



## CLOs aim to pick up pieces as fear drives dip in loans

by Hugh Minch

Leveraged loan investors grew skittish in June, with prices slipping as the likelihood of a US recession increased, according to market sources. As *Creditflux* goes to press, loans saw an average bid of just 93.13 cents on the S&P/LSTA Leveraged Loan Index, the lowest levels since covid lockdowns.

Sources say mutual and exchange traded funds accounted for the lion's share of the selling, with total outflows amounting to \$1.17 billion in the week ending 24 June.

The prevailing wisdom among market participants is that the selling is due to the growing prospect of a recession hitting the US and world economy.

Joseph Rotondo, CLO senior portfolio manager at MidOcean Credit Partners, says the selling from mutual funds and ETFs provides CLO managers with an opportunity.

"Even though there are fundamental issues in the market right now, if you're a buyer it's easier to access the credits you really want for your portfolio," he says.

The outflows reverse trends seen



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CLO senior portfolio manager  
MidOcean Credit Partners

earlier this year, when record inflows were recorded. Net inflows are at \$13.83 billion for the year, down from \$15 billion a week ago.

"Often when rates are rising you'll see inflows into floating rate products, but with the economic picture softening, fundamental concerns are behind a lot of the selling we've seen from retail funds," says Rotondo.

CLO managers are eyeing the July payment dates with concern that results could lead to an uptick in downgrades,

given the B3 or B- portion of the market already stands at around 23%. But many participants are bullish on the long-term prospects.

"There's so much cash on the sidelines at the moment raised by sponsors and distressed funds who will come to market when loans come down," says Tricia Hazelwood, international head of securitised products at MUFG.