European CLO Weekly

CLO equity performance – continued strong cash distributions

14 July 2025

Structured Finance
Europe
CLO

Market update: Surge in resets, stable secondary

On the CLO primary, 3 new issue deals and 5 resets priced. This brings YTD gross new issuance to north of €33bn whilst reset/refi volume is at €24.5bn.

On the CLO secondary, BWIC volume increased to almost €400mn Mon-Thurs, with strong triple-A supply. Spreads finished the week unchanged.

Improved CoC payments in Q2

We update our CLO equity CoC distributions analysis now that all deals have made their Q2 payments. For deals inside the RP, the median CoC payment above par was 5% in Q2, only slightly below record Q2 2024 levels and a small improvement vs. Q1 2025. We attribute this mainly to resets of 2022 & 2023 vintage deals, allowing deals to lower their funding costs and in some cases increase equity leverage.

CLO equity IRRs – dispersion by vintage

We provide CLO equity IRR estimates, both for redeemed deals as well as callable deals still outstanding. There is strong variance in IRRs between vintages. For example, we estimate almost 85% of callable outstanding deals from the 2015 vintage would realize double-digit IRRs if liquidated now. By contrast, only around 20% of deals from the 2016 and 2017 vintages would.

CLO returns – BB at 5.6% annualized since Jan 2018

CLO triple-As, triple-Bs, and double-Bs have returned around 2%, 3.5%, and 5.6% on an annualized basis since January 2018, respectively. Over the period, AAAs have generally had good price stability, and only negative total returns in 2022 (-2.1%). However, whilst outperforming IG credit over the 7.5 years long period, CLO AAAs actually underperformed IG credit from 2018 through 2021 when 3m Euribor was negative/floored at 0% for CLOs. Going forward, we think returns will almost certainly moderate: Remaining deals offering wide coupon spreads (e.g., some 2023 deals) are gradually getting reset at tighter levels. In addition, base rates are declining. Both point towards lower income. As regards price returns, most of the CLO IG and even double-B market is trading at or near par (and higher coupon profiles even above par).

Please email us if you'd like to receive a detailed file on CLO equity performance.

For further developments in the European SF markets, please see **European SF Weekly: Real estate values under scrutiny in RMBS and CMBS,** and **European SF Data Addendum: Uptick in CLO resets, tighter ABS spreads**, both dated 14 July 2025.

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Common Acronyms (link)

Market update

CLO

The ***European CLO primary market*** remained very busy last week, with CLO managers eager to issue or reset deals prior to the seasonal August slowdown. Last week's primary market transactions included 3 new issue deals - **Sona Fios CLO V**, **Fortress Credit Europe BSL 2025-2**, **and Grosvenor Place CLO 2025-3** - as well as 5 resets - **Arbour CLO XII**, **Blackrock European CLO XIII**, **Tikehau CLO V**, **Dryden 66**, and **Barings Euro CLO 2023-2**. In addition, a new issue deal by Napier Park - **Henley CLO XIII** - priced the Friday prior, but information only became available the following Monday.

This brings YTD gross new issuance to more than €33bn. Meanwhile, reset/refi supply stands at €24.5bn, mostly in the form of resets. We expect full year gross new issuance of €48bn as well as reset/refi volume of €45bn for 2025.

Last week's deals priced as follows:

- Henley CLO XIII (priced the week prior) new issue (S&P/Fitch): (AAA/AAA) 133, (AA/AA) 190, (A/A) 230, (BBB-/BBB-) 315, (BB-/BB-) 570, and (B-/B-) 875. The deal also has a junior triple-A tranche priced at 168 bps. Whilst the senior triple-A has 39% par subordination, the junior triple-A tranche attaches at 37.8%.

- Sona Fios CLO V new issue (S&P/Fitch): (AAA/AAA) 134, (AA/AA) 200, (A/A) 245, (BBB-/BBB-) 330, (BB-/BB-) 585, (B+/B+) 800, and (B-/B-) 930. The deal also has a fixed-rate double-A tranche priced at 4.95%.

- Fortress Credit Europe BSL 2025-2 new issue (S&P/Fitch): (AAA/AAA) 138, (AA/AA) 230, (A/A) 260, (BBB-/BBB-) 340, (BB-/BB-) 625, and (B-/B-) 900. The triple-A tranche was offered in loan and note format.

- Grosvenor Place CLO 2025-3 new issue (S&P/Fitch): (AAA/AAA) 137, (AA/AA) 220, (A/A) 255, (BBB-/BBB-) 360, (BB-/BB-) 610, and (B-/B-) 900.

- Arbour CLO XII reset (S&P/Fitch): (AAA/AAA) 135, (AA/AA) 195, (A/A) 235, (BBB-/BBB-) 320, (BB-/BB-) 570, and (B-/B-) 900.

- Blackrock European CLO XIII reset (S&P/Fitch): (AAA/AAA) 137, (AA/AA) 200, (A/A) 225, (BBB-/BBB-) 330, (BB-/BB-) 580, and (B-/B-) 860. The deal also has a faster-amortizing Class X tranche priced at 95 bps. The triple-A tranche was offered both in note and loan format.

- Tikehau CLO V reset (S&P/Fitch): (AAA/AAA) 120, (AA/AA) 200, (A/A) 235, (BBB-/BBB-) 345, (BB-/BB-) 575, and (B-/B-) 875. We note the deal is shorter-dated, with just a 1 year NC and 2 years RP, explaining the tighter triple-A pricing.

- Dryden 66 reset (S&P/Fitch): (AAA/AAA) 137, (AA/AA) 210, (A/A) 250, (BBB-/BBB-) 345, (BB-/BB-) 625, and (B-/B-) 950. The deal has a senior triple-A tranche priced at 180 bps, with 37% par subordination vs. 40% for the senior tranche.

- Barings Euro CLO 2023-2 reset (S&P/Fitch): (AAA/AAA) 138, (AA/AA) 200, (A/A) 245, (BBB-/BBB-) 340, (BB-/BB-) 625, and (B-/B-) 925. The deal also has a fixed-rate double-A tranche paying a 5% coupon.

Last week's supply included 2 relatively young CLO managers – Sona (which entered the market in 2023) and Fortress (which brought its first Euro debut deal in 2024). Further, last week's supply included CQS' second new issue deal since 2022 (the first one was in 2024). Meanwhile, resets continue to consist of a mix of out-of-RP deals (including 2018 & 2019 vintages) as well as higher coupon 2022 & 2023 paper.

New issue CLO triple-A spreads remain in the low 130 to high 130 bps area depending on manager tiering. We attribute the relatively wide triple-A primary levels to strong CLO creation and reset activity – whilst net supply is much weaker than gross supply, strong gross supply means more long-dated triple-A paper coming to the market (whilst the shorter-dated universe is shrinking due to amortization & liquidations), creating a technical headwind for primary triple-As.

The ***CLO pipeline*** remains busy and we expect a very active primary market throughout July and probably some activity even into August. The visible new issue pipeline includes deals by debut manager LGT, ICG, CVC, Fidelity, Voya, Five Arrows, and Blackstone, among others. The visible reset/refi pipeline (including potential refis) includes deals by Arini, Carlyle, AB Carval, Hayfin Emerald, Onex, and Signal, among others.

