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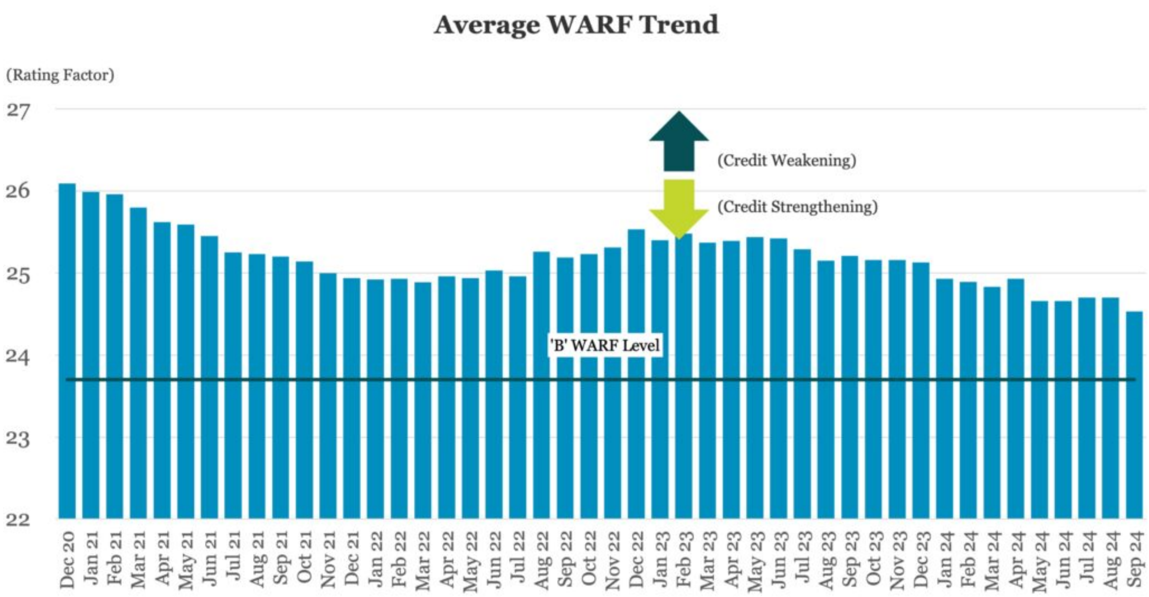
Net Asset Downgrades Ease in September for US BSL CLOs

Fitch Ratings | October 16, 2024



WARF – Weighted average rating factor Note: Only CLOs in their reinvestment period. Restated based on current CLO and Corporate CDO Rating Criteria.
Source: Fitch Ratings

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Fitch Ratings-rated U.S. CLOs backed by broadly syndicated loans (BSL) experienced just two net downgrades in the underlying assets – the fewest in the latest trailing twelve-month (TTM) period. The TTM period averaged about 12 net downgrades per month, but the last two months saw less than half that average.

Portfolios' weighted average rating factor (WARF) improved year-over-year to 24.5 from 25.2 on average for reinvesting CLOs, but worsened to 26.0 from 25.6 for CLOs out of reinvestment. Fitch's CLO Watchlist exposure improved to an average 9.3% of CLO portfolios from 10.1% last quarter but remains above last year's average of 8.4%. Additionally, exposure to issuers with Negative Rating Outlooks fell to 16.2%, down from the TTM high of 19.7% last October, indicating easing downward pressure on asset quality.