STATE STREET ETF SPOTLIGHT

Euro AAA CLOs: Income remains the key driver of returns

The lead

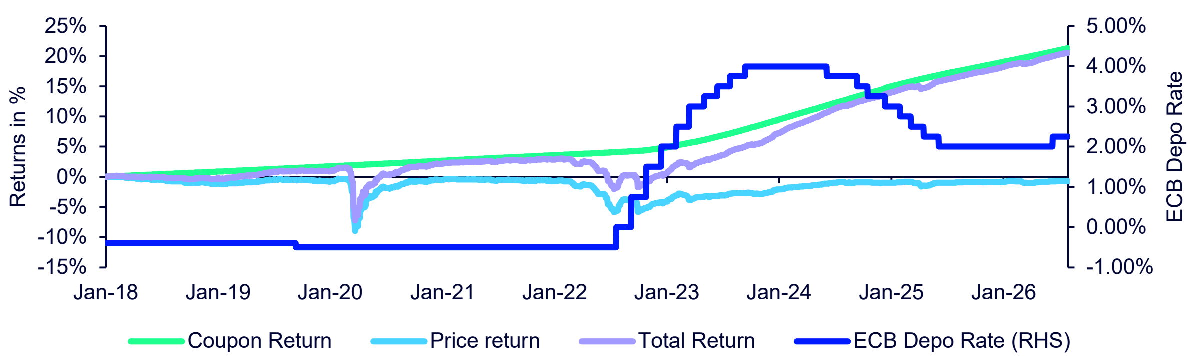
- The ECB raised rates on 11 June, and policymakers have maintained a hawkish stance despite limited evidence of second-round inflation effects.[1] Markets continue to price in an additional rate increase this year, which would take the ECB deposit rate to 2.50%.[2]
- Headline Eurozone inflation eased from 3.2% year-on-year in May to 2.9% in June. However, State Street Market PriceStats inflation indicators have shown renewed