On the loan market, primary activity slowed down a bit, with some A&E and repricing activity as well as one fungible add-on loan.

On the secondary, the European Leveraged Loan Index (ELLI) was more or less unchanged this week, closing at 97.65 on Thursday, around 1 ppt below its YTD high in late February. CLO BWIC volume increased to almost €400mn Mon-Thurs, with strong CLO triple-A supply. Spreads finished the week unchanged.

Commentary

CLO equity performance in Q2

We discuss CLO equity performance in Q2, including cash on cash distributions (CoC), realized & unrealized IRRs, and trends in equity NAV.

In the second part of this commentary, we provide a high-level overview of CLO total returns over time and contrast it with other asset classes such as credit.

Please email us if you would like to receive a detailed CLO equity performance file, including data on IRRs, deal-level CoC distributions, and NAV and CoC percentiles by vintage over time.

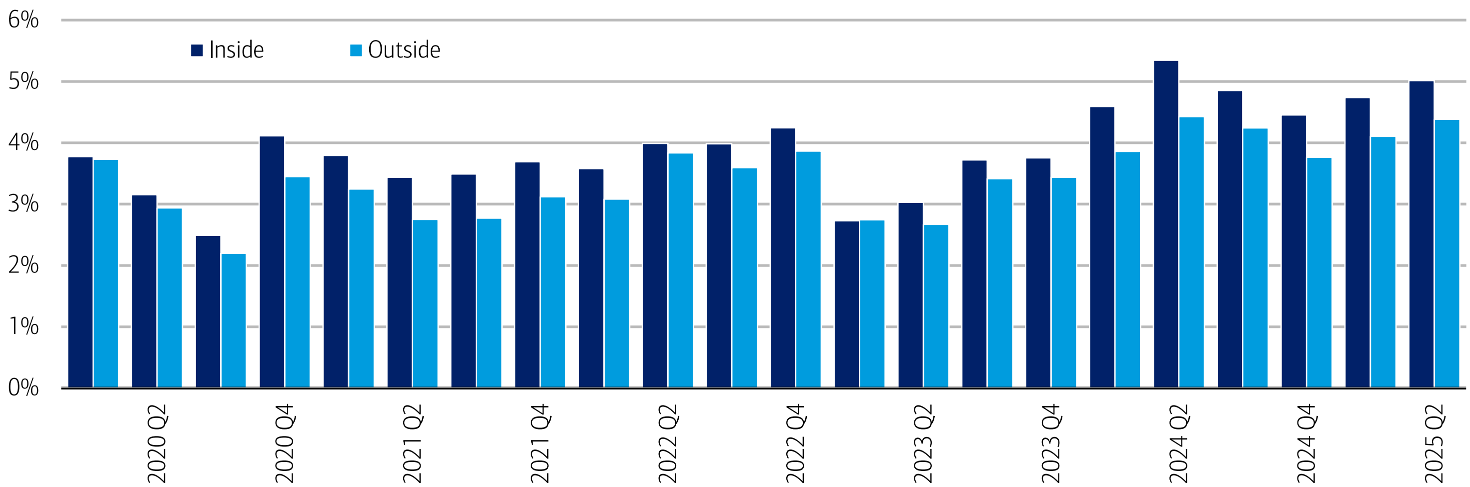
CLO equity CoC distributions – boost from resets

We update our CLO equity CoC analysis for Q2 now that we have a complete dataset (with a smaller proportion of deals making Q2 payments in May or June rather than April).

The median CLO equity tranche inside the RP paid 5% cash over par in Q2 2025, only slightly below Q2 2024 levels (the highest on record for the CLO 2.0 market) and an improvement vs. Q1 2025 (4.7%). Meanwhile, the median CLO equity CoC distribution for deals outside the RP is at 4.4%, though dispersion is high between out-of-RP deals depending on how much or how little they have deleveraged already.

CLO equity CoC distributions remain strong despite downward pressure on WAS from loan repricings, with more than €70bn of loan repricings YTD and north of €80bn in 2025 (see European CLO Weekly: 2025: H1 review & H2 outlook from 30 June 2025). We attribute this mainly to very strong reset/refi activity (especially for the 2022 & 2023 vintages), which allowed deals to lower their funding cost and – in some cases – increase their equity leverage.

Exhibit 1: Median CLO equity CoC distributions over time
On average, cash distributions to equity for deals inside the RP in Q2 2025 were comparable to 2024



Source: BofA Global Research, Intex

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2023 vintage deals that got reset have 2 ppts higher CoC vs. those that haven't

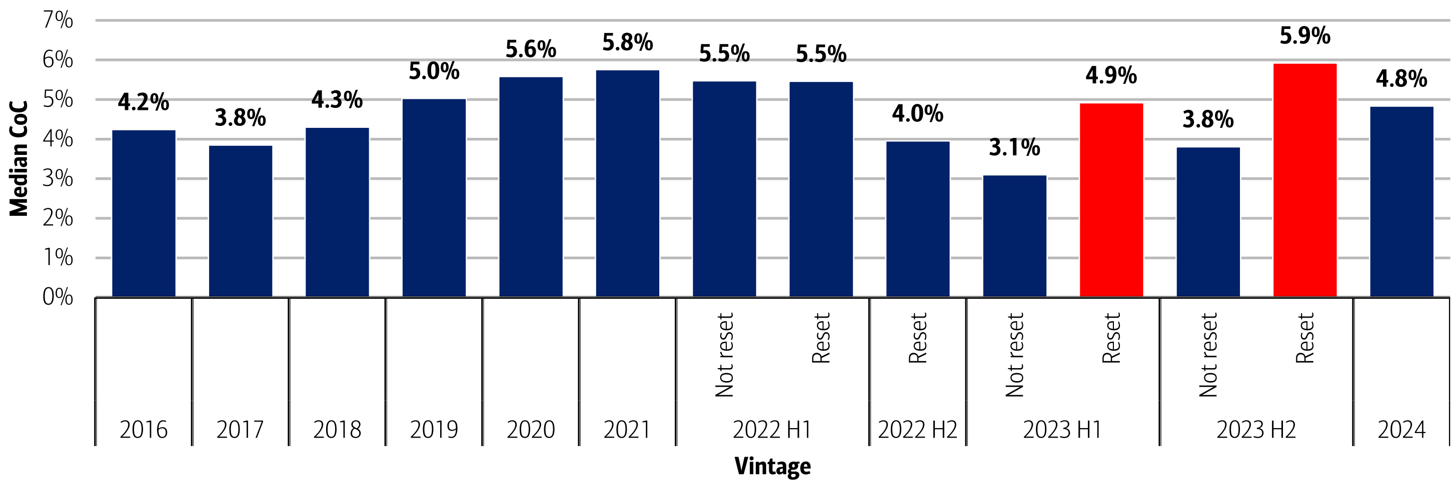
In the chart below, we show the median CLO equity CoC by vintage. For 2022 & 2023, we divide this further into H1 and H2, and contrast CoC payments for deals that have been reset or refinanced already vs. those that have not. For 2022 H2, note that all deals have already either been reset/refinanced or have been called, and hence we cannot show a reset vs. not reset split for that cohort.

