Expanding the Fixed Income Toolkit with the S&P U.S. CLO Investment Grade Indices

Contributors

Marco Pouw
Director
Fixed Income Product Management
marco.pouw@spglobal.com

Hannah Abrams
Analyst
Fixed Income Product Management
hannah.abrams@spglobal.com

Kunal Mehta, CFA
Global Head
Fixed Income Product Management
kunal.mehta2@spglobal.com

Introduction: A New Building Block in Fixed Income

Collateralized loan obligations (CLOs) have evolved from a specialized institutional asset class into a mainstream component of diversified fixed income portfolios. As investor demand for income, interest rate resilience and diversification has increased, CLOs (particularly investment grade tranches) are gaining traction across both institutional and wealth channels.

With the launch of the S&P U.S. CLO Investment Grade Indices, market participants can now assess performance of this segment through transparent, rules-based benchmarks, enabling both index-based and active implementation.

What Are CLOs?

CLOs are securitized credit instruments backed by diversified pools of senior secured leveraged loans. These loans are typically floating rate and sit at the top of the capital structure, offering strong collateral backing.

CLO structures issue tranches with varying levels of credit risk from AAA to equity, allowing investors to target specific risk/performance profiles. While the underlying loans are sub-investment grade, the CLO's tranche structure reshapes the distribution of credit risk across the capital stack. Portfolio losses are borne first by the most subordinated tranches, affording senior holders a substantial buffer against deterioration in the loan pool. This credit enhancement is what allows the senior tranches to carry investment grade ratings that the underlying loans could not command in isolation.

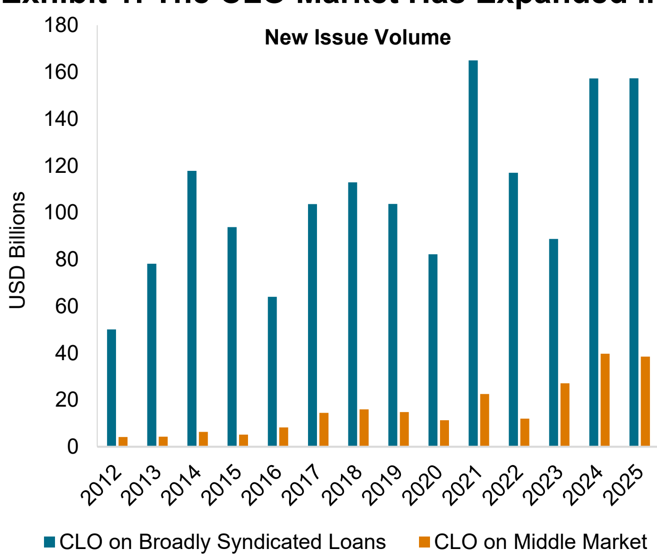
The S&P U.S. CLO Investment Grade Indices focus on USD-denominated, floating-rate, investment grade CLO debt tranches, constructed from arbitrage CLOs investing in broadly syndicated loans.

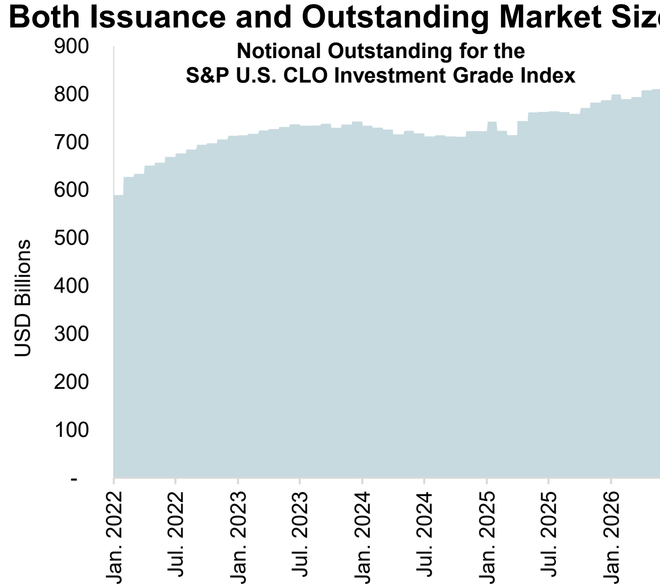
Market Growth: From Niche to Scale

Over the past decade, the CLO market has grown significantly, supported by the expansion of the leveraged loan market, strong demand for floating-rate income and increasing institutional adoption. What was once a specialist market now represents a deep and scalable ecosystem, supported by a broad base of issuance, managers and investors.

This scale is reflected in thousands of CLO deals globally and a large, diversified manager base, alongside a growing ETF ecosystem with approximately USD 50 billion in assets globally. While the U.S. remains the dominant market, EMEA has also experienced steady growth as investor familiarity and confidence have increased.

