June 2026

European CLO volume runs at record clip, but challenges mount for managers

By: Michael Rae

The European CLO market is approaching the end of the first half with new issuance tracking in line with last year's record levels, underpinned by strong demand for rated CLO liabilities. Behind the impressive numbers, however, conditions for managers are becoming increasingly challenging — with asset spreads further compressing under a fresh wave of loan repricings, and roughly half the CLO-favoured loan market trading above par.

A health check of the market is typically taken at the Global ABS conference in Barcelona each June, with participants at this year's event striking a tone that was neither bullish nor glum, reflecting an asset class that has become comfortable with volatility. One source described the mood as “cautiously pessimistic”.

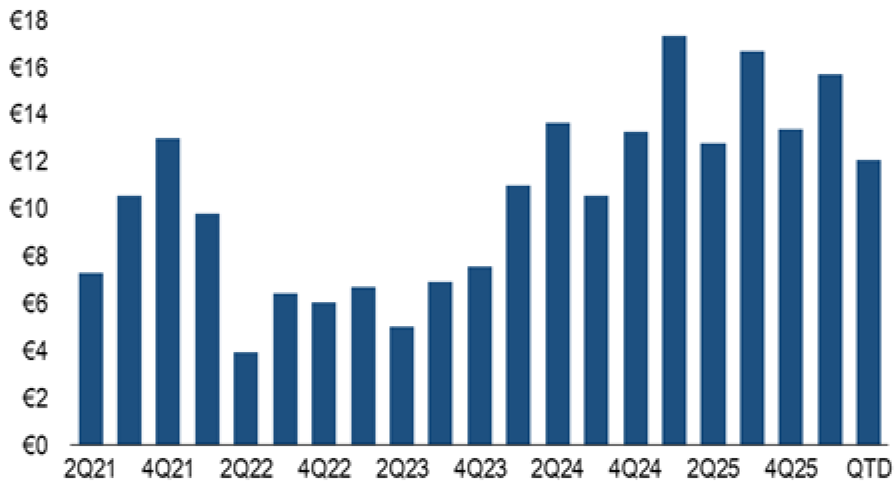
Another manager noted that while technicals are strong and liability spreads have compressed sharply over the past few months, investors are well aware that the fundamentals of the CLO market are more nuanced, insofar as it still looks attractive versus other credit assets — but less so now on an outright basis.

A third manager said there was a sense of fatigue from a CLO market that has now faced a string of significant headwinds for several years. “However, the reality is that there is a lot of cash to put to work for rated tranches, and CLOs continue to be one of the best asset classes to weather the storm,” they said.

Managers say the dominant themes from conversations with investors have been around software, chemicals, building materials and equity arbitrage — reflecting a shift from individual credit concern to scrutiny on certain sectors as a whole.

Problems in these sectors, for the most part, are known by all market participants, and investors are still putting cash to work. “CLO debt investors have had an extraordinarily great run. While there have been credit problems, debt investors have been well insulated from all that,” another source noted.

European CLO new-issue volume (€B)