The benefit for cash distributions that comes with resets (via lower funding and potentially higher leverage) is very obvious for the 2023 vintage. The median CoC payment in Q2 2025 was 3.1% for deals from H1 2023 that haven't been reset vs. 4.9% for deals that have been reset. For deals from 2023 H2, the gap is 3.8% vs. 5.9%. In other words, on average, resets improved quarterly cash payments by around 2 ppts for the 2023 vintage.

We note CoC payments are comparable for deals resets vs. not for 2022 H1. This is because at least in Q1 2022, liability spreads for new issue deals were generally still quite tight, so the funding cost difference between the 2 groups of deals isn't necessarily as meaningful as it is for 2023.

Exhibit 2: Median CLO equity CoC distribution in Q2 2025 by vintage

2023 vintage deals that have been reset already achieved significantly higher CoC payments in Q2 2025 due to decreased funding costs (+ higher leverage in some cases)



Source: BofA Global Research, Intex

Note: For 2022 H2, all deals have either been reset/refinanced already or have been called, hence no "2022 H2 not reset" category

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CLO equity IRRs – timing is key

In the charts below, we show estimated CLO equity IRRs for redeemed deals (excluding non-standard tranches like Class M tranches) vs. closing date/ vintage. Dispersion in IRRs is generally quite high, and some vintages tend to perform better than others.

On average, realised IRRs are moderate for pre-2017 deals, weak for the 2017-18 vintages, strong for the 2019-20 vintages, and very strong for 2021-2024 vintages. For the latter, we note the sample size is quite small though given that just a few deals have been liquidated. Furthermore, the deals that have been liquidated from 2021-2024 were mostly 2022 "print & sprint" deals, i.e., more opportunistic deals that were effectively a leveraged bet on loan prices to recover from their 2022 dislocation.

Further below, we show estimated IRR ranges for callable deals still outstanding, using the greater of current equity NAV and secondary pricing as liquidation value.

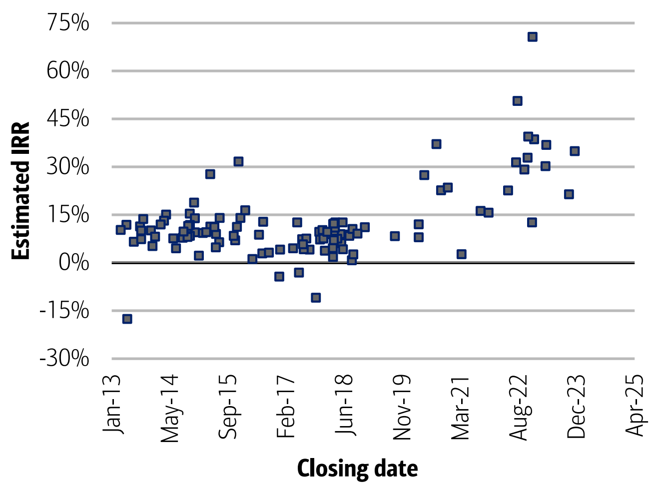
The proportion of equity tranches with negative unrealized IRRs is usually very small, between 5-10% for most vintages (and probably even smaller in reality – we assume 95 as issuance price whenever unknown, but there will likely be some deals that were issued at 90 or possible below).

Dispersion between vintages is high in terms of callable deals with unrealized equity IRRs greater than or equal to 10%. For example, almost 85% of deals from 2015 would achieve 10% or higher IRRs if called now, but just around 20% for the 2016 and 2017 vintages. For the 2022 vintage, 55% of outstanding callable deals would achieve double-digit IRRs.

It is interesting to note that the level of primary spreads and point-in-time arbitrage at issuance does not necessarily determine IRRs. For example, spreads were tight in 2017 and yet IRRs tend to be weaker from that vintage. Spreads were wide & point-in-time arbitrage weak in 2022, and yet IRRs tend to be much better. This is because of other factors such as weighted average purchase price (which was very favourable for 2022 deals, especially in H2) as well as – for wider spread deals – the potential for resetting liabilities at tighter levels once outside the NC period.

Exhibit 3: Estimated CLO equity IRRs for redeemed deals

Some "print & sprint" CLOs from 2022 achieved equity IRRs north of 30%



Source: BofA Global Research, Intex

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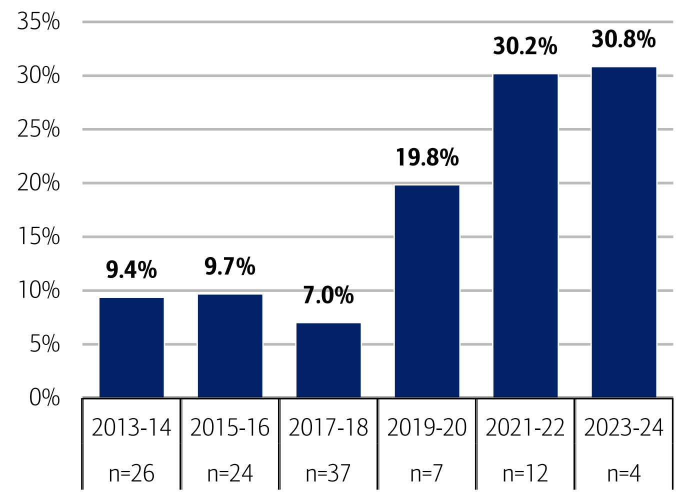
Exhibit 4: Avg realized CLO equity IRR by vintage range

Upside potential is bigger for deals issued during dislocations



Source: BofA Global Research, Intex

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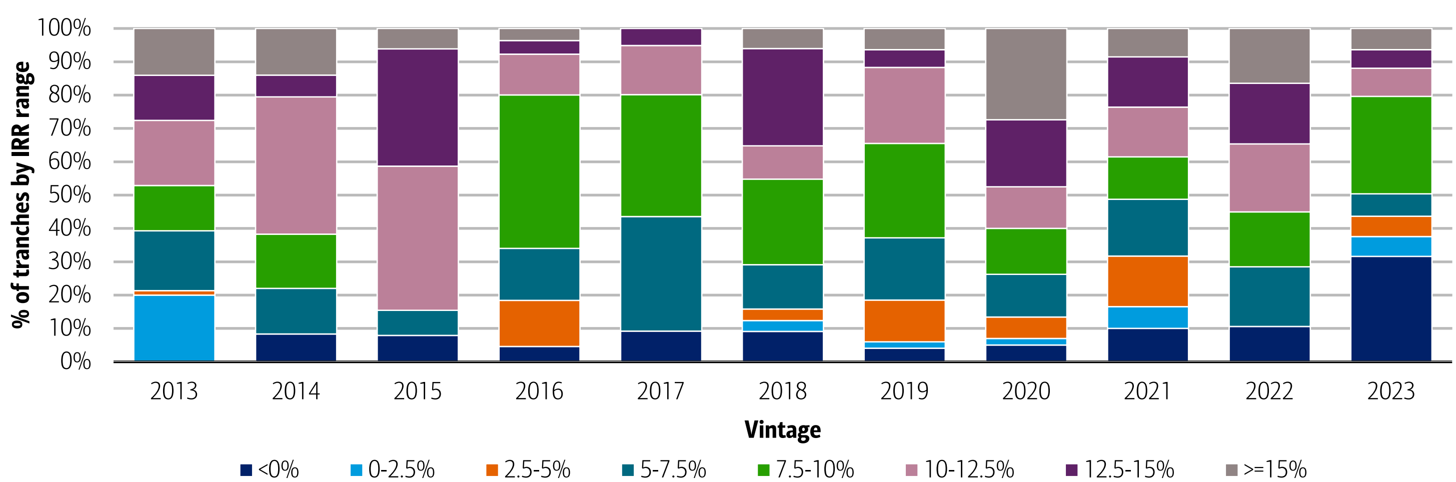
Exhibit 5: Estimated IRR ranges for callable CLO equity tranches still outstanding, by vintage

