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CLO AAA spreads continue to tighten in early 2018

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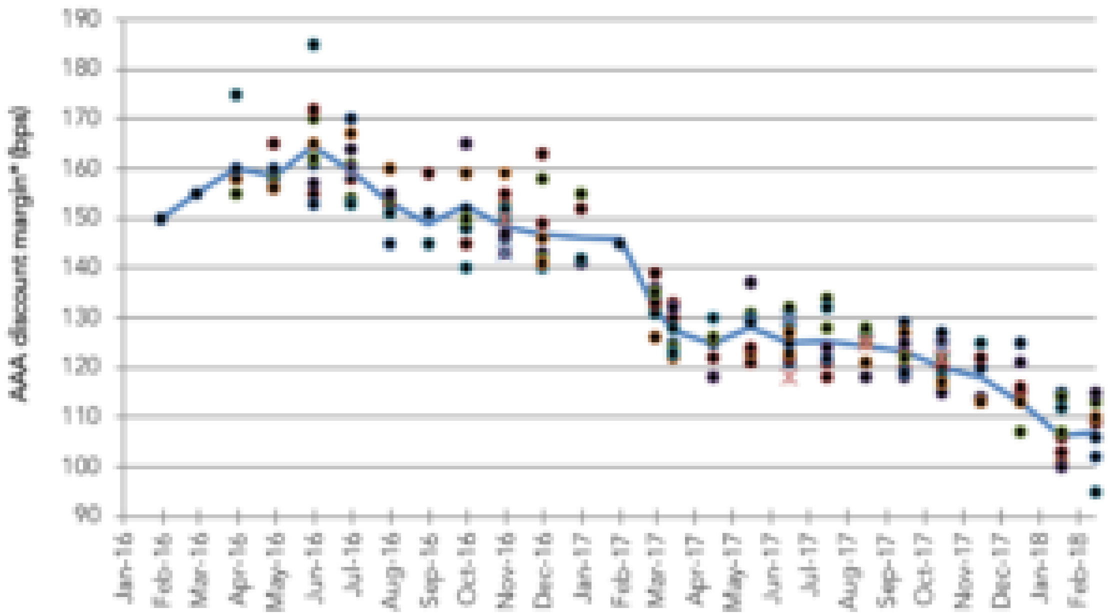

Spreads for U.S. CLO AAA notes continue to tighten in early 2018 with the average AAA discount margin dipping south of 110bp in mid-February down from 113bp at the end of December. Thinner pricing has been led by Zais Group's US$460m CLO which came to market in early February and priced the AAA tranche at 95bp. They have been promptly followed by a US$504.7m CLO issued by Palmer Square Capital Management which saw AAA spreads tighten further to 60bp. Several other deals priced in the 100-115bp range over the last month and a half, sending the average AAA discount margin to new lows. CLO issuance remains steady with year-to-date volume at nearly US$14bn. Adding to market optimism around CLO growth prospects are the revised 2018 bank forecasts of CLO growth in the wake of a court ruling on February 8th which exempts CLO managers from the 5% risk retention rule signed into law in 2010. Following Deutsche Bank's announcement of its adjusted projections (in the wake of the ruling), which increased new CLO issuance to US$120bn (up from US$110bn) for the year, both Morgan Stanley and Citi announced their own updated forecasts. Morgan Stanley increased its forecast of 2018 CLO issuance to US$110m (from US$100bn) while Citi left its US$140bn of new issuance unchanged but upsized its expectation of reworked CLO volume to US$110bn for refinancings and US$120bn for resets.

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