



The CLO Investor

Brief insights into trends and news shaping CLO investing

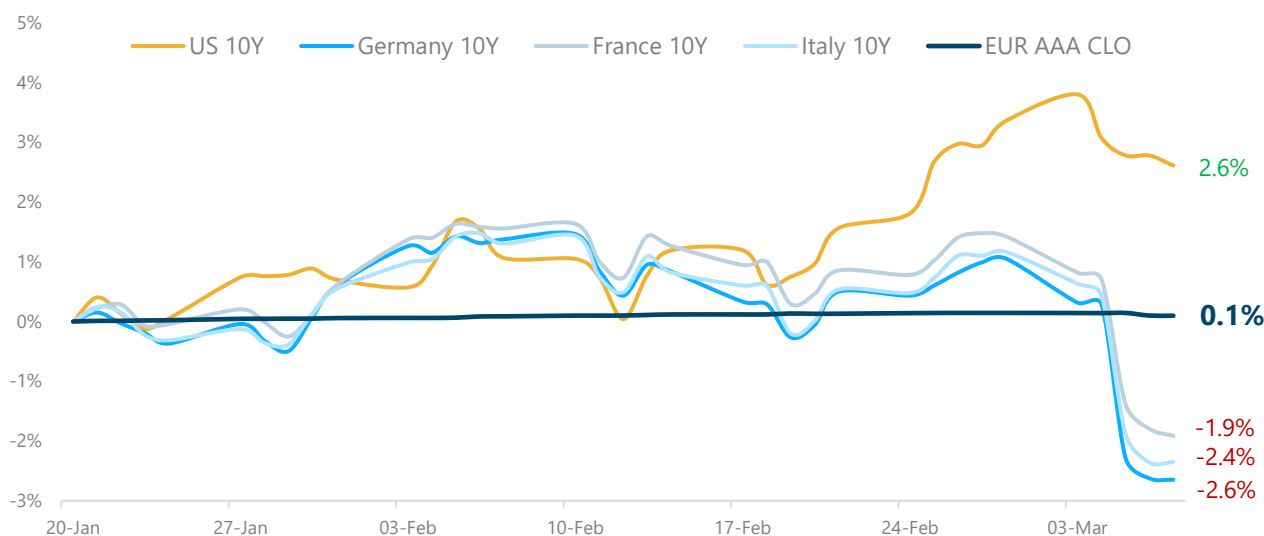
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52 days and counting...

The global rates markets have had a volatile couple of weeks. In Europe, after a political agreement was struck in Germany to significantly expand fiscal spending on military and infrastructure,¹ the 10-year German Bund yield spiked 31bps – the biggest one-day move since 1997.² The sell-off impacted other markets and we saw similar moves across markets including France and Italy.³

As investors re-evaluate potential German growth expectations (and borrowing) upwards, in the US they're adjusting the growth trajectory down – US 10-year rates have decreased by 32 bps since 20th January.³ This is all only a few weeks after the market consensus on growth was bullish on the US and bearish on Europe!

Price change of 10-year government bonds and EUR AAA



Source: Bloomberg, JPM & Fair Oaks Data, 06-Mar-25.

We're only 52 days into the new US administration and the heightened macro volatility shows no signs of stopping.

In this environment, Fair Oaks believes AAA-rated CLOs offer an interesting investment case for credit investors:

1. They offer a compelling yield to maturity of 3.6%⁴ for a AAA-rated asset and a pickup to similarly rated credit products.⁵
2. They have exhibited lower levels of volatility than some people might expect.⁶
3. They are floating rate instruments, meaning CLOs avoid the direct gyrations of the rates market.
4. They benefit from structural protections which reduce the impact of idiosyncratic defaults.

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

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Endnotes

1. Financial Times, "Germany's Friedrich Merz strikes 'game-changing' deal to boost defence spending", 04-Mar-25.
2. Financial Times, "German borrowing costs soar by most since 1997 on 'historic' debt deal", 05-Mar-25.
3. Bloomberg and Fair Oaks Capital as at 10-Mar-25. Reference bonds US 10YR: T 4.25 11/15/34, Germany 10YR: DBR 2.5 02/15/35, France 10YR: FRTR 4.75 04/25/35, Italy 10YR: BTPS 3.65 08/01/35.
4. JP Morgan as at 07-Mar-25. Euro AAA CLOIE yield to maturity.
5. JP Morgan as at 07-Mar-25. Corporate (includes Industrials and Financials) AA 3-5 year maturity yield of 2.9%.
6. JP Morgan and Fair Oaks Capital as at 07-Mar-25. Euro CLOIE AAA Index return, Corporate (includes Industrials and Financials) and Senior bank AAA to BBB 3-5 year index level. Sovereign 2Y total return calculated using mid yield and average duration over the period.

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