Around 27% of callable equity tranches still outstanding would achieve IRRs of greater than or equal to 15% if called now



Source: BofA Global Research, Intex, PriceServe

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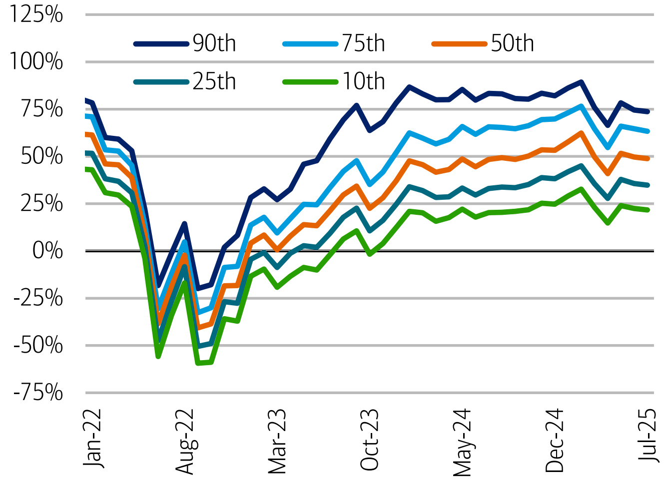
CLO equity NAV – recovery from April levels

CLO equity NAV has recovered significantly from its April low, though remains below start of the year levels as well as its YTD high in February. Median equity NAV is at around 49%, marginally weaker vs. a few weeks ago (as loan supply improved and hence the secondary softened a tiny bit) and around 14 and 4 ppts below its YTD high in late

February and the start of the year, respectively. With CLO equity NAV improved vs. April levels, we have started to see some CLO liquidations for deleveraged deals again in recent weeks.

Exhibit 6: CLO equity NAV percentiles over time

Median CLO equity remains around 14 ppts below its YTD high in late February, though has already recovered from its April 2025 drop



Source: BofA Global Research, Intex, Markit

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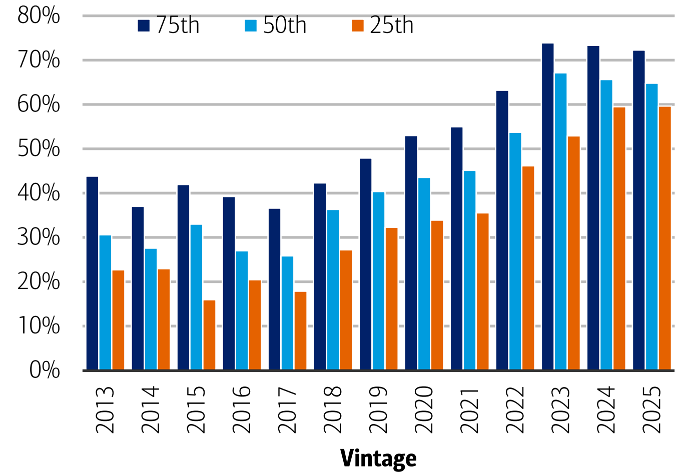
Exhibit 7: CLO equity NAV percentiles by vintage

Dispersion for the 2022 & 2023 vintages is high given volatile loan markets at the time when does deals ramped up



Source: BofA Global Research, Intex, Markit

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CLO vs. leveraged loan & credit returns

With the August break insight, we take a minute to review CLO total returns over the long-term and contrasting them vs. leveraged loans and credit.

Strong annualized returns since 2022, but set to moderate

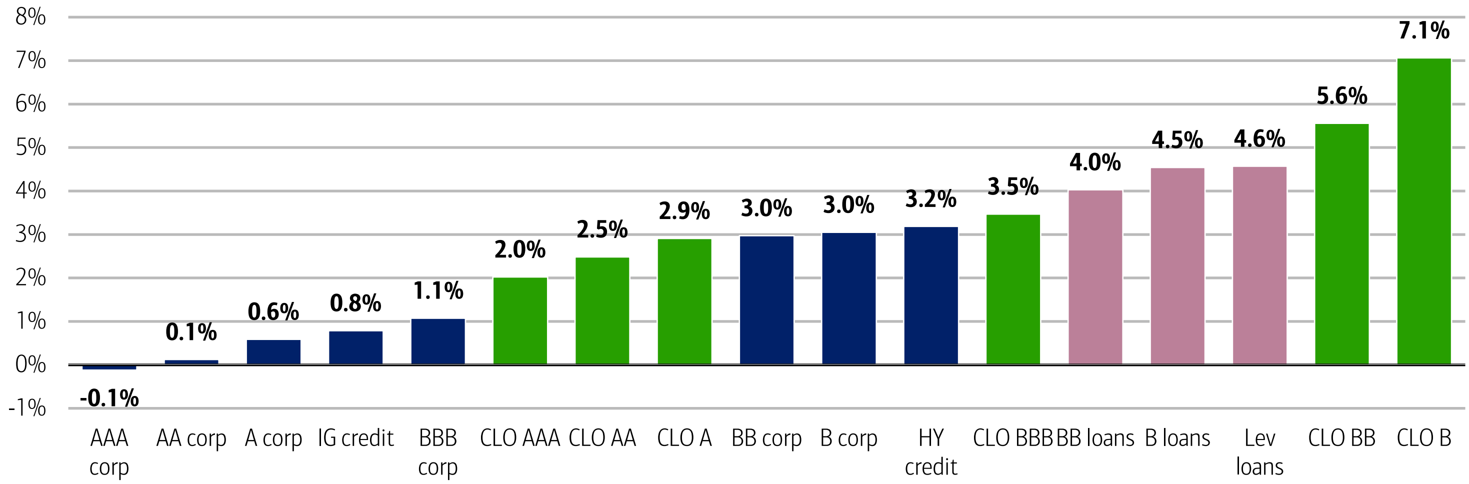
In the 3 charts below, we show annualized total returns for CLOs, loans & credit over 3 time periods: (1) From January 2018 until now, (2) from January 2022 until now (i.e., stretching over both a rate hiking and now a rate cutting cycle), and (3) from January 2018 through December 2021 (i.e., when 3m Euribor was negative/floored at 0%).

