

Credit Rendezvous

US loans

The loan market is becoming increasingly dependent on CLOs and that could leave some credits in the cold



Roberta Goss

Portfolio manager,
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Bullish

Opportunity in credit and loans is unparalleled

Bearish

There are landmines in every sector

Biggest challenge

Growing dependence on the CLO market

Speculative grade credit markets will be the biggest challenge going into 2021. “These have begun what we believe will be a multi-year rolling opportunity set where the bank loan market, and by extension the CLO market, will likely take centre stage,” says Goss.

Mutual fund outflows have been consistent over the past two years,



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leaving the loan market more dependent on the CLO new issue market than ever before. Goss says that dependence on CLOs enlarges and extends periods of volatility, even in periods which might otherwise have seen minor fluctuations. “Each of these periods leaves behind a cohort of loans that are not CLO eligible and we expect this pool of sub-90 loans to evolve and continue to increase over time.”

CLOs have been an important component of the loan market for a long time, but the crisis has

accentuated this dependency. Goss says: “The binary nature of the CLO market being open or closed will create opportunity for several years as this credit cycle progresses and the market experiences periods of volatility and distress.”

She says that the market opportunity in credit and loans is “unparalleled”. However, disruption is taking place across industries, and portfolio managers will have to place more importance on picking the right credits to avoid companies on the wrong side of transformational shifts.

