

CLO Awakening (Second of Two Parts)

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From a risk perspective, CLO defaults are rare; no AAA tranche in either US or European CLOs has ever defaulted. The historical default rate for all CLO tranches is just 0.11%, and none occurred post-GFC until 2021. Then only after portfolios had been partially weakened from loan credit quality issues emerging during the Covid-19 pandemic.

In a similar vein, Barclays analysts reported that BSL CLO exposure to S&P-rated CCC assets dipped month-over-month. The median exposure fell to 6.2% in July from 6.5% in June. Only 27.1% of CLOs have in excess of 7.5% of CCC or below rated assets compared to 32.9% in June, according to Barclays.

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