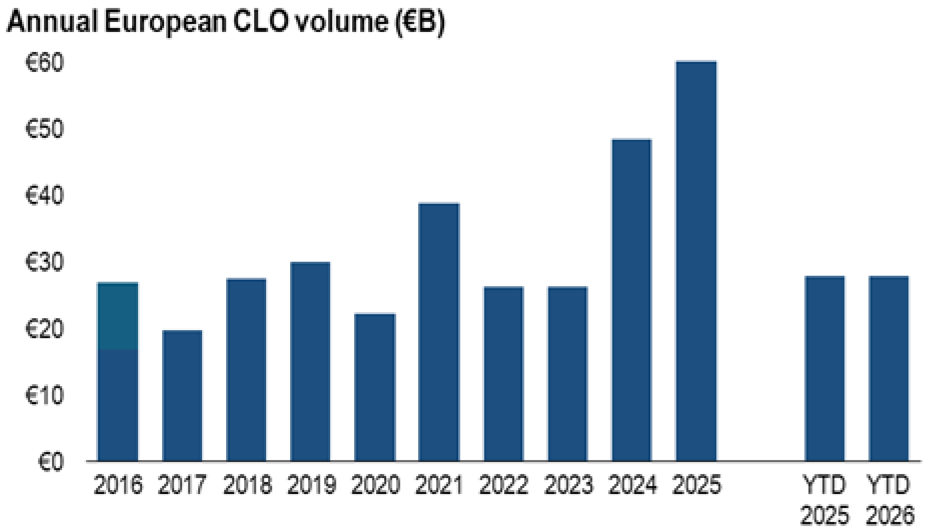


Source: PitchBook | LCD • Data through June 19, 2026

Volume dial

Year-to-date European CLO new-issue volume (to June 19) is €27.7 billion from 66 deals — matching the volume tracked in the same period last year (from 63 deals), according to LCD data. Second-quarter new-issue volume is running at €12 billion from 29 deals, which is down from €15.7 billion and 37 prints in Q1, and slightly lower than €12.7 billion from 31 deals priced in Q2 2025.

New issuance at this point already exceeds full-year totals for 2020, 2022 and 2023, driven by 52 managers having priced so far, which is a year-to-date record. This roster also includes debut managers Muzinich, Diameter and Elmwood.



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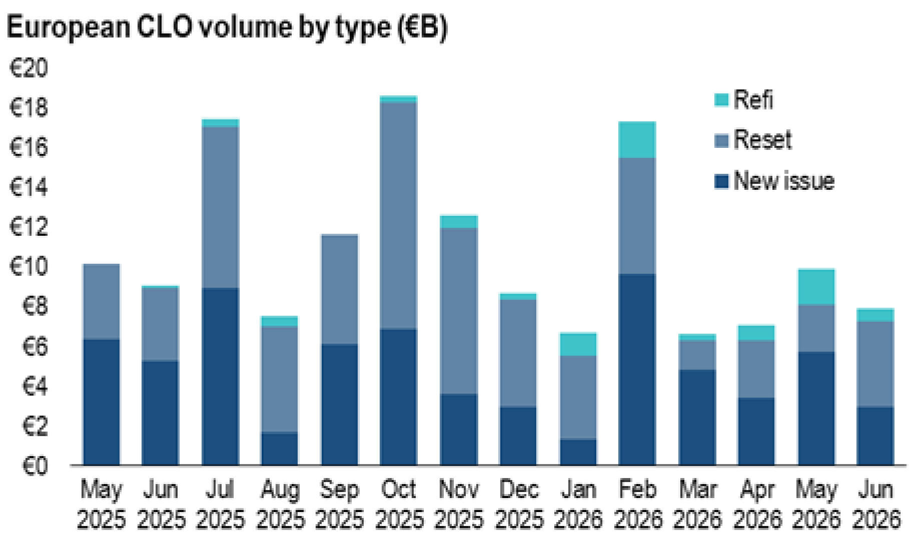
Further out, a sizeable list of new platforms are looking to establish themselves in an already crowded market, which would take the number of active managers in Europe comfortably above 80.

Year-to-date reset and refinancing volume is €28 billion — split between €21 billion of resets and €7 billion of refinanced tranches — while the second-quarter volume is running at €13.2 billion (€9.5 billion in resets, €3.7 billion in refinancings).

As for the profiles of those transactions, the Q2 refinancings have addressed deals that priced or were last reset in 2024. However, the largest cohort for resets were the 2021 vintages, which made up nearly half the quarter's activity with nine deals, followed by 2024 with seven of those vintages addressed. Ten resets addressed deals that were outside their reinvestment periods, while nine reset those within their RPs.



