



CLO Market: Higher Highs, Lower Lows

February 8, 2018 - Unlike the past few years, CLO formation hit the ground running in January. The market saw US CLO issuance totaling \$6.6 billion (via 11 deals) in January and nearly \$4 billion more (via eight deals) thus far in February. This is a stark difference from last year when, under the cloud of risk retention, January saw less than \$1 billion of CLO issuance. Indeed, one would have to go all the way back to January 2013 to see such a strong start to a year. And that's not the only difference from last year. CLO liability spreads continue to tighten. AAA spreads averaged slightly over 100 bps in January and hit 100 bps even last week. This week Zais priced the AAAs on their short (three-year reinvestment, one-year non-call) deal at 95 bps, wrote LCD. A year ago, average US CLO AAAs were above 130 bps, according to TR-LPC's Leveraged Loan Monthly. With investor demand strong, Wells Fargo estimates that 2018 US CLO formation could hit \$125 billion, just above 2014's record \$124 billion.

One factor for CLO cost and formation whose outcome we continue to await is the LSTA's Risk Retention litigation. While this has been a point of discussion over the past several weeks, we simply must wait for the result. As we discussed earlier, the average time from oral argument to decision is roughly three months. However, there is significant variability around that average and we are still in the normal time period. Opinions are released on Tuesday and Friday mornings around 10 am. We will continue to update on members on the status of the case.