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Heavy supply plus junior staff shortages create CLO logjam

by Hugh Minch

A combination of unprecedented supply and a tight labour market is leading to a bottleneck in the CLO market, with service providers and banks stretching their resources to the limit. Managers and investors are having to schedule their issues well in advance, and many CLOs are getting delayed past their target issuance date.

Creditflux reported earlier this year that S&P Global had asked managers for their planned issuance calendar through to September, noting that it may not take additional orders as the volume was too high to process.

Beginning early in the summer, other rating agencies, as well as law firms, began to adopt the same approach. Some deals are even getting turned down by service providers due to headcount limitations.

Maureen D'Alleva, head of performing credit at Angelo Gordon in New York, says CLO managers must clearly delineate when they want to come to market and reach out early as they look forward to the next six months.

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Managing director
Flat Rock Global

"When considering scheduling a refi or reset, or securitising a warehouse, managers must coordinate with arrangers to make sure they're forward-looking in their issuance plans. They're reserving the spots with the law firms, the arrangers and — of course — the rating agencies," D'Alleva says. "In the past, I don't believe that level of coordination was as important as it is today."

Shiloh Bates, managing director at Flat Rock Global, says the lack of CLO redemptions means the amount of resources required for servicers to execute primary transactions has stepped up permanently.

"The reality is that service providers are going to hire more people, but CLOs are lucrative business for them," Bates says. "I would expect this to be sorted through in the next half year."

Amid the heaviest supply the market has seen in decades, firms are also feeling the pressure of the tight labour market, which is impacting the entire US economy.

"There is a squeeze on labour in nearly every industry vertical, and CLO structuring is seeing that same pressure," says D'Alleva. "Arrangers, law firms and rating agencies are all extremely busy."

The banking industry is one of the most heavily impacted by the tight labour market, especially in junior levels.