CLO Awakening (Part One of Two)

THE LEAD | August 8, 2024

In a note last week, our content partners at PitchBook LCD highlighted “the high level of CLO paydowns and deal calls, which has pushed more than $50 billion back into investors’ hands — and could add up to $90 billion more.” These paydowns totaled over $52 billion so far this year, more than the combined $58.6 billion of paydowns and vehicle liquidations for 2022 and 2023.

This dynamic is not helping the supply/demand imbalance in the BSL market. Cutting into CLO capacity affects the purchasing power of these vehicles, which represent almost 70% of liquid loan appetite. As PitchBook quoted one top credit manager, the trend “sharpens the technical supply/demand impact that is sending spreads tighter throughout the leveraged finance market.”

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