- When looking at the first time period, i.e., the last 7 and a half years, CLOs have generally performed strongly, with CLO AAAs outperforming IG credit, CLO triple-Bs outperforming HY credit, and CLO sub-IG outperforming both HY credit and leveraged loans.
- CLO total returns have been particularly strong since 2022. Whilst CLOs suffered drawdowns like all credit asset classes in 2022 amid widening spreads, CLOs benefitted from being floaters and at least suffered no additional price declines from higher interest rates, unlike fixed-rate corporates. Rather, income return increased sharply in line with higher rates.
- Since January 2022, CLO triple-As, triple-Bs, double-Bs, and single-Bs have returned 3.4%, 5.7%, 9%, and 11.6% on an annualized basis, respectively.
- However, CLO total returns were notably weaker pre-2022, with 3m Euribor negative and floored at 0%, and thus low carry for floaters. For example, CLO triple-As only returned 0.8% from 2018 through 2021 on an annualized basis, underperformed IG credit (which returned 1.6% annualized).

From here, we expect CLO returns to moderate. Base rates are declining and any remaining wide coupon deals (from vintages like 2023) are gradually getting reset at tighter levels, so carry is coming down. With regards to price returns, most of the IG market and even CLO double-Bs are trading at or near par, and higher coupon bonds even above par. Consequently, upside is very limited (and above par deals will have negative price returns when they get reset & investors repaid at par). Please also see [RV Panorama: Credit vs. CLOs – back to the drawing board]() from 9 July 2025 for a discussion.

Exhibit 8: Annualized total returns for Euro CLOs, leveraged loans, and credit since January 2018

CLO BBs have returned 5.6% on an annualized basis over the last 7 and a half years, outperforming single-B loans and corporates



Source: BofA Global Research, Bloomberg, ICE, Palmer Square, LCD

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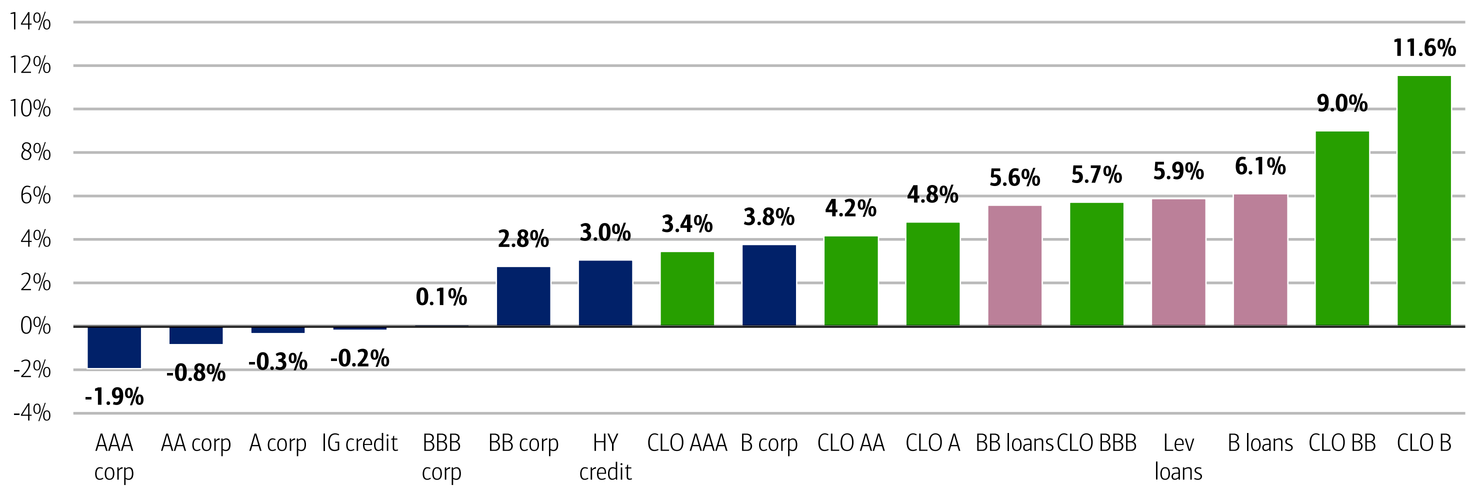
Exhibit 9: Annualized total returns for Euro CLOs, leveraged loans, and credit since January 2022

As floaters, CLO and leveraged loan total returns have benefitted from higher interest rates in recent years



Source: BofA Global Research, Bloomberg, ICE, Palmer Square, LCD

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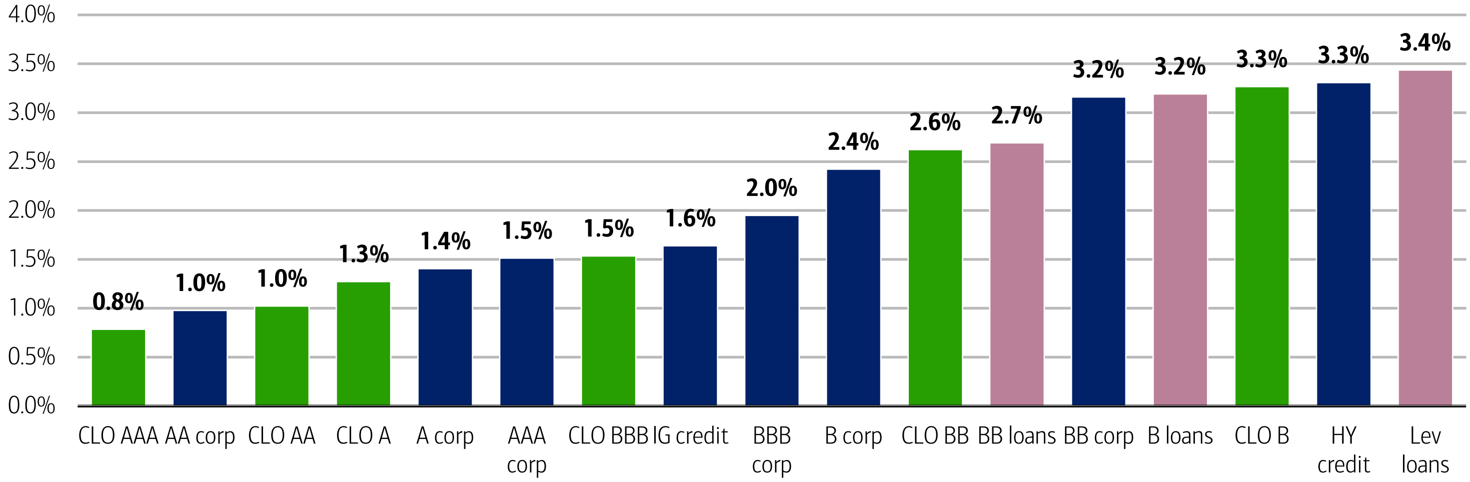
Exhibit 10: Annualized total returns for Euro CLOs, leveraged loans, and credit from January 2018 through December 2021

Pre-2022, total returns were significantly lower for floating-rate asset classes, with 3m Euribor negative (floored at zero for CLOs). For example, over the period 2018 through 2021, CLO triple-As returned 0.8% vs. 1.6% for IG credit



Source: BofA Global Research, Bloomberg, ICE, Palmer Square, LCD

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Good price stability for CLO triple-As, high beta for CLO mezz

In the charts below, we compare annual CLO total returns with credit and loans.

