Janus Henderson
INVESTORS

SEEKING HIGHER INCOME

BBB CLOs vs. high yield vs. leveraged loans

Investment Insights, July 2026

Portfolio Managers John P Kerschner, Nick Childs, and Denis Struc explore the similarities and key differences between BBB CLOs, high yield, and leveraged loans.

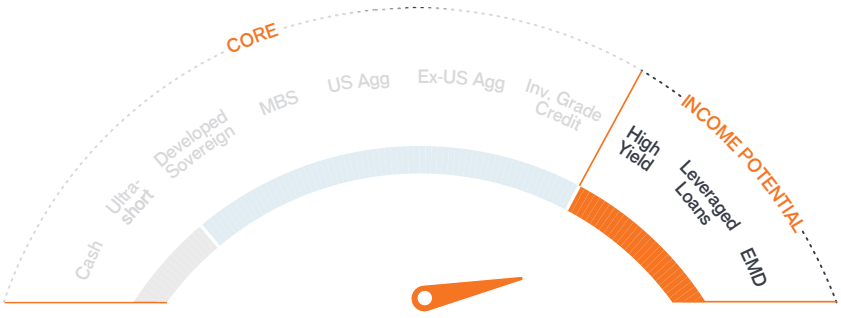
At a foundational level, investors commonly think about their fixed income allocation in terms of two broad categories: "Core" and "income potential". As shown in Exhibit 1, the core allocation aims to provide diversification and defensiveness, while the income potential allocation seeks to boost yield and total return.

When seeking higher income, investors have typically turned to the following sectors: High yield, leveraged loans, preferred securities, and emerging markets debt (EMD). More recently, **BBB rated collateralized loan obligations (BBB CLOs) have emerged as another subsector to consider.**

Given the size of the U.S. high yield and leveraged loan markets – both around $1.5 trillion according to Bloomberg and S&P Global – this paper will explore the similarities and key differences between BBB CLOs, high yield, and leveraged loans in the U.S. market.

While the high yield, leveraged loan, and BBB CLO markets are similar in that they all provide exposure to the **debt of sub-**

Exhibit 1: Fixed income allocations – Core vs. income potential





John P Kerschner, CFA
Head of U.S. Securitized Products



Nick Childs, CFA
Head of Structured and Quant Fixed Income



Denis Struc
Portfolio Manager

Key takeaways

- Investors have typically turned to sectors such as high yield and leveraged loans when seeking to increase income within their bond allocation. More recently, BBB CLOs have emerged as another subsector to consider.
- Due to their higher credit ratings, lower historical defaults, low correlation, and higher historical total returns versus high yield and leveraged loans, we believe the inclusion of BBB CLOs in portfolios may help improve risk-adjusted returns.
- Investors should be prepared for potentially higher volatility within the BBB CLO sector, however. Yet, with the right approach to navigating market selloffs and maintaining a total portfolio perspective, we believe these risks can be managed and mitigated.

investment grade corporate issuers, they differ in some key areas. In the case of high yield, these are *fixed-rate* bonds issued to investors, while leveraged loans and BBB CLOs comprise *floating-rate* bank loans.

BBB CLOs have historically exhibited **very low default rates** – the result of credit enhancement features within CLO structures.[1] However, despite their higher credit ratings, BBB CLOs have historically exhibited higher volatility and may be less liquid than high yield and leveraged loans.

Numerous investment vehicles exist that give investors exposure to the high yield and leveraged loan markets. But until recently, it was difficult for investors outside of large institutions and money managers to invest directly in CLOs. Now that **direct access to CLOs is available to a broader investor base**, we believe a more detailed comparison of BBB CLOs to high yield and leveraged loans may prove useful.