Exhibit 1: The CLO Market Has Expanded in Both Issuance and Outstanding Market Size





Source: "U.S. Leveraged Finance And BSL CLO Quarterly: TAII | S&P Global Ratings (Q1 2026)," S&P Global Ratings. Data as of Dec. 31, 2025 (new issuance). The S&P U.S. CLO Investment Grade Index was launched July 31, 2026. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Charts are provided for illustrative purposes. and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

CLOs versus CDOs: A Clearer Distinction

CLOs are often compared to collateralized debt obligations (CDOs) from before the 208 Global Financial Crisis, but such comparisons are increasingly outdated. Modern CLOs are backed by diversified pools of senior secured loans rather than complex structured credit, and they benefit from stronger structural protections, improved transparency and risk retention frameworks.

A key structural feature of CLOs is their overcollateralization, whereby the value of the underlying loan collateral exceeds the value of the issued debt tranches. This provides an additional layer of protection for investors, particularly in the investment grade tranches, where credit enhancement and structural safeguards are most significant. These protections are further reinforced by the subordination of junior tranches, which are designed to absorb losses before senior debt holders are affected. As a result, historical default rates for investment grade CLO tranches have been low, even during periods of market stress. Since 2010, S&P Global Ratings has recorded no defaults among CLO securities originally rated AAA through BBB (see Exhibit 2).

Exhibit 2: Historic CLO Defaults by Original Rating (2010–2025)

S&P Global Rating at Issuance (Structured Finance)	Number of Securities	Number of Defaults
AAA	5,965	0
AA	4,455	0
A	3,762	0
BBB	3,923	0
BB	2,762	16
B	504	14
Total	**21,371**	**30**

Source: "U.S. Leveraged Finance And BSL CLO Quarterly: TAll | S&P Global Ratings (Q1 2026)," S&P Global Ratings. Data as of Dec. 31, 2025. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Liquidity and Implementation: Supporting Both Index-Based and Active Strategies

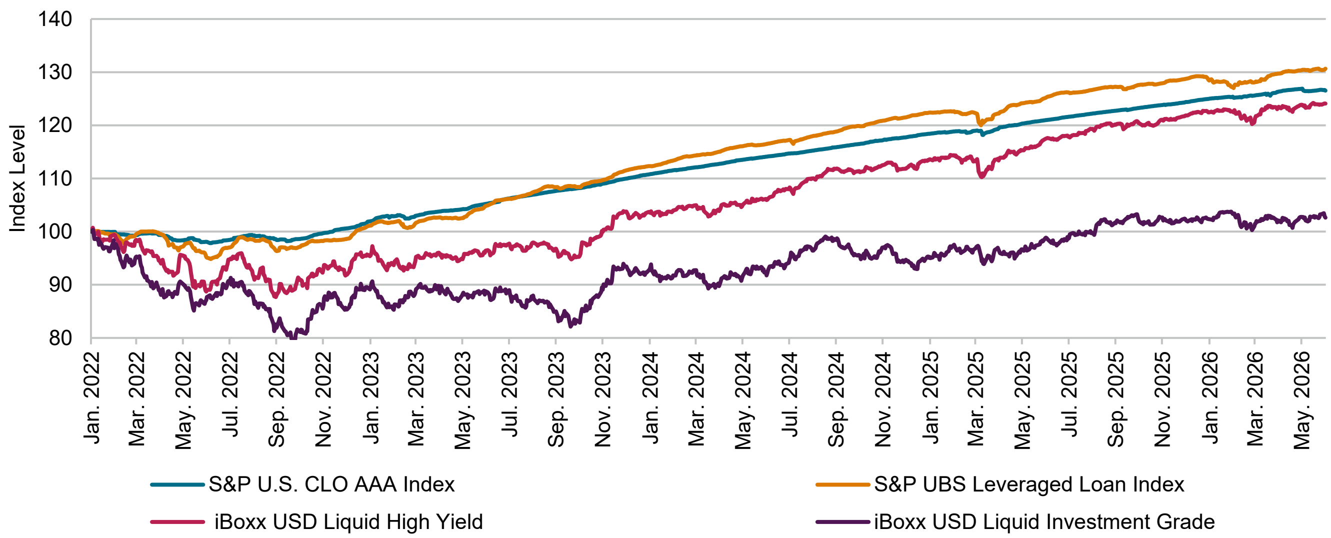
The CLO market has seen meaningful improvements in liquidity and market infrastructure in recent years. Secondary trading has broadened, pricing transparency has improved and access has expanded through ETFs and structured solutions.

CLOs have increasingly been used in both active and index-based strategies. Active managers can take advantage of relative value opportunities across tranches and vintages, while index approaches may benefit from standardization, transparency and scalability. The availability of daily calculated indices, robust pricing inputs and investable construction may further support their use in benchmark-driven strategies.

What Can CLOs Add to a Strategy?

CLOs offer a differentiated set of characteristics that are particularly relevant in today's market environment. The structure of a CLO achieves credit enhancement for the senior debt tranches, and leverage for the equity tranche. The floating-rate nature of the debt tranches can offer protection against rising interest rates and reduce duration exposure relative to traditional bonds. At the same time, investment grade CLO tranches could offer yield enhancement compared with similarly rated corporate debt. Historically, CLO spreads have remained wider than those of comparably rated corporate bonds, reflecting the differentiated characteristics of the asset class and providing compensation for exposure to a distinct segment of the credit market. For investors, this may provide an opportunity to access additional income while maintaining exposure to investment grade credit.