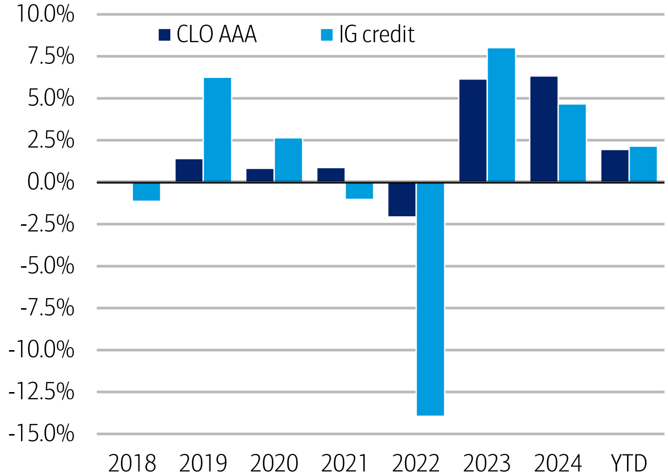
- CLO triple-As generally exhibit good price stability given their shorter WAL (around 6 years or less at issuance for standard BSL deals) and lower coupons (and hence less credit spread duration) plus lack of rates duration as floaters. Hence, drawdown risk is limited.

- CLO triple-As had their worst year in terms of annual total returns since 2018 in 2022 when they delivered -2.1%. Other than 2022, total returns have been positive for triple-As each year since 2018. By contrast, IG credit exhibits more return volatility, including an almost 14% decline in 2022.

- CLO triple-Bs had their worst year in 2022, losing around 8%. However, this was followed by total returns of more than 14% and almost 13% in 2023 and 2024 respectively, as spreads bounced back and income increased with higher rates.

- CLO sub-IG offers substantial return potential given its wide coupon spreads, but also has high credit spread duration. For example, CLO single-Bs delivered negative total returns of -11% in 2022, followed by almost 27% and 24% in 2023 and 2024, respectively.

Exhibit 11: CLO AAA vs. IG credit annual total returns
IG credit outperformed CLO AAAs 2018-2020



Source: BofA Global Research, Bloomberg, ICE, Palmer Square

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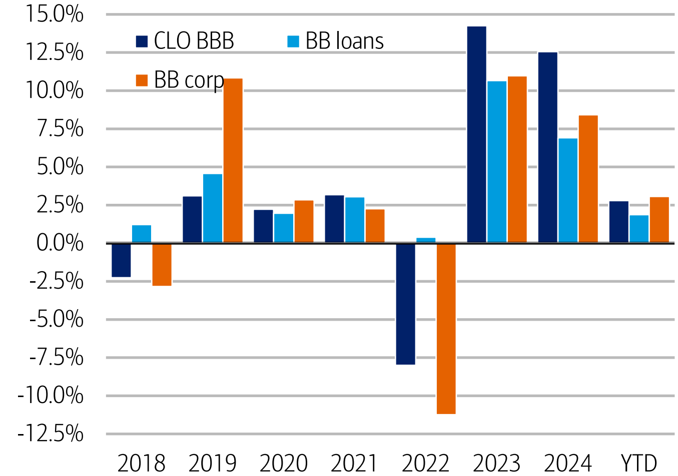
Exhibit 12: CLO BBB vs. BB loan & corp annual total returns
CLO BBBs posted double-digit total returns in 2022 & 2023



Source: BofA Global Research, Bloomberg, ICE, Palmer Square, LCD

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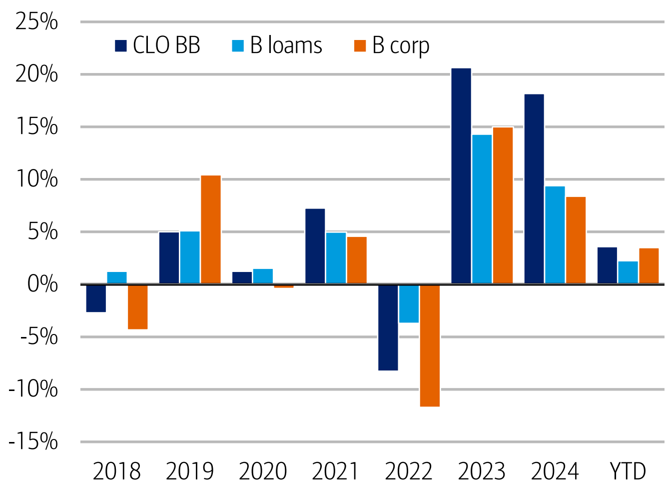
Exhibit 13: CLO BB vs B loans & corp total returns
CLO BBs returned almost 21% in 2021



Source: BofA Global Research, Bloomberg, ICE, Palmer Square, LCD

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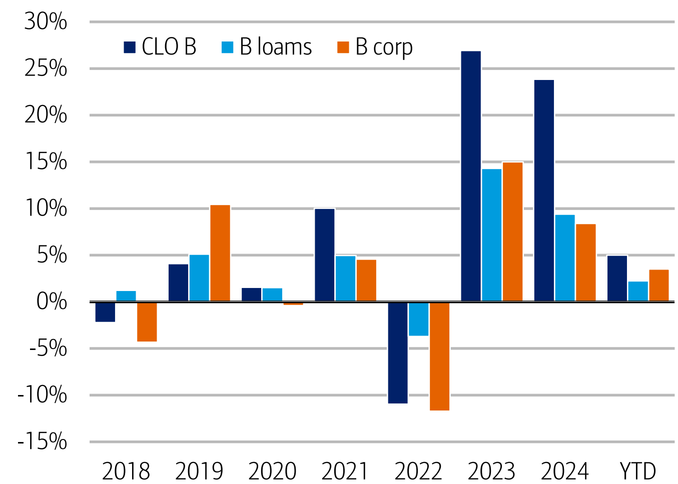
Exhibit 14: CLO B vs B loans & corp total returns
CLO single-Bs lost around 11% in 2022, comparable to single-B credit



Source: BofA Global Research, Bloomberg, ICE, Palmer Square, LCD

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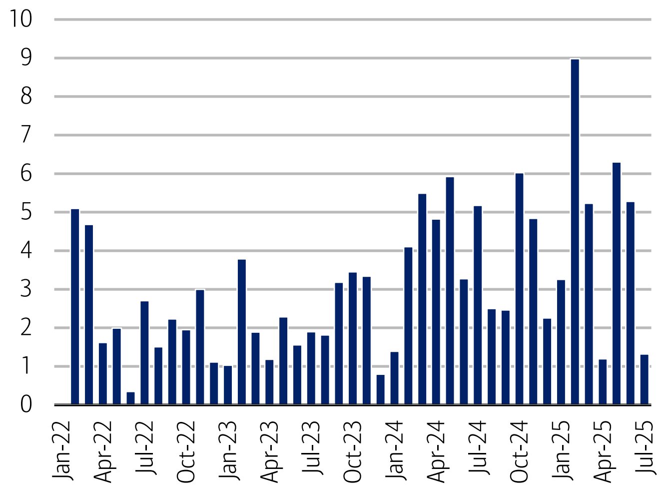
European CLO Data Appendix

Primary market

Exhibit 15: European CLO new issue volume, in bn EUR
New issue activity has been elevated YTD