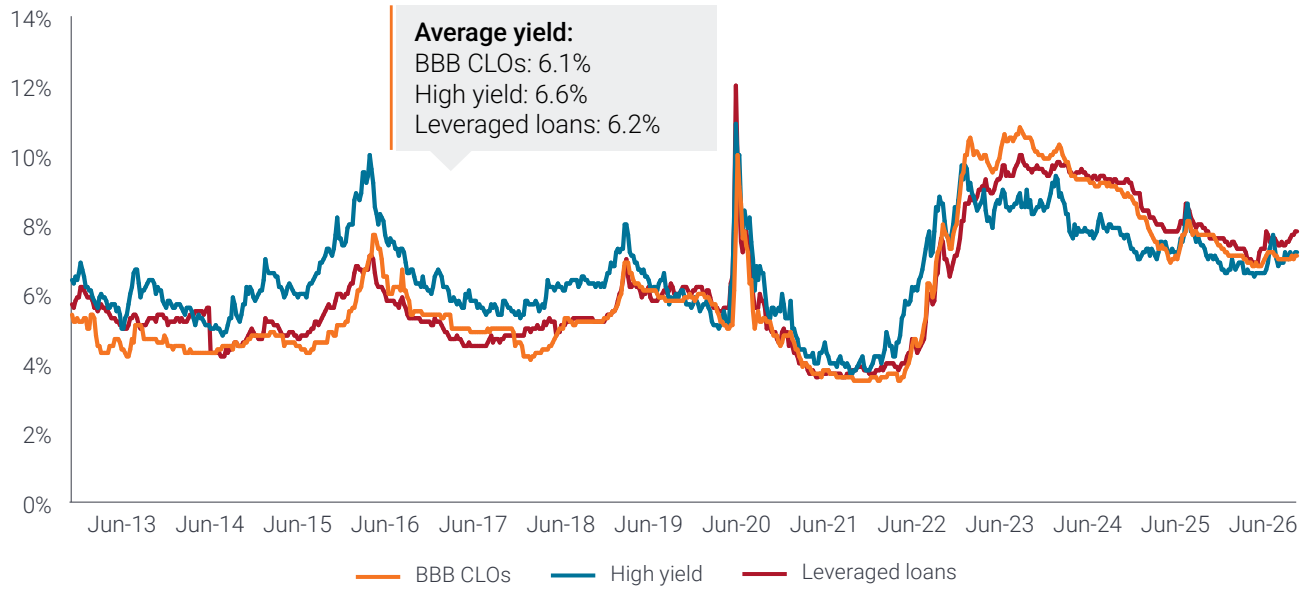
BBB CLOs vs. high yield vs. leveraged loans

1. Yields

The first question most investors ask when considering an allocation to higher-yielding fixed income is, "What is the yield?" As shown in Exhibit 2, yields for all three sectors have tracked each other closely over the past decade-plus. High yield has produced the highest average yield since July 2013, with leveraged loans and BBB CLOs coming in at slightly lower levels.

An important takeaway: Floating-rate leveraged loans and BBB CLOs have continued to pay income – or provide

Exhibit 2: Yield to worst[2] (Jul 2013 - Jun 2026)



Source: Bloomberg, J.P. Morgan, as of 30 Jun 2026. Indices used to represent asset classes: BBB CLOs = J.P. Morgan BBB CLO Index, High yield = Bloomberg U.S. Corporate High Yield Bond Index, Leveraged loans = Morningstar LSTA U.S. Leveraged Loan 100 Index. Yield to worst on BBB CLOs calculated using 3-month LIBOR/SOFR plus J.P. Morgan CLO BBB Discount Margin. Average yield equals the simple average of yield to worst for each asset class for the period July 2013 to June 2026. This chart is based upon index performance and does not represent the performance of any specific product. It is not possible to invest in an unmanaged index. **Past performance does not predict future returns.**

yield – through all monetary policy environments. This is worth noting, as some investors have assumed that yields on floating-rate debt go to zero when interest rates go to zero, much like cash or savings accounts.

But leveraged loans and CLOs differ from cash and savings accounts in that they pay a credit spread – or additional

[1] For a detailed description of the securitization process and CLO structures, see our whitepaper, Collateralized Loan Obligations: A securitized products primer.

[2] **Yield to Worst (YTW)** is a portfolio characteristic that represents the lowest potential yield a bond or portfolio may achieve, assuming no default and that issuers exercise any applicable call or prepayment features. At the portfolio level, YTW generally represents the weighted average YTW of the underlying holdings. YTW does not represent actual investor return, past performance, or a guarantee of future income. It is an analytical measure based on current portfolio holdings and assumptions and may differ from realized results.

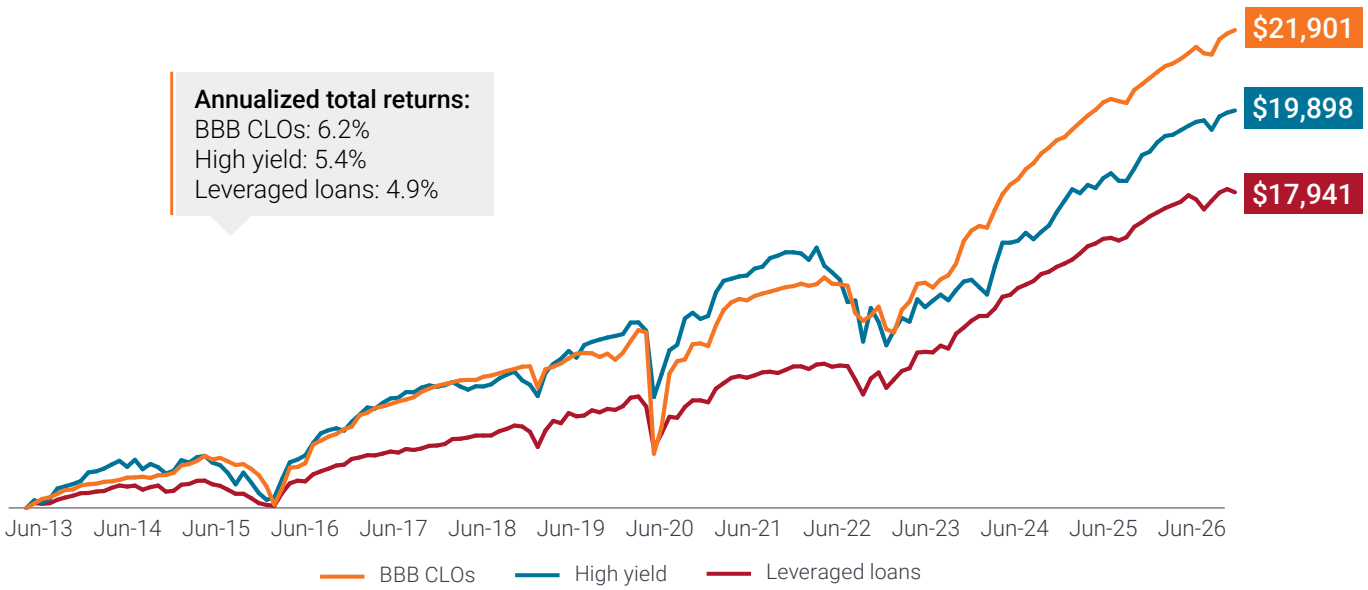
income – above the risk-free rate. Even if rates go to zero, the investor still earns the credit spread. Between July 2013 and June 2026, BBB CLOs paid an average credit spread of 420 basis points (bps), or 4.20%. This additional income has been a substantial contributor to total returns over time.

2. Total returns

If looking at yield in isolation, investors might be somewhat indifferent when comparing high yield, leveraged loans, and BBB CLOs. But rather than invest based on yield alone, we think investors should consider total returns as well.

As shown in Exhibit 3, despite exhibiting similar average yields, these three sectors have delivered meaningfully different total returns since July 2013.

Exhibit 3: Growth of a hypothetical $10,000 investment (Jul 2013 - Jun 2026)



Source: Bloomberg, J.P. Morgan, as of 30 June 2026. Indices used to represent asset classes as per Exhibit 2. Annualized total returns for the period July 2013 to June 2026 account for the combination of coupon income and capital appreciation/depreciation resulting from changes in index price. **Scenarios are hypothetical and performance is based on historical index returns. Investors should not assume that they will have a similar experience. Hypothetical examples are for illustrative purposes only and do not represent the returns of any particular investment. It is not possible to invest directly in an unmanaged index. Past performance does not predict future results.**

Investors may be asking how three fixed income sectors with similar average yields can have vastly different annualized returns. The key contributor is defaults.

3. Defaults

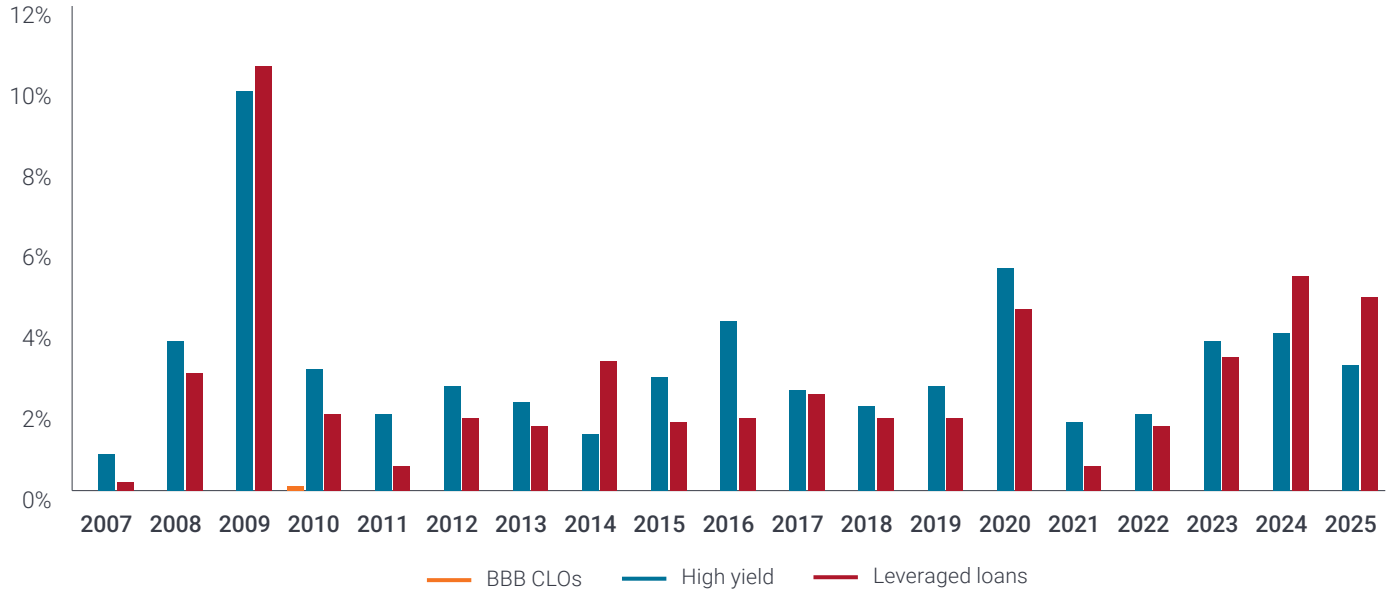
The relationship between yields, defaults, recovery rates, and total returns is paramount when investing in higher-yielding assets.

Due to default losses, lower-quality bonds may not return their stated yields over the long run. For example, according to Bloomberg, **U.S. CCC rated corporate bonds returned just 5.5% annualized from December 1997 to June 2026, despite their yields averaging 12.5% during that period.**

As shown in Exhibit 4, high yield and leveraged loans have exhibited default rates that have adversely impacted their annualized returns. Over the last 20 years, the default cost of high yield and leveraged loans has averaged 102 bps and 73 bps, respectively. We would expect the cost to be a bit higher in the future, given lower recovery rates resulting from liability management exercises, where companies may manage, modify, or optimize their outstanding debt.

In contrast, BBB CLOs have exhibited only one default since 2007 and, as a result, the sector's annualized total return in Exhibit 3 more closely resembles its average yield in Exhibit 2.

Exhibit 4: Default rates (2007 – 2025)
BBB CLOs have experienced a default in just one year (2010) since 2007.



Source: S&P Global Ratings, Fitch Ratings, as of December 2025. Global default rates for BBB CLOs and high yield, U.S. default rate for leveraged loans.

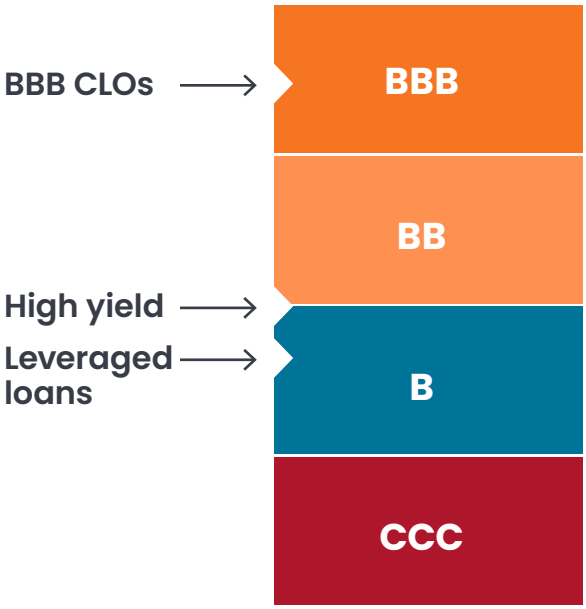
4. Credit quality

A common question from investors is, "If these three sectors are all exposed to the sub-investment grade debt of corporate companies, why do BBB CLOs have a better default rate?"

Primarily, the lower default rate is due to the credit enhancement feature within the CLO structure, where losses are borne first by the lowest-rated tranches, moving up to higher-rated tranches as defaults increase. **In a typical CLO structure, the BBB tranche will not suffer any losses until defaults rise above 10%**. As a result, most losses have historically been absorbed by lower-rated tranches.

In contrast to CLOs, investors in high-yield bonds and leveraged loans participate in default-related losses from the first dollar, as there is no tranche hierarchy inherent in these sectors.

Exhibit 5: Index average credit ratings



Source: Bloomberg, Morningstar, as of 30 June 2026.
Indices used to represent asset classes as per Exhibit 3.

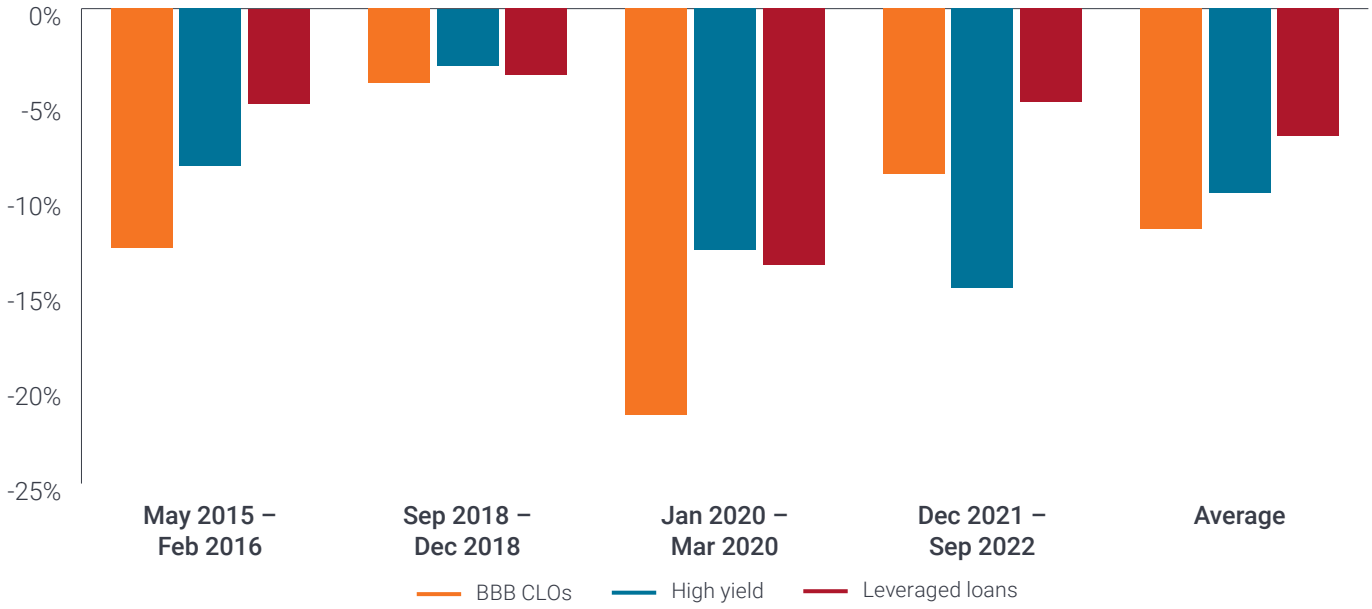
5. Volatility and drawdown risk

Investors should note that BBB CLOs have experienced similar, or at times larger, drawdowns than high yield and leveraged loans.

In the four most-recent market drawdowns, BBB CLOs recorded the highest average drawdown (-11.6%), followed by high yield (-9.7%) and leveraged loans (-6.7%), as shown in Exhibit 6. These numbers were particularly skewed by the COVID selloff, when BBB CLOs sold off aggressively. **Excluding COVID, high yield and BBB CLOs have experienced similar average max drawdowns around 8.7% and 8.4%, respectively.**

By implication, BBB CLOs exhibited standard deviation of 8.9% over the last 10 years – higher than high yield at 7.1% and leveraged loans at 4.9%.

Exhibit 6: Significant market drawdowns since 2012



Source: Bloomberg, J.P. Morgan, as of 30 June 2026. **Past performance does not predict future results.**

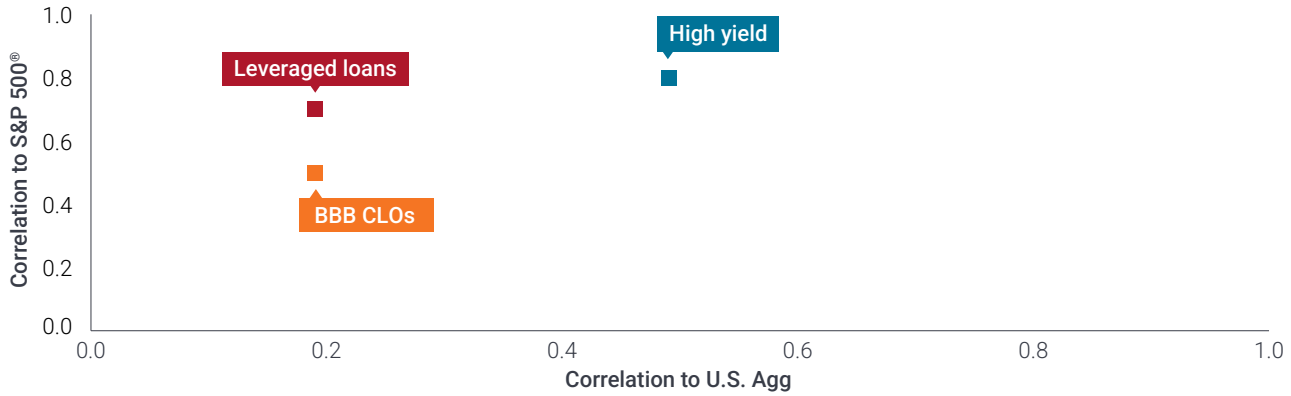
Some key considerations regarding drawdown risk:

- Higher drawdowns within BBB CLOs are not necessarily indicative of an increase in CLO defaults during times of market stress. Rather, their volatility has been more closely linked with the following:
  - **Cash-raising trades:** During flights to safety, money managers may look to liquidate assets that are easiest to move, such as short-duration bonds and floating-rate CLOs.
  - **Risk of downgrades:** Rating agencies tend to downgrade BBB CLOs when their credit enhancement deteriorates, which can happen en masse in a dislocation such as COVID. In contrast, downgrades in high yield and leveraged loans have tended to be more idiosyncratic, or name-specific. While downgrades to BBB CLOs do not affect their cash flows to investors, the prices of the bonds adjust lower to reflect the lower rating, and this contributes to price volatility. Because CLOs are long-spread duration assets – meaning the prices of the securities are more sensitive to changes in their credit spread – the negative price impact of a rating downgrade may be more significant for a BBB CLO than for a high-yield bond.
- Higher volatility is not unusual for the BBB CLO sector. Being aware of this may help investors to not be surprised by it, while those with a contrarian eye could see these selloffs as opportunities to rebalance at more attractive valuations.
- Finally, and importantly, not all volatility is created equal, as discussed below.

6. Correlation and portfolio efficiency

Despite their higher volatility, BBB CLOs have moved in a less-correlated manner compared to high yield and leveraged loans. As shown in Exhibit 7, BBB CLOs have exhibited lower combined correlation to the S&P 500® Index and the Bloomberg U.S. Aggregate Bond Index (U.S. Agg) over the past 10 years.

Exhibit 7: Correlation to the S&P 500 and the U.S. Agg (Jul 2016 - Jun 2026)
BBB CLOs have exhibited lower combined correlation to U.S. equities and core fixed income.



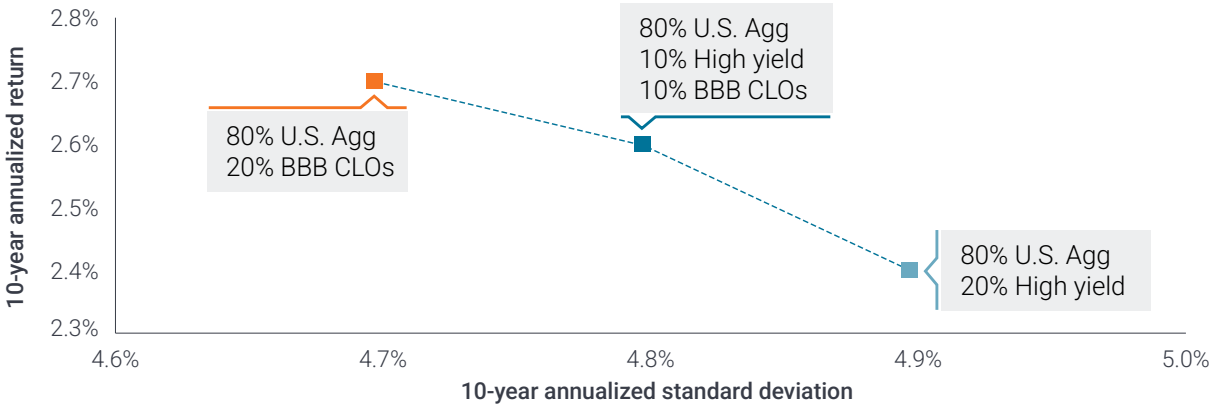
Source: Bloomberg, J.P. Morgan, as of 30 June 2026. 10-year correlation based on monthly returns.

Investors may be asking, "Does low correlation matter?"

We believe it does matter, because the **low correlation of BBB CLOs may dampen the potential adverse impact of its higher volatility** within a diversified bond allocation.

As shown in Exhibit 8, when adding BBB CLOs to the U.S. Agg, or a combination of the U.S. Agg and high yield, the result has been higher returns *with lower volatility* – the latter effect being the positive result of lower correlation.

Exhibit 8: Historical hypothetical allocation scenarios (Jul 2016 - Jun 2026)
Addition of BBB CLOs may have resulted in higher returns and lower overall volatility.



Source: Bloomberg, J.P. Morgan, Janus Henderson Investors, as of 30 June 2026. Indices used to represent asset classes as per Exhibit 3. Our analysis adds BBB CLO exposure on a pro rata basis to determine the historical effect of having 10% and 20% BBB CLO exposure. **Scenarios are hypothetical and performance is based on historical index returns. Investors should not assume they will have a similar investment experience. Hypothetical examples are for illustrative purposes only and do not represent the returns of any particular investment. It is not possible to invest directly in an unmanaged index.**

The Global Financial Crisis (GFC): CLOs then and now

Investors may be curious to know how securitized sectors – and CLOs specifically – fared through the GFC. It is important to note that CLOs were not at the center of the crisis. Faulty sub-prime mortgages that were packaged into collateralized debt obligations (CDOs) – an entirely different product to CLOs – was the major contributing factor that led to the GFC.

Due to their lack of exposure to the real estate market, investment-grade CLOs held up well through the GFC, with zero defaults in 2008 and 2009 and just a 0.12% default rate in BBB CLOs in 2010 according to S&P Global. Understandably though, prices of CLO securities fell significantly, commensurate with other risk assets, as investors fled to safety amid the turmoil. While these mark-to-market drawdowns were painful for investors, those who held on to their investments would have recovered their unrealized losses when markets rebounded.

Several key developments took place after the GFC that further bolstered the CLO market, in our view. These include stricter lending requirements across the board, more stringent capital requirements for banks, greater credit enhancement within CLO structures, and significant growth in the number of active participants and the overall size of the CLO market.

In conclusion

Due to their higher credit ratings, lower historical defaults, low correlation, and higher historical total returns, we believe the **inclusion of BBB CLOs in portfolios may enhance performance, particularly when paired with an existing allocation to core and high yield fixed income.**

That said, managing expectations is key – investors should be prepared for potentially higher volatility within the BBB CLO sector. Yet, with the right approach to navigating market selloffs and maintaining a total portfolio perspective, we believe these risks can be managed and mitigated.

As investors consider building effective and efficient portfolios, we believe exposure to loans through appropriately rated CLO structures is a compelling option to consider.

About the authors



John P Kerschner, CFA
Global Head of Securitised Products | Portfolio Manager

John P Kerschner is Global Head of Securitised Products and a portfolio manager at Janus Henderson Investors. He is a member of the Securitised Credit and Core Plus Teams and leads the teams in finding innovative ways to utilise structured products in the firm's portfolios.

John received his Bachelor of Arts degree in biology from Yale University, graduating cum laude. He earned his MBA from Duke University, Fuqua School of Business, where he was designated a Fuqua Scholar. John holds the Chartered Financial Analyst designation and has 36 years of financial industry experience.



Nick Childs, CFA
Head of Structured and Quantitative Fixed Income | Portfolio Manager

Nick Childs is Head of Structured and Quantitative Fixed Income and Portfolio Manager at Janus Henderson Investors. He leads the Structured and Quantitative Fixed Income Group to integrate quantitative approaches in the fixed income business. Additionally, he serves as a portfolio manager on the Securitised Credit Team.

Nick received his Bachelor of Science degree in finance with a minor in economics from the University of Denver. He holds the Chartered Financial Analyst designation and has 23 years of financial industry experience.



Denis Struc
Portfolio Manager

Denis Struc is a Portfolio Manager at Janus Henderson Investors. He is responsible for portfolio management and markets and transaction analysis across the securitised and secured credit markets. Prior to joining Henderson in 2010, he was an analyst at Moody's Investors Service in the structured products department.

Denis received a BBA degree from Academy of Economic Studies of Moldova and an MSc in finance and investment from Brunel University. He has 21 years of financial industry experience.

FOR MORE INFORMATION, PLEASE VISIT JANUSHENDERSON.COM

Janus Henderson
INVESTORS

Alternative investments include, but are not limited to, commodities, real estate, currencies, hedging strategies, futures, structured products, and other securities intended to be less correlated to the market. They are typically subject to increased risk and are not suitable for all investors.

Bank loans often involve borrowers with low credit ratings whose financial conditions are troubled or uncertain, including companies that are highly leveraged or in bankruptcy proceedings.

Bloomberg U.S. Corporate High Yield Bond Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market.

Bond credit quality ratings provided by Janus Henderson Investors are based on the average of ratings from Moody's, Standard & Poor's, Fitch, Kroll and DBRS where all five agencies have provided a rating. If less than 5 agencies rate a security, the average of those are used. Ratings are measured on a scale that ranges from Aaa (highest) to B, any lower ratings are grouped into 'Below B' (lowest).

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

J.P. Morgan BBB CLO Index is designed to track the BBB-rated components of the USD-denominated, broadly syndicated CLO market.

The **Morningstar LSTA US Leveraged Loan 100 Index** tracks the performance of the **100 largest institutional leveraged loans** in the U.S.

It is not possible to invest in an unmanaged index.

The views presented are as of the date published. They are for information purposes only and should not be used or construed as investment, legal or tax advice or as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. Nothing in this material shall be deemed to be a direct or indirect provision of investment management services specific to any client requirements. Opinions and examples are meant as an illustration of broader themes, are not an indication of trading intent, are subject to change and may not reflect the views of others in the organization. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use. Janus Henderson Investors is the source of data unless otherwise indicated, and has reasonable belief to rely on information and data sourced from third parties. **Past performance does not predict future returns.** Investing involves risk, including the possible loss of principal and fluctuation of value.

Not all products or services are available in all jurisdictions. This material or information contained in it may be restricted by law, may not be reproduced or referred to without express written permission or used in any jurisdiction or circumstance in which its use would be unlawful. Janus Henderson is not responsible for any unlawful distribution of this material to any third parties, in whole or in part. The contents of this material have not been approved or endorsed by any regulatory agency.

Janus Henderson Investors is the name under which investment products and services are provided by the entities identified in the following jurisdictions: (a) **Europe** by Janus Henderson Investors International Limited (reg no. 3594615), Janus Henderson Investors UK Limited (reg. no. 906355), Janus Henderson Fund Management UK Limited (reg. no. 2678531), Tabula Investment Management Limited (reg. no. 11286661), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Janus Henderson Investors Europe S.A. (reg no. B22848 at 78, Avenue de la Liberté, L-1930 Luxembourg, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier); (b) the **U.S.** by SEC registered investment advisers that are subsidiaries of Janus Henderson Group Ltd.; (c) **Canada** through Janus Henderson Investors US LLC only to institutional investors in certain jurisdictions; (d) **Singapore** by Janus Henderson Investors (Singapore) Limited (Co. registration no. 199700782N). This advertisement or publication has not been reviewed by Monetary Authority of Singapore; (e) **Hong Kong** by Janus Henderson Investors Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission of Hong Kong; (f) **South Korea** by Janus Henderson Investors (Singapore) Limited only to Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations); (g) **Japan** by Janus Henderson Investors (Japan) Limited, regulated by Financial Services Agency and registered as a Financial Instruments Firm conducting Investment Management Business, Investment Advisory and Agency Business and Type II Financial Instruments Business; (h) **Australia and New Zealand** by Janus Henderson Investors (Australia) Limited (ABN 47 124 279 518) and its related bodies corporate including Janus Henderson Investors (Australia) Institutional Funds Management Limited (ABN 16 165 119 531, AFSL 444266) and Janus Henderson Investors (Australia) Funds Management Limited (ABN 43 164 177 244, AFSL 444268); (i) the **Middle East** by Janus Henderson Investors Middle East Limited (DIFC branch), regulated by the Dubai Financial Services Authority as a Category 4 licensed entity. This document relates to a financial product which is not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA"). The DFSA has no responsibility for reviewing or verifying any prospectus or other documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale.

Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document you should consult an authorised financial adviser. No transactions will be concluded in the Middle East and any enquiries should be made to Janus Henderson. We may record telephone calls for our mutual protection, to improve customer service and for regulatory record keeping purposes.

Outside of the U.S., Australia, Singapore, Taiwan, Hong Kong, Europe and UK: For use only by institutional, professional, qualified and sophisticated investors, qualified distributors, wholesale investors and wholesale clients as defined by the applicable jurisdiction. Not for public viewing or distribution. Marketing Communication.

Janus Henderson® and any other trademarks used herein are trademarks of Janus Henderson Group Ltd. or one of its subsidiaries. © Janus Henderson Group Ltd.