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What is the biggest challenge in the CLO market today?

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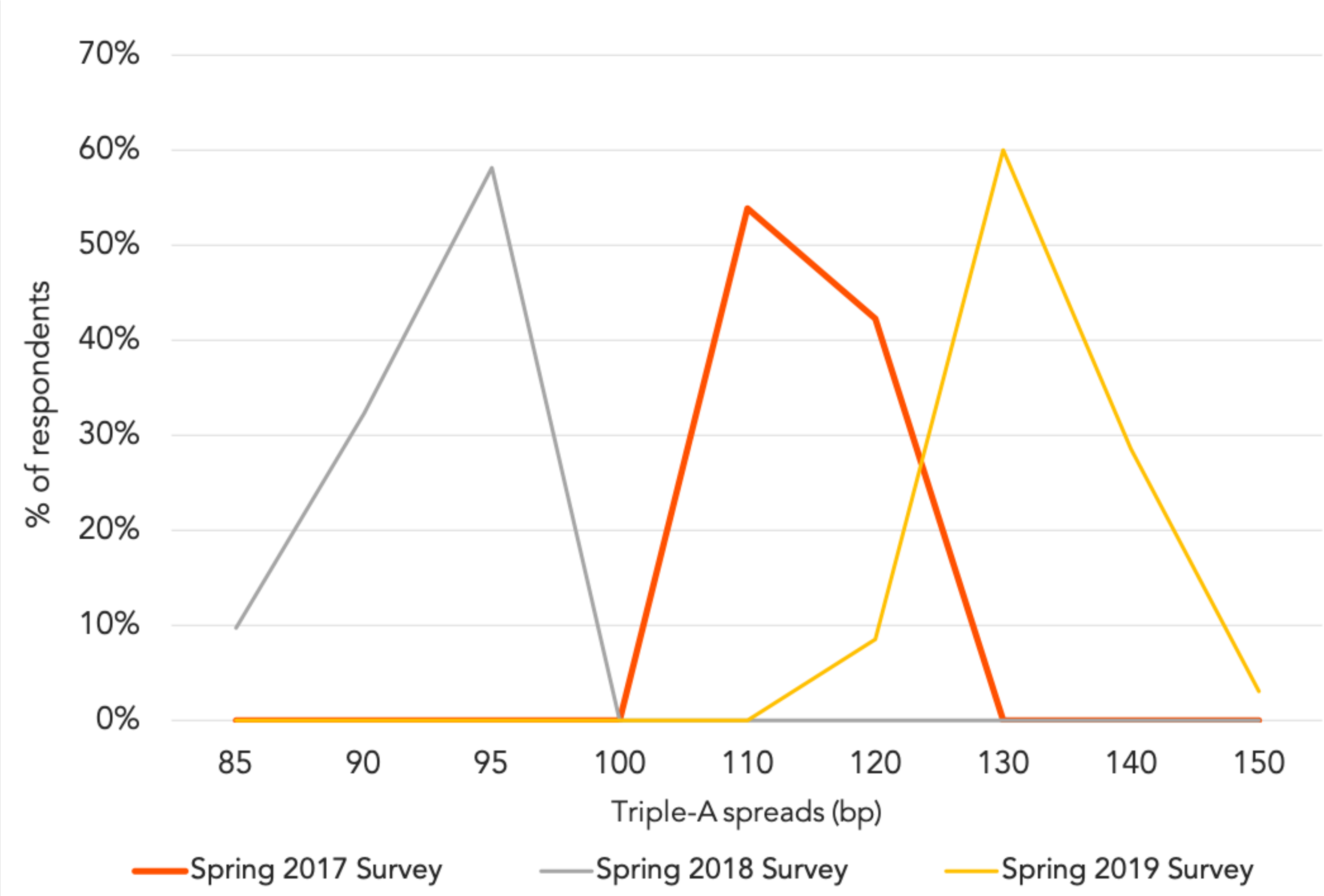

When asked to write in what they believe is the biggest issue or challenge facing the CLO market today, many respondents noted persistently high liabilities spreads. Only nine percent of CLO arrangers, managers and investors across the stack surveyed by LPC expect that triple-A spreads would fall to 120bp year-end. While it varies widely and spreads are quite dispersed, the majority estimated tightening but to a lesser magnitude and a bit more gradual pace, where triple-A spreads would land in the 120-130bp range in the second half of this year. Although there has been tightening, spreads remain wider than in recent years. In last year's survey at this time, almost every respondent expected triple-A spreads to tighten to the 90-95bp range. Challenging arbitrage especially given tightening loan spreads was also written in by many as an ongoing challenge along with finding sufficient loan supply to support new issue. But it was not just the lack of loan supply. This constraint was qualified with finding loan supply at wide enough spreads to balance out wide liability spreads but also sourcing quality assets as the downgrade risk of underlying loans also remains a major concern.

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