

Global Collateralized Loan Obligation (CLO) Market: Analysis By Value, By BWIC Value, By Issuance, By Sector (Technology, Services, Healthcare, Financial, Industrials, Food & Beverages, Housing, Paper & Packaging, Transportation, Automotive, and Others), By Rating (AAA, AA, A, BBB, BB, B, and Equity), By Type (IG, Non-IG, and EQ), By Investor Base (Bank, Asset Manager, Insurance & Pension, Hedge Fund, and Others), By Region Size and Trends with Impact of COVID-19 and Forecast up to 2028

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Abstracts

The global CLO market was valued at US\$1.26 trillion in 2022. The market value is expected to reach US\$2.71 trillion by 2028. A collateralized loan obligation (CLO) is a structured financial product that pools together a diversified portfolio of corporate loans and packages them into different tranches of securities. These tranches, varying in risk and return profiles, are sold to investors. The US issuance has reached US\$136.82 billion in 2022. On the other hand, the Europe CLO market issuance has reached US\$27.64 billion by the end of 2022.

Looking ahead, the CLO market is expected to continue its growth trajectory for several reasons. The ongoing search for yield in a prolonged low-rate environment is likely to persist, sustaining investor interest in CLOs. As economic conditions improve, the credit quality of underlying loans may strengthen, further boosting investor confidence. The maturation of global CLO markets and the establishment of regulatory frameworks contribute to increased market stability and attractiveness. Additionally, continued

innovation in CLO structures, including the incorporation of technology and the adaptation to evolving market trends, positions the CLO market for ongoing growth. The market is expected to grow at a CAGR of approx. 14% during the forecasted period of 2023-2028.

Market Segmentation Analysis:

By Sector: The report provides the bifurcation of the global CLO market into eleven sectors: Technology, Healthcare, Services, Financial, Industrials, Housing, Food and beverages, Paper and packaging, Transportation, Automotive, and Others. The technology segment held the highest share of the market. Technology companies often exhibit strong fundamentals and resilience, making them attractive to investors seeking high returns in a rapidly evolving digital landscape. The sector's transformative impact on various industries and its role in driving economic advancement contributes to the positive outlook for CLO investments.

By Region: The report provides insight into the CLO market based on the regions namely, the US and Europe. The US held the highest share in the global CLO market and is expected to be the dominant region in the forthcoming years. The maturity of the US CLO market, compared to other countries, can be attributed to several factors. Firstly, the US has a well-established and diverse financial ecosystem with a long history of structured finance. The legal and regulatory framework in the US is conducive to the creation and management of complex financial instruments like CLOs. Additionally, the US has a large and dynamic corporate sector, providing ample opportunities for the origination of leveraged loans that form the basis of CLO portfolios.

By BWIC: The report provides an analysis of the US and Europe CLO BWIC (Bid Wanted In Competition) market. Investors utilize BWIC platforms to optimize their portfolios, adjust risk exposures, or capitalize on market opportunities. The growth is fueled by the desire for more efficient CLO trading mechanisms, providing a valuable avenue for market participants to navigate the complexities of the CLO market. The US CLO BWIC market has been further analysed based on the ratings (AAA, AA, A, BBB, BB, B, and Equity).

By Type: The US and Europe CLO BWIC market has been further analyzed based on the following types: IG, Non-IG, and EQ. IG CLOs are considered lower-risk and typically have a higher credit quality compared to Non-IG CLOs. The investment in IG CLOs is growing in the US due to the appeal of stable, higher-rated assets, attracting risk-averse investors seeking more conservative fixed-income options. In a low-interest-

rate environment, the pursuit of yield has driven interest in Non-IG and EQ CLOs, while IG CLOs continue to attract investors prioritizing credit quality and stability in their portfolios.

By Rating: The US and Europe CLO market has been further analyzed based on the ratings: AAA, AA, A, BBB, BB, B, and Equity. CLOs receive credit ratings from rating agencies, with AAA being the highest rating indicating the least credit risk. The demand for AAA-rated CLOs is higher than for Equity CLOs due to their superior credit quality and lower risk.