Source: BofA Global Research, IGM, Bloomberg, Creditflux

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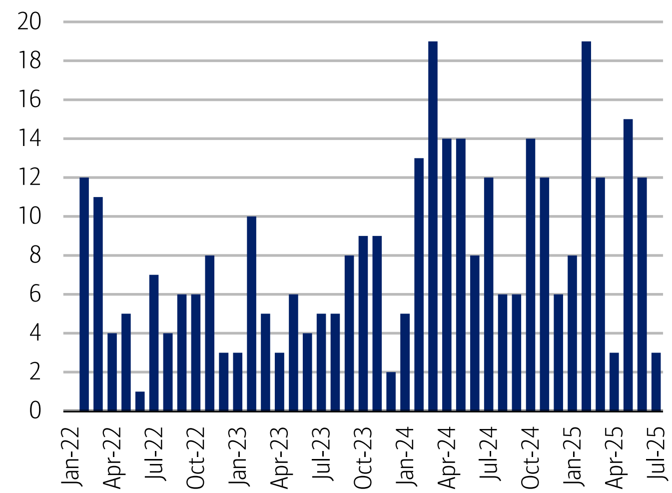
Exhibit 16: European CLO new issue deal count
Reset activity has picked up, and we expect €45bn of resets & refis this year



Source: BofA Global Research, IGM, Bloomberg, Creditflux

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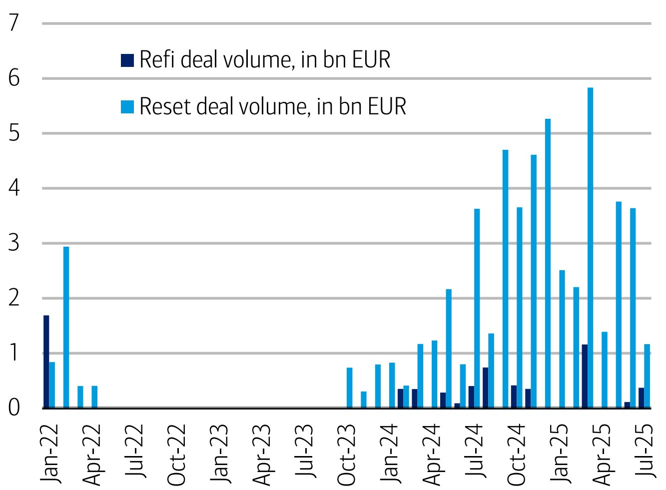
Exhibit 17: European CLO refi/reset volume
Refi/reset volume has picked up as spreads tightened



Source: BofA Global Research, IGM, Bloomberg, Creditflux

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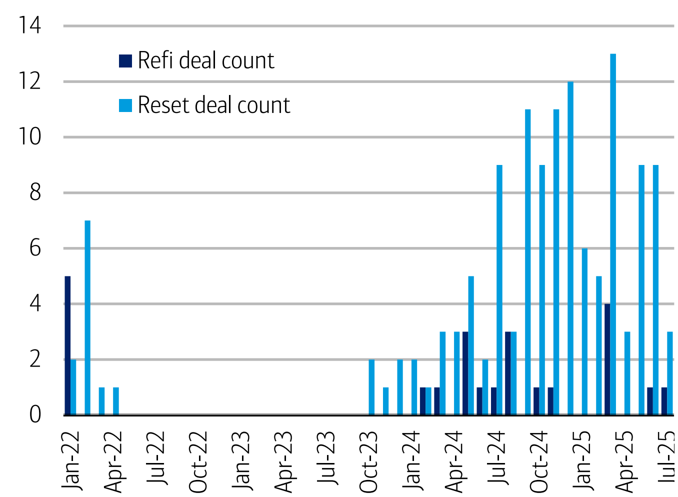
Exhibit 18: European CLO refi/reset deal count
Resets in particular have picked up, mainly from 2022 & 2023 vintage deals



Source: BofA Global Research, IGM, Bloomberg, Creditflux

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Secondary market

Exhibit 19: European CLO relative value
CLO spreads have rebounded from their April dislocation

	11-Jul-25	04-Jul-25	13-Jun-25	10-Jan-25	11-Jul-24	1 week	1 month	6 months	1 year
European CLOs									
AAA	110	110	110	105	100	0	0	5	-60
AA	175	175	175	165	170	0	0	10	5
A	210	210	215	210	210	0	-5	0	0
BBB	300	300	310	300	325	0	-10	0	-25
BB	575	575	600	550	625	0	-25	25	-50
B	865	865	875	850	935	0	-10	15	-70
US CLOs (vs. SOFR)									
AAA	120	120	125	115	120	0	-5	5	0
AA	160	160	165	160	175	0	-5	0	-15
A	180	180	185	180	210	0	-5	0	-30
BBB	285	285	285	270	330	0	0	15	-45
BB	625	625	650	550	650	0	-25	75	-25
UK RMBS									
Prime AAA	44	45	48	51	40	-1	-4	-7	4
BTL AAA	72	72	74	79	82	0	-2	-7	-10
BTL A	130	130	130	133	150	0	0	-3	-20
NCF AAA	72	73	76	84	87	-1	-4	-12	-15
NCF A	128	130	135	143	155	-2	-7	-15	-27
European RMBS									
France AAA	50	51	53	48		-1	-3	2	
Dutch Prime AAA	43	44	46	43	36	-1	-3	0	7
Dutch BTL AAA	65	66	68	71		-1	-3	-6	
Ireland AAA	68	70	72	73	62	-2	-4	-5	6
Ireland A	108	110	113	123	140	-2	-5	-15	-32
CMBS									
UK AAA	115	120	135	135	135	-5	-20	-20	-20
UK A	195	200	230	210	250	-5	-35	-15	-55
Eurozone AAA	110	115	130	130	130	-5	-20	-20	-20
Eurozone A	195	200	230	210	250	-5	-35	-15	-55
ABS									
German Auto AAA 2 year	47	48	50	44	35	-1	-3	3	12
UK Credit Card AAA	75	76	78	88	82	-1	-3	-13	-7
CDS indices									
iTraxx Main 5Y	53	55	58	58	53	-1	-4	-5	1
iTraxx Xover 5Y	277	285	298	315	289	-8	-21	-38	-12
CDX IG 5Y	49.85	49.65	55.80	51.55	48.70	0.20	-5.95	-1.70	1.15
CDX HY 5Y	311.23	308.44	346.64	320.91	324.32	2.79	-35.41	-9.68	-13.09
Leveraged loans									
European loans (price)	97.65	97.62	98.05	98.20	97.77	0.03	-0.40	-0.55	-0.12
US loans (price)	98.92	98.81	97.96	99.03	97.21	0.11	0.96	-0.11	1.71
IG credit									
European IG corporates	73	75	82	87	74	-2	-9	-14	-1
US IG corporates	123	121	127	116	126	2	-4	7	-3
HY credit									
European HY corporates	259	274	279	272	271	-15	-20	-13	-12
US HY corporates	290	280	311	278	302	10	-21	12	-12