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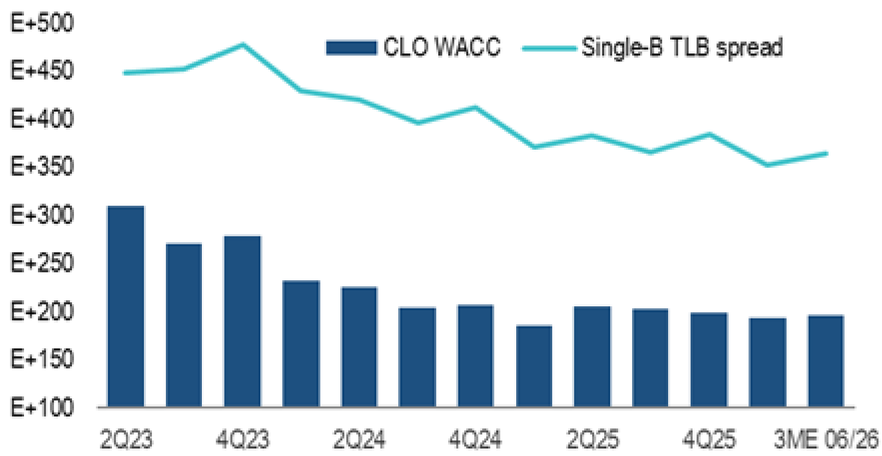
Liability spreads
After widening following the onset of the Iran war, liability spreads have broadly retraced to February levels, with triple-As characteristically lagging the rest of the stack. Triple-As have been inching tighter, with a tier-one manager currently testing 124-125 bps — however the expected volume of issuance is likely to keep a floor on any significant tightening.

Nevertheless, at current levels the weighted average cost of capital is just below 190 bps for new issues, with most resets coming in around 200 bps.

New-issue double-B and single-B paper over recent weeks has printed inside 500 bps and 800 bps, respectively, despite concerns around tail risk and headlines around the first write-down in a European single-B tranche in the CLO 2.0 era. Sources note there is evidence of the bid depth reducing slightly, but that this is playing out more as a preference for quality which has resulted in even higher dispersion between new, clean portfolios and older, more-storied deals coming up for reset.

European CLO WACC versus TLB spread



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"Manager selection is starting to matter more — investors, particularly from the US, have historically not tiered European managers as they do in the US," commented one manager. "That is changing. Managers with consistently stronger portfolio quality are getting better execution, while underperformers are seeing it cost them in pricing."

As for the single-B write-down on the recently liquidated Bain Capital Euro CLO 2018-1 — which a recent Barclays research note says saw class F noteholders receive roughly 65% of par — views are mixed as to whether the market will see more such actions. Participants caution that the matter is not a systemic issue, though more of these events could occur given there are a dozen or so deals with similar issues.

Vanishing WAS
CLO equity arbitrage has been tight for around a year, with loan repricings a recurring headwind. Repricing waves, which in recent years have occurred at a higher frequency, have compressed asset spreads to the point where the consensus view for the weighted average spread (WAS) of a new CLO portfolio is now in the region of 350 bps, giving a rudimentary calculation of 160 bps of arbitrage, based on a WACC of 190 bps. While repricings have continued unabated on the surface, some requests are understood to have faced pushback — insofar as they couldn't flex tighter — in the weeks before the US-Iran peace deal was announced, when new-money supply was heavier. Any macro leg-up, coupled with lower new loan supply going into the summer, could give the current repricing wave fresh momentum from here, sources say.

The result of this dynamic is that some managers could feel pressure under their Fitch WAS matrix. However, sources note that spread compression has room to run, given existing deals are able to refinance or reset their liabilities, fix documents and improve their cushions. Recent announcements from Fitch and Moody's may also alleviate some of the pressures that managers are facing on their matrices, sources note. "If loan spreads continue to tighten, and the CLO market is unable to refinance their liabilities tighter, then equity distributions will remain under pressure. Eventually the feedback loop will kick in and the technical dynamic should abate," said Chris Le May, portfolio manager at Onex Credit Europe.

In terms of portfolio construction, sector volatility and a lack of liquidity for credits trading below 90 mean most managers are grouping around a low-WARF, low-spread strategy.

