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Global credit funds & CLOs

CLO rally keeps primary market flowing for most prolific issuers

by Sayed Kadiri

The rally in CLO liabilities in September has given fresh impetus to the primary CLO market, which has benefitted from almost six months of favourable market dynamics.

The initial wave of CLOs that priced following the indiscriminate sell-off in March, did so on the basis that asset prices had plummeted to historical lows.

"Liabilities are much more attractive than even a month back," says Wynne Comer, chief operating officer at AGL Credit Management in New York, pointing out that previously the asset side of the equation was driving CLO issuance.

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Wynne Comer
Chief operating officer
AGL Credit Management

CLOs are pricing tighter than in the sell-off in Q4 2019, as reported by *Creditflux* last month. The new set of five-year deals are being marketed with triple As at 130 basis points, which is 7bp inside the average in December 2019.

Meanwhile, the new breed of three-year US CLOs have tightened from 177bp in August to 137bp in September, according to *Creditflux* data.

Portfolios for upcoming CLOs are modelling asset purchase prices for the unramped portion of their deals at 98-99 cents, with loan spreads in the 340-375bp range.

AGL has been the most prolific issuer since the coronavirus pandemic escalated in mid-March. It has priced five US CLOs for $2.4 billion as *Creditflux* goes to press. The most recent of these, AGL Core CLO 8, priced on 25 September via Mizuho. AGL, which is backed by a subsidiary of the Abu Dhabi Investment Authority, retains the equity in its CLOs, which gives it the advantage of dictating when and how frequently it issues deals.

Most prolific managers*

Manager	Volumes ($m)
AGL	2,554
Palmer Square	1,574
Redding Ridge	1,518
Octagon	1,493
CIFC	1,440
PGIM	1,433
BlackRock	1,305
GSO	1,169
CSAM	995
Ares	978

*Data from CLO-i   * since March sell-off*

Other CLO managers that retain their own equity, such as Palmer Square Capital Management and Redding Ridge Asset Management have been among the most prolific this year.

"We have multiple warehouses open at any moment in time because we know that CLOs are ideally placed to capitalise when loan prices drop — just as they did this year," says Comer.

She says AGL has adapted its approach. In 2019, it purchased 70% of loans in the primary market. This year its loan purchases have been predominantly in the secondary market.