By Investor Base: The US CLO market ratings have been further analyzed based on the investor base including, Bank, Asset Manager, Insurance and pensions, Hedge Funds, and Others. For instance, the Bank held the highest share in the US's AAA-rated CLO market in 2022. On the other hand, Asset Manager, Insurance & Pension held the largest share in the US's Equity CLO market.

Market Dynamics:

Growth Drivers: The global CLO market growth is predicted to be supported by numerous growth drivers such as growing leveraged loan market, growing private debt, increase in TRACE trading, narrowing bid/ask spread, high comparative risk-adjusted returns, low default rates, favorable government regulations, diversification benefits, increasing risk appetite and investor confidence, and many other factors. As the leveraged loan market expands, it provides a larger pool of assets for CLO issuances. This growth is particularly influential for CLO managers, who can access a diverse set of loans to construct portfolios with varying risk and return profiles. The demand for leveraged loans as CLO collateral contributes to the creation of more CLOs, attracting investors seeking exposure to higher-yielding debt instruments. The symbiotic relationship between the leveraged loan and CLO markets highlights how the expansion of one positively influences the growth and vibrancy of the other, creating opportunities for both issuers and investors in the structured finance landscape.

Challenges: However, the market growth would be negatively impacted by various challenges such as economic policy uncertainty, liquidity risk, complexity and understanding, etc.

Trends: The market is projected to grow at a fast pace during the forecast period, due to various latest trends such as increasing exposure to SOFR loans, increasing adoption of innovative technologies, increasing demand for ESG-compliant CLOs, globalization

of CLO market, innovation in CLO structure, increasing focus on middle market, etc. In CLO market, technology solutions have emerged as a vital catalyst in mitigating obstacles (such as identifying attractive investment opportunities, navigating reinvestment period constraints, balancing risk and return, etc.) and making CLO management easier and fund managers more effective.

Impact Analysis of COVID-19 and Way Forward:

The COVID-19 pandemic significantly impacted the global CLO market in 2020. While the initial impact of COVID-19 on the collateralized loan market was challenging, the adaptability of CLO structures, active portfolio management by market participants, and supportive government measures collectively contributed to the CLO market's ability to weather the storm and ultimately maintain a positive trajectory in 2020. Improvements in economic indicators and corporate performance post-pandemic positively influenced the creditworthiness of underlying loans in CLO portfolios. As default rates stabilized and economic conditions improved, investor confidence in the asset class grew, resulting in CLO market growth.

Competitive Landscape:

The global CLO market is competitive in nature which means there are numerous asset managers and financial institutions actively involved in structuring, managing, and issuing CLOs. Major financial institutions, investment banks, and specialized asset management firms often compete to attract investors and participate in CLO transactions. The key players in the global CLO market are:

Morgan Stanley (Eaton Vance)
Prudential Financial, Inc.
BlackRock, Inc.
Apollo Global Management, Inc.
Ares Management Corporation
MassMutual (Barings LLC)
Conning, Inc. (Octagon Credit Investors, LLC.)
HPS Investment Partners, LLC
Brigade Capital Management, LP
Neuberger Berman
CIFC Asset Management LLC
Blackstone Inc.

CLO market players employ various strategies to increase their market share, including proactive portfolio management, strategic client relationships, and innovative deal structuring. Moreover, several partnerships and initiatives have been undertaken by CLO market players to help increase CLO market growth. For instance, in mid-July 2023, Barings announced entering a strategic partnership with Lakemore Partners, a private credit investment firm that invests mostly in super-majority control CLO equity. Also, several new CLO managers have emerged in the market. For instance, in September 2023, Arini, the hedge fund set up by former Credit Suisse Group AG star trader Hamza Lemssouger, and Sona Asset Management have been marketing their first European CLO deals.

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