

Pairing US and European AAA-rated CLOs to enhance income opportunities

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Key takeaways

- AAA CLOs have historically offered some of the highest yields available in fixed income for a similar investment grade rating.
- European AAA CLOs when hedged to USD, have seen returns on par with US AAA CLOs, while having reduced correlations to some US fixed income.
- Combining US and European AAA CLOs may improve diversification and potentially deliver better risk-adjusted returns.

US and European AAA-rated CLOs may offer investors a compelling blend of investment grade (IG) income, low duration, and diversification, with USD-hedged European exposures potentially improving risk adjusted returns and an increased level of diversification relative to US CLOs.

Why US AAA CLOs now?

US AAA CLO tranches sit at the top of the CLO capital structure, backed by senior secured loans, and have robust structural protections such as over-collateralization and interest coverage tests. Historically, both US and European AAA and AA-rated CLOs have never experienced defaults, even through stress episodes such as the Global Financial Crisis (GFC) and the Covid pandemic shock.¹

US AAA CLOs may offer a variety of benefits to Asia-based investors.

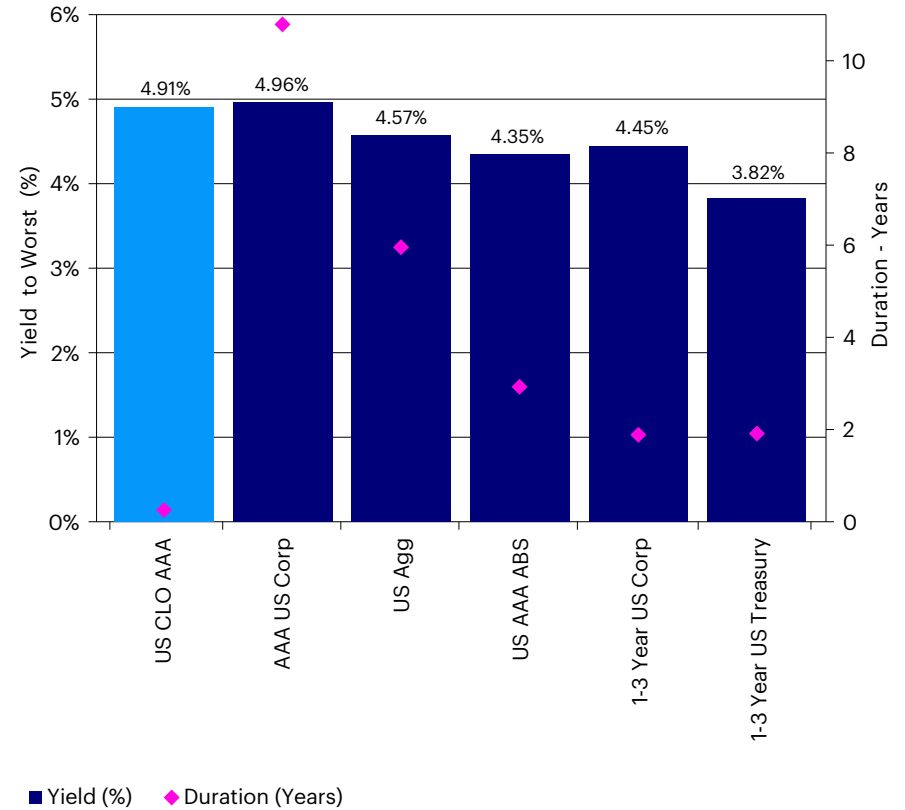
1. Relatively attractive income with investment grade quality: US AAA CLOs typically offering yields above traditional short-duration investment grade segments such as 1–3 year US treasuries, AAA corporate and ABS (asset backed securities), with limited duration exposure and lower volatility (Figure 1).
2. Spread premia for structural complexity rather than for stepping down in credit quality.
3. Close to zero interest rate sensitivity or duration through a floating rate feature, helping investors to reduce volatility and to navigate uncertain rate environments.

This alternative asset class can potentially provide diversification benefits to investors with lower correlations to traditional IG exposures. Introducing such exposure into fixed income portfolios may improve overall risk adjusted return characteristics.

1. Moody's Ratings, Structured Finance: Impairment and loss rates of global CLOs: 1993-2024 as of June 2025. Past performance does not predict future returns. **Historical experiences do not predict future outcomes.**

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Figure 1
AAA CLOs may offer higher yields relative to other fixed income



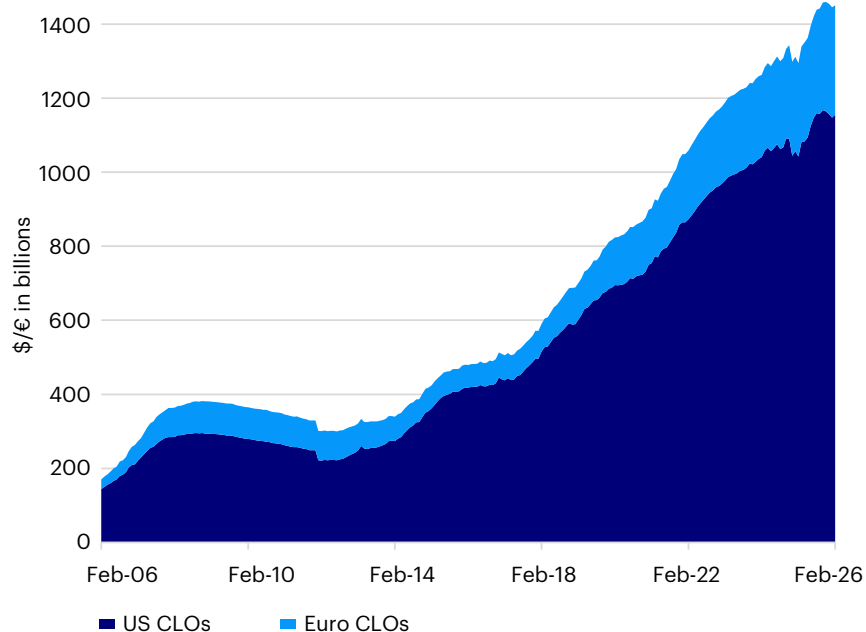
Source: Yield represented by Yield to Worst (YTW). US CLO AAA investments represented by J.P. Morgan CLOIE AAA Index, AAA US Corp by Bloomberg U.S. Aaa Corp Index, AAA US ABS by Bloomberg US Agg. ABS AAA Index, Bloomberg US Agg Bond Index by US Agg, 1-3 Yr Treasuries by U.S. Treasury: 1-3 Year Index and 1-3 year U.S. Corp by component of the US Agg index. An investment cannot be made directly in an index. **Past performance does not predict future returns.** All data as of 31 March 2026.

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Strengthen US AAA CLOs with European AAA CLOs

The European CLO market has grown into a sizeable, institutional-quality segment alongside the US, with a deep AAA universe (Figure 2).

Figure 2
Global CLO Market Size



Source: BofA Global Research, Index through February 28, 2026.

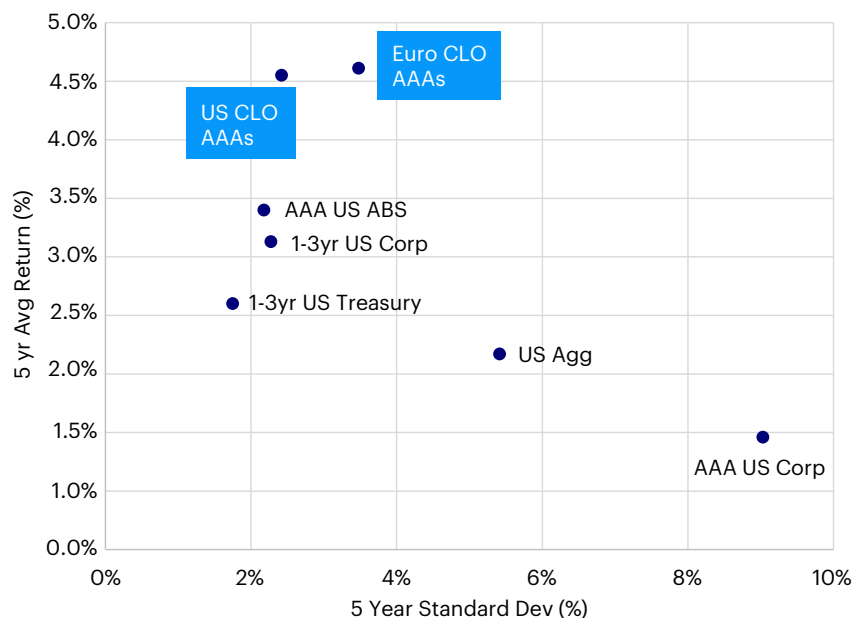
For Asia-based investors that already allocate to US AAA CLOs, European AAA CLOs can potentially provide:

1. An additional, differentiated loan universe with spreads currently 10-20bps higher than US CLOs on a USD hedged basis (Figure 3).²
2. European CLOs are backed by European senior secured loans, offering exposure to a distinct mix of industries and issuers versus the US loan market.
3. Sector and country concentrations differ meaningfully. For example, European transactions often show greater exposure to telecoms, healthcare and business services and less exposure to technology or oil and gas.
4. Comparable quality, historically complementary performance: European AAA CLOs share many of the same structural attributes as their US counterparts i.e., senior ranking, floating rate, and strong covenants and similarly have never seen AAA defaults. European AAA CLOs have historically delivered a combination of attractive returns and close to zero duration, while providing efficiency benefits in a broader US portfolio (Figure 3).

2. Source: Secondary spreads: BofA Global Research, Index through March 13, 2026. Primary spreads: Citi Research, Bloomberg, Pitchbook | LCD. As of 4/17/2026.

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Figure 3
5 Year Total Return and Volatility



Source: US CLO AAA investments represented by J.P. Morgan CLOIE AAA Index, EUR AAA CLO by the J.P. Morgan Euro CLOIE AAA Total Return Index, AAA US Corp by Bloomberg U.S. Aaa Corp Index, AAA US ABS by Bloomberg US Agg. ABS AAA Index, Bloomberg US Agg Bond Index by US Agg, 1-3 Yr Treasuries by U.S. Treasury: 1-3 Year Index and 1-3 year U.S. Corp by component of the US Agg index. An investment cannot be made directly in an index. Past performance does not predict future returns. All data as of 30 April 2026.

Incorporating European AAA CLOs into fixed income portfolios means diversification to US AAA CLOs across currencies and cycles through differentiated leveraged loan fundamentals and supply/demand dynamics that can diverge from the US while providing meaningful yields.

For USD based investors in Asia who are running global credit books, blending US and European AAA CLOs may result in smooth return profiles through regional economic cycles while keeping overall portfolio quality anchored at AAA.

However, unhedged European exposure can introduce currency volatility that can overwhelm underlying credit returns. While Euro policy rates are lower than USD rates as they are now, hedging European AAA CLO exposures back into USD may turn FX into a positive carry source. European AAA CLOs with a USD hedge may deliver enhanced yield opportunities and can potentially act as a strong diversifier to IG portfolio sleeves alongside US AAA CLO allocations.

Why combining US and European AAA CLOs could be compelling for Asia-based investors

For Asia-based investors using a USD base, a combined allocation to US and European AAA CLOs may increase income potential, add diversification, and improve risk adjusted returns.

- Investors can look to US AAA CLOs as a high quality, low duration core, targeting improved yield and Sharpe ratios versus traditional short dated IG credit.
- Investors can introduce a sleeve of European AAA CLOs to access a complementary loan universe and regionally diversified CLO structures, while maintaining AAA average rating and robust historical performance characteristics.
- Investors can look to hedge Euro exposures back to USD to transform currency risk into a controlled source of incremental carry without compromising on quality or interest rate sensitivity.

For investors across Asia, this combination represents a differentiated way to consider enhancing resilient income potential, diversify credit risk and position portfolios for an evolving rate environment, all within the familiar risk framework of investment grade credit.

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