Source: BofA Global Research, Bloomberg, ICE Data Indices

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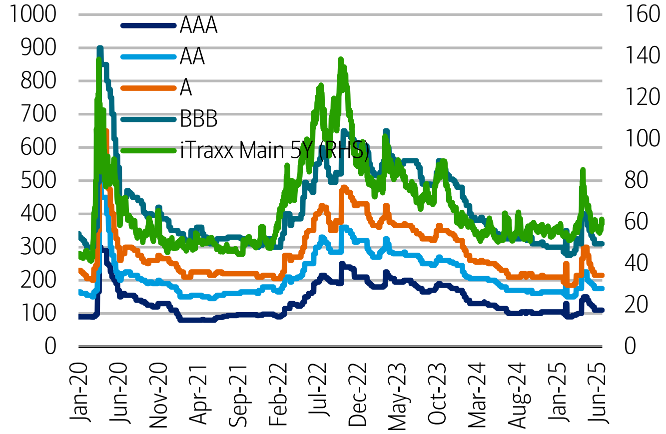
Exhibit 20: CLO IG spreads vs. iTraxx Main 5Y
CLO IG spreads have tightened considerably



Source: BofA Global Research, Bloomberg

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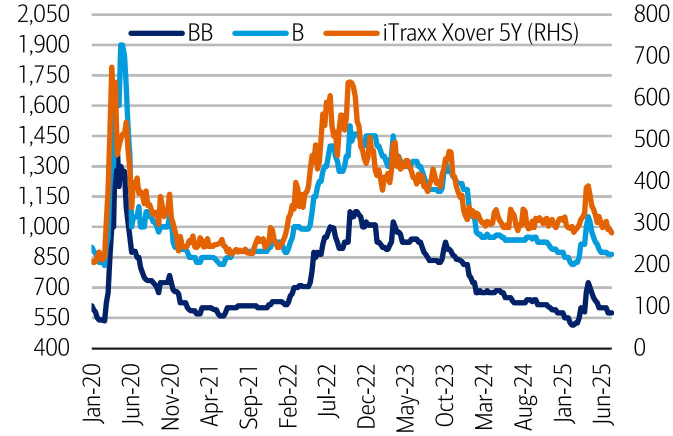
Exhibit 21: CLO sub-IG spreads vs. iTraxx Xover 5Y
CLO sub-IG spreads have mostly rebounded from their April dislocation



Source: BofA Global Research, Bloomberg

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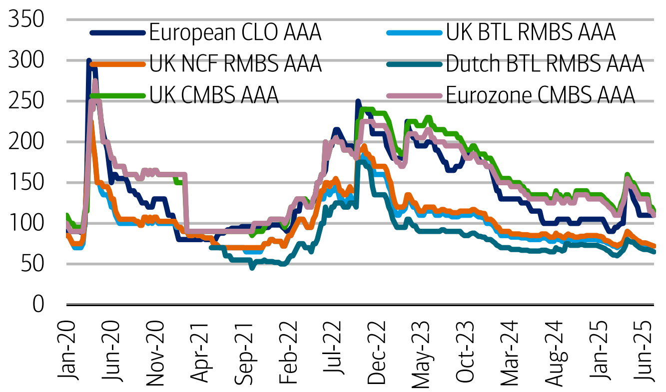
Exhibit 22: CLO AAA vs. other SF products
CLO AAA offers higher carry than BTL and NCF RMBS



Source: BofA Global Research

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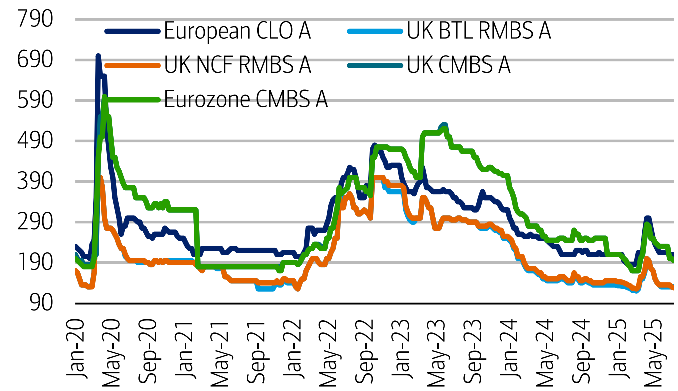
Exhibit 23: CLO A vs. other SF products
CLO A offers a higher carry than other SF products, excluding CMBS



Source: BofA Global Research

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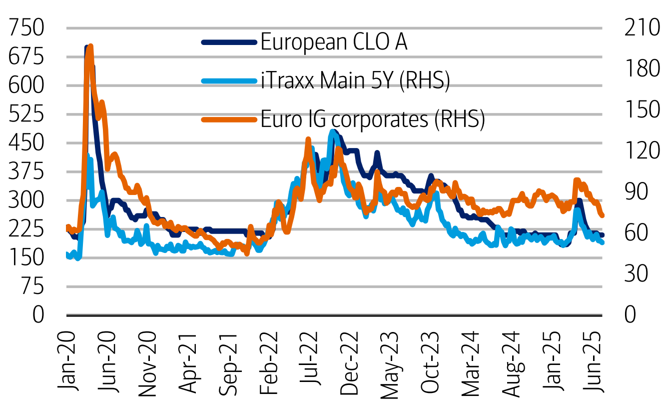
Exhibit 24: CLO A vs. Euro IG corporates
CLO A remains wider than corporate credit



Source: BofA Global Research, Bloomberg, ICE

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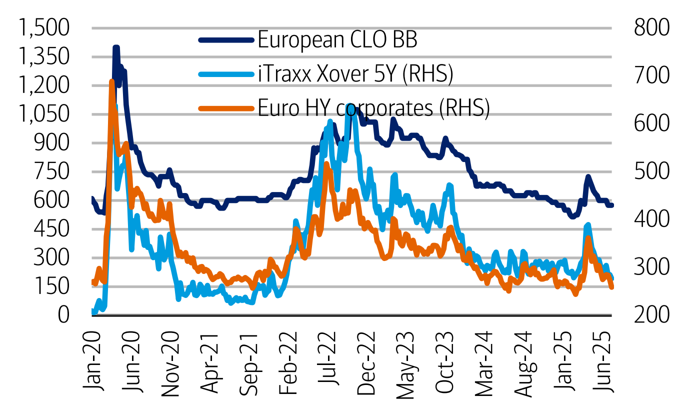
Exhibit 25: CLO BB vs. Euro HY corporates
CLO BB offers higher carry than Euro HY corporates



Source: BofA Global Research, Bloomberg, ICE

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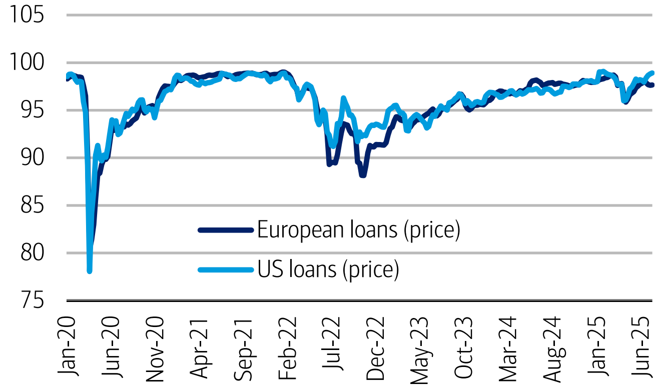
Exhibit 26: European vs. US leveraged loans
The ELLI rallied in H1 2023



Source: BofA Global Research, Bloomberg, LCD

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