ASSET-BACKED SECURITIES AND CLOS

Opportunities in Select Subsectors

This report is excerpted from the Third Quarter 2026 Fixed-Income Sector Views.

Attractive relative value and healthy credit fundamentals in ABS and CLOs.

While ABS credit spreads tightened over the quarter as broader markets rallied, the spread pickup relative to investment-grade corporates is in its 57th percentile, representing reasonable relative value opportunities. Supply should be strong this year, with year-to-date gross issuance of $193 billion exceeding last year's record pace. In CLOs, a rebound in risk sentiment during the second quarter lowered borrowing costs, driving significant refinancing activity. Tail risks remain and should increase volatility and manager performance dispersion in lower rated CLO tranches.

Sector Commentary

- **ABS:** New commercial ABS issuance has been concentrated in aircraft, digital infrastructure, and franchise whole business deals. Aviation ABS issuance through the second quarter has already exceeded full-year 2025 levels, with elevated supply met by strong demand as a multi-year shortage of planes and strong passenger traffic help support collateral values. Issuance of fiber network-backed deals has also increased across both residential and enterprise issuers as companies seek to diversify funding sources away from traditional corporate markets. We expect data center issuance to remain elevated to fund the secular digital infrastructure build-out.
- **CLOs:** CLO spreads tightened during the quarter. Bank loan prices stabilized as the market continued to differentiate the credit risk associated with AI disintermediation and as Middle East tensions eased. As a result, overcollateralization ratios improved, while exposure to low rated and stressed collateral declined quarter over quarter.

Investment Themes

- **ABS:** We favor senior commercial ABS backed by durable, cash-generating assets, including franchise royalties, fiber networks, and aircraft. Within consumer ABS, we see value in select subsectors such as home improvement loans. In digital infrastructure, we remain selective as heavy capital spending drives elevated issuance and new capacity. We are focused on collateral quality, supply-demand dynamics, and the impact of technological change on legacy assets.
- **CLOs:** Attractive relative value and healthy credit fundamentals support our view that CLOs offer compelling investment opportunities, especially for AAA–BBB rated tranches. In the near term, we expect the market to approach BB and equity CLO tranches tentatively as it digests idiosyncratic risks from the software sector and the Middle East conflict. The cautious sentiment should dampen new CLO creation in the near term while managers focus on refinancing deals with relatively higher borrowing costs.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

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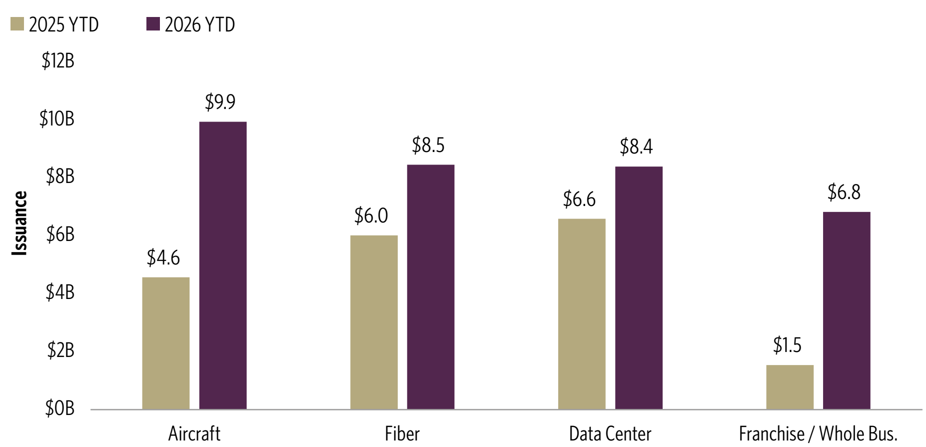
Top-Issuing Commercial ABS Subsectors Are Outpacing Last Year's Issuance



Source: Guggenheim Investments, J.P. Morgan. Data as of 7.3.2026.

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One **basis point** is equal to 0.01%.

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