“In our view, managers are not currently being paid the appropriate spread to move from B1 to B2, from B2 to B3 and so forth. Therefore, we've preferred to move up in quality, so that if the market does turn, we have the ability to rotate our portfolios and take advantage of dislocation,” said Andrew Doig, partner at Anchorage Capital. “Our job is to target excess spread as and when it's available. However, we won’t push ourselves to the point of targeting spread irresponsibly, because doing so could ultimately damage the portfolio through triple-C downgrades and losses.”

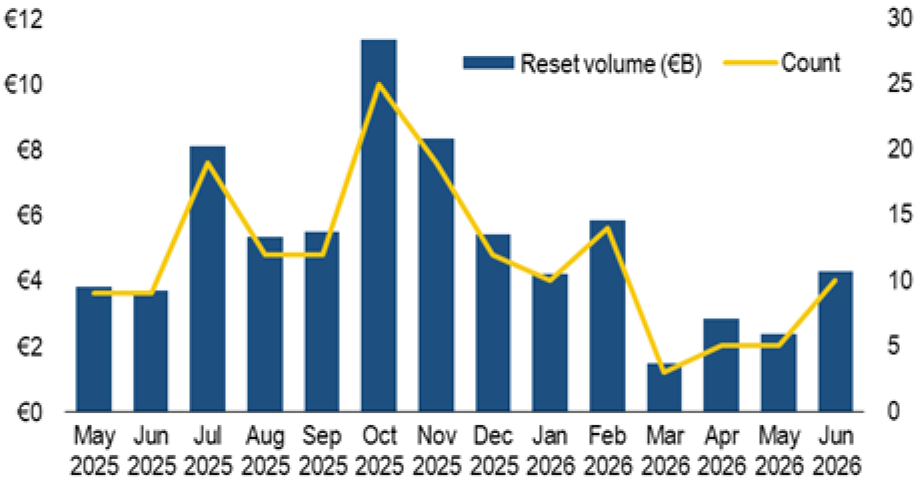
While not sacrificing credit quality for yield, managers have taken more creative approaches in an environment where a portion of portfolios have to be ramped above par. “Managers have to widen the lens of their eligible universe of assets, which means considering fixed-rate bonds, even as a temporary placeholder,” said Doig, who noted Anchorage had increased its fixed-rate exposure by roughly 200-300 bps this year. “We prefer in some cases to go into fixed-rate bonds, which have better call protection, and therefore reduced repricing pressure. A 6% coupon is the equivalent of a 350-375 bps spread on a loan. The challenge is to manage responsibly the duration and rates risk, but we find it’s actually more attractive versus reaching for lower quality loans — or materially less liquid Nordic bonds, for example.”

Equity component

CLO equity has faced a challenging environment over the last two years across the US and European markets. However, this follows a strong performance in the years prior, when returns were driven by either relative value in the secondary loan market, or when primary loans came at wider levels. “It would be short-sighted to look at the past 12 to 24 months and hide under your desk. There will be catalysts over the next few years that will create opportunities to add alpha in CLO portfolios, and CLO equity should benefit from this. Liabilities are at good levels, and when you get volatility, clean well-managed portfolios should be able to take advantage,” said Stevy Desir, portfolio manager at Onex Credit.

Naturally, however, managers that rely more on third-party equity are expected to remain constrained versus counterparts with internal equity, which are better able to print through challenging conditions. “Deals where there is no third-party equity can move really quickly and systematically, whereas managers relying on third-party equity are having to wait and see. However, the minute they get the green light, they pounce,” explained Jasleen Gill, counsel in Latham & Watkins’ structured finance team.

European reset CLO volume and count



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Reset button

Going forward, a great deal of manager focus is being put towards resetting old deals while there is a window to do so, given uncertainty in the macro landscape from week to week. As a result, Gill notes that the dealmaking process has accelerated, with managers keen to move quickly. “Resets are being pushed through where they can be,” adds Gill. “There's still a lot of uncertainty on new issues, in large part because of asset supply. The new issues that you see in the market tend to be because the manager has already got a portfolio of assets, either from a liquidating deal or from a separate fund. It's really opportunistic at the moment,” she concludes.