into trends and news shaping CLO investing

Issue No. 6, July 2025

The cost of being underweight CLOs

Historically, AAA CLOs have offered a greater return than investment-grade ("IG") corporates (even when compared against lower rated AA-BBB corporates).^{1,2} Admittedly, corporates have been negatively impacted by their rates duration over the years (whereas CLOs are floating rate), but even when stripping out the rates total return from both products, we still observe the cumulative outperformance of European AAA CLOs given their positive spread basis.³ This positive basis has fluctuated over time but has remained positive for as long as we have had data to track it.⁴



Sources: Fair Oaks Capital, JP Morgan and Bloomberg as at 30-Jul-25

So why is this? We have previously discussed the robust fundamental credit performance of AAA CLOs ([The CLO Investor: Issue No. 1](#)) and how they performed better than other asset classes during recent volatility ([The CLO Investor: Issue No. 3](#)). We attribute the positive basis to the perceived complexity of the product. CLOs are a more technical market and require specialist systems and expertise to invest effectively. Historically, not all institutions have had the scale or knowledge to do so themselves. However, CLO ETFs now offer a low-cost way for institutions to allocate to the CLO market via a tradable and transparent product managed by product specialists. This could lead to a narrowing of the basis over time. Until then, every day it remains positive adds to the opportunity cost of not investing in European AAA CLOs.



We believe asset allocators who are currently underweight in European AAA CLOs in favour of European IG corporates should think carefully about the potential for underperformance relative to their peers over the medium to long term.

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

Endnotes

1. As measured by spread/discount margin vs risk free rates.
2. JP Morgan as at 01-Jul-25. Euro AAA CLO, AAA to BBB EUR Corporates 3-5 year total return (includes Industrials and Financials).
3. Fair Oaks Capital, JP Morgan and Bloomberg data as at 30-Jul-25. EUR AAA CLO, EUR Corporates AAA to BBB 3-5-year total return (includes Industrials and Financials), EUR Government 5-year term total return (BCEX2T Index) & Euribor 3M (EUR003M). IG Corporates spread return calculated by subtracting the total return of the Bloomberg Euro Government 5-year term total return index from the JP Morgan EUR Corporate total return index. AAA CLO spread return calculated by subtracting the cumulative return of EUR003M, struck quarterly from the JP Morgan EUR AAA CLO total return index.
4. JP Morgan as at 30-Jun-25. EUR AAA CLO historical primary spreads.



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