Software Deferrable Exposure Rising in U.S. Middle Market CLOs

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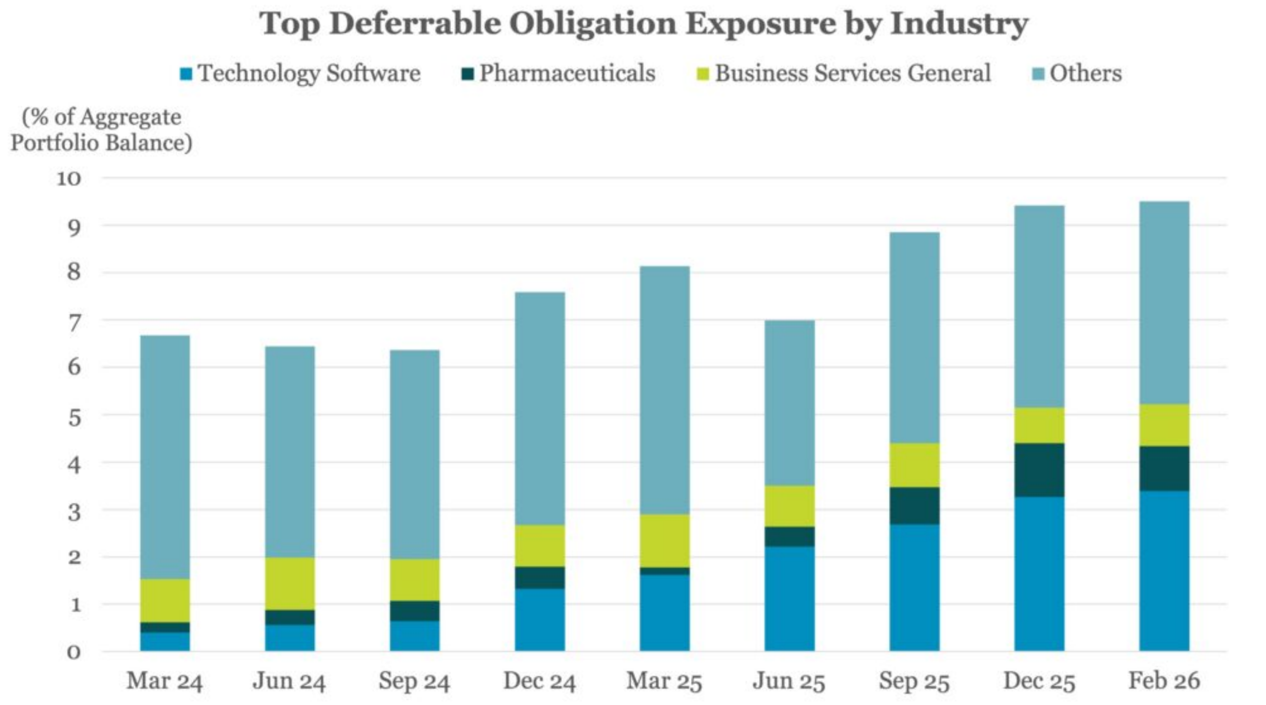

Note: Deferrable Exposure includes all trustee reported permitted deferrable obligations, regardless of whether they are included in the deferrable obligation concentration limitations, and excludes issuers that were captured in the default/deferring calculations. Technology Software, Pharmaceuticals, and Business Services General are the top three deferrable sectors as of February 2026.
Source: Fitch Ratings

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Technology-software assets in deferrable asset exposure are increasing within U.S. middle market (MM) collateralized loan obligations (CLOs) under Fitch's surveillance. Selected indentures have also evolved their definitions of "Deferrable Obligation". These trends drive elevated aggregate deferrable exposure in MM CLOs.

Across the MM CLO universe, technology-software has increased in share and has emerged as the leading industry for deferrable asset exposure since 2025. Seven out of 13 managers with CLOs still in reinvestment report technology- software as their primary or secondary deferrable industry class. However, trustee data indicates only a portion of these loans have actual Payment-in-Kind (PIK) amounts, with the majority carrying only small PIK balances. This suggests the credit impact remains contained.

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