

Record Supply, Selective Opportunities

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

With relative value compressed, the opportunity is in specialized commercial ABS and AAA–A CLOs.

ABS credit spreads tightened over the quarter as broader markets rallied. The spread advantage of index level ABS relative to investment-grade corporates fell below the long-term average, offering more selective relative value opportunities. Year-to-date ABS gross issuance hit \$274.1 billion, exceeding last year's record pace. Recent spread tightening in the bank loan market has pressured interest-rate arbitrage, which supports new CLO issuance. If CLO borrowing costs do not tighten further, market activity will likely stay focused on refinancing and reset transactions.

Sector Commentary

- **ABS:** New commercial ABS issuance has been concentrated in aircraft, data center, fiber networks, and franchise whole business deals. Aviation ABS issuance of \$12 billion through the third quarter is already a record—exceeding prior peak issuance in 2019 of \$10 billion—with elevated supply met by strong investor demand. In addition, fiber network-backed deals by residential and enterprise issuers have increased as companies diversify funding sources away from traditional corporate markets. We expect data center issuance to remain elevated, although investors are becoming more selective.
- **CLOs:** CLO spreads tightened quarter over quarter and loan prices remained relatively stable as markets continued to navigate the impacts of a broader software disruption and the ongoing Middle East conflict. As a result, overcollateralization ratios and exposure to low-rated and stressed collateral remain at healthy levels albeit with greater deal-to-deal dispersion across lower-rated junior tranches.

Investment Themes

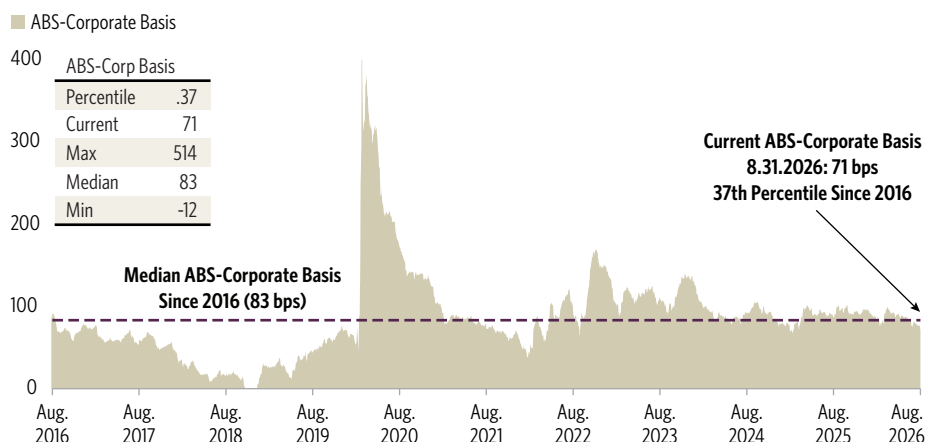
- **ABS:** We continue to prefer senior commercial ABS backed by durable, cash-generative assets, including franchise royalties, fiber networks, and aircraft. Within consumer ABS, we see value in subsectors such as home improvement loans, where stronger borrower profiles, amortization, and credit enhancement provide downside protection. 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 AAA–A rated tranches. In the near term, we expect the market to tentatively consider BB and equity CLO tranches as it digests idiosyncratic risks emanating from the software sector and the Middle East conflict. Weaker interest rate arbitrage should dampen new CLO creation as managers focus on refinancing deals with relatively higher borrowing costs.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

The historically modest spread pick-up of ABS relative to corporates suggests limited value in widely followed ABS areas. We favor deployment in specialized commercial ABS subsectors.

Commercial ABS Looks Attractive vs. Mainstream ABS, Liquid Credit Subsectors

ABS Spreads Relative to Corporates



Source: Guggenheim Investments, Barclays Research, Bloomberg ICE BofA AA-BBB ABS index. Data as of 8.31.2026



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

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