



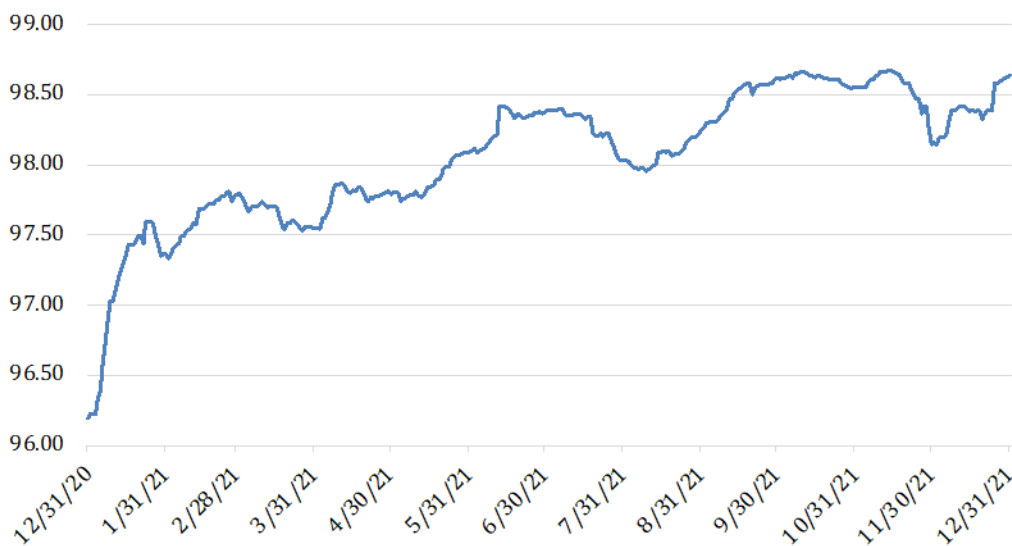
CLO Insider Newsletter January 2022.

Welcome to **CLO Insider**, a monthly commentary on the CLO Equity Markets from **Mike Kurinets**, CIO of Capra Ibex Advisors and Capra Credit Management.

Loan prices inched higher in December

In December, prices in the leveraged loan market ended the month higher by 0.26 points [1]. Overall, December didn't hold any surprises. The leveraged loan market gains were predominantly a partial reversal of the late November Omicron-related selloff. This selloff took place over the final 3 days of November, as Omicron began to dominate headlines with loan prices plummeting 0.4 points.

Below is a recap of loan price performance since the end of 2020:





December’s US CLO new-issue activity [2]

The new-issue CLO market moved at a rapid pace from August to November, as managers rushed to close deals with CLO liabilities that referenced Libor before the mandatory transition to SOFR occurring in January 2022. This rapid new-issue pace culminated with an all-time record in monthly new issuance this November.

However, December saw a clear slowdown. Since it typically takes 4 to 6 weeks between the pricing and closing of a CLO, December was likely considered too late for the CLO liabilities to close before the cut-off of January 1st. If the close of these CLOs slipped into 2022, CLO liabilities would have had to reference SOFR instead of Libor, adding basis risk [3] to the deal.

Without a clear indication of how the market will react to SOFR-based deals, managers decided to sidestep these risks by moving up their CLO pipeline to close before the end of the year. Therefore, a week into December, new-issues and resets essentially came to a complete halt.

	November 2021 (\$ bn)	December 2021 (\$ bn)	Year End 2021 (\$ bn)
New issue	26.4	10.3	186.7
Refinancing	5.7	5.8	112.2
Reset	11.3	6.1	136.7
TOTAL	43.4	22.2	435.6

Spreads on CLO liabilities were wider in December

In our last letter we talked about how, after months of CLO spreads holding firm in the face of significant issuance volumes, November’s record setting



totals finally forced spreads to widen out some. In December, with volumes significantly down, we continued to see marginal widening across the entire capital structure. The most likely explanation of the widening in December is a combination of the concerns over Omicron and the lower investor demand into year-end.

	June - October	November	December
CLO Tranche	<i>Spread Widening</i>	<i>Spread Widening</i>	<i>Spread Widening</i>
AAA	3-5	0	5.5
AA	0	10-15	5
A	0	0 -10	7.5
BBB	0	10-15	10
BB	0	10-25	5

Footnotes

[1] Based on our tracking of 907 CLOs

[2] All data are sourced from S&P Global Market Intelligence. Both Broadly Syndicated Loan (BSL) and Middle-Market (MM) CLOs are included. On average in 2021, BSL CLOs have represented approximately 90% of total US\$ CLO new issue volume.

[3] Please see our CLO Insider Newsletter_December 2021 and CLO Insider Newsletter_November 2021 for a full explanation of the basis risk associated with transition from Libor to SOFR in 2022.



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