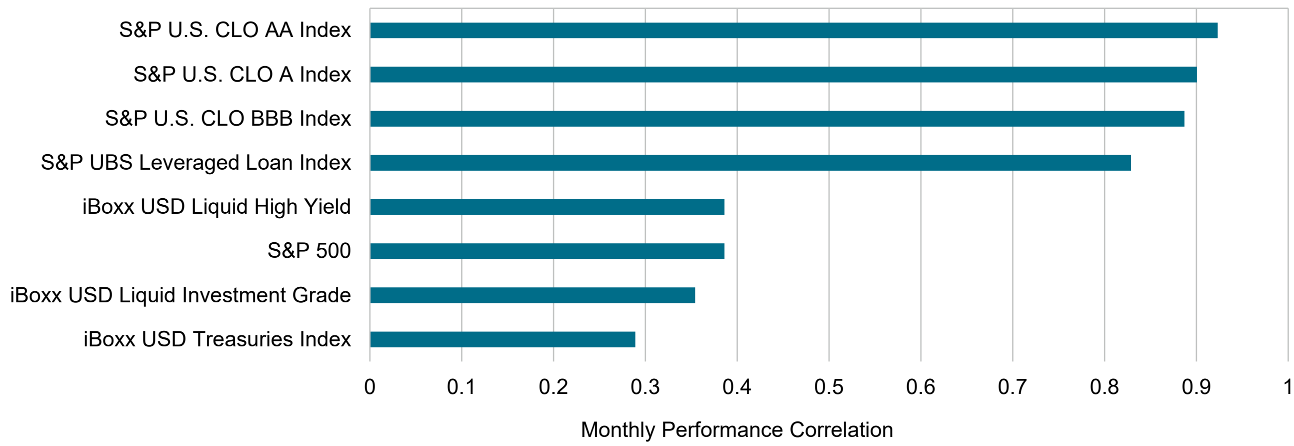
Exhibit 3: Back-Tested Performance



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2022, to July 1, 2026. The S&P UBS Leveraged Loan Index was launched on Dec. 2, 2024. The S&P U.S. CLO AAA Index was launched July 31, 2026. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

CLOs may also provide diversification, with historically low correlations to both traditional fixed income and equities (see Exhibit 4).

Exhibit 4: Back-Tested Historical Correlations of the S&P U.S. CLO AAA Index Monthly Performance with Other Asset Classes



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2022, to June 30, 2026. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Why Are CLOs Gaining Popularity Now?

Globally, U.S. insurers remain among the largest buyers of CLOs globally, while Japanese banks are a key source of demand for senior AAA tranches. Pension funds in North America and Europe have also increased allocations to CLO strategies as they seek enhanced yield and portfolio diversification. Growing adoption reflects the asset class's unique combination of spread premium, floating-rate income, strong historical credit performance and resilience through multiple market cycles. The development of ETF wrappers, indices and active-based solutions is improving accessibility, while advances in pricing and data are increasing transparency. The macro environment has also played a role, with a period of higher interest rates increasing the appeal of floating-rate assets such as CLOs, whose coupons adjust with short-term rates and carry limited duration risk.

S&P U.S. CLO Investment Grade Indices: Data, Scale and Integration

The S&P U.S. CLO Investment Grade Indices are underpinned by a longstanding foundation of pricing, data and credit market expertise. They leverage evaluated pricing from S&P Global Market Intelligence and integrate reference data from CLO analytics providers, supporting robust and consistent index construction. This is important for the CLO segment, as transparent benchmark construction relies on consistent tranche level pricing and reference data across the underlying loan market.

S&P DJI covers credit markets, spanning investment grade, high yield, leveraged loans and CLOs, to best provide a complete and consistent view of the underlying risk and performance drivers.

Conclusion: A Structural Shift in Fixed Income

CLOs are increasingly used within modern fixed income portfolios, offering a combination of income, low interest rate sensitivity, and diversification beyond traditional credit.

The S&P U.S. CLO Investment Grade Indices provide a transparent, scalable index-based solution, allowing market participants to make more informed decisions within this evolving asset class.

Performance Disclosure/Back-Tested Data

The S&P U.S. CLO AAA Index, S&P U.S. CLO AA Index, S&P U.S. CLO A Index, S&P U.S. CLO BBB Index and S&P U.S. CLO Investment Grade Index were launched July 31, 2026. The S&P UBS Leveraged Loan Index was launched on Dec. 2, 2024. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology in effect on the index launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Also, the treatment of corporate actions in back-tested performance may differ from treatment for live indices due to limitations in replicating index management decisions. Complete index methodology details are available at www.spglobal.com/spdji. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.
Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US $100,000 investment for a 12-month period (or US $10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US $1,650), the net return would be 8.35% (or US $8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US $5,375, and a cumulative net return of 27.2% (or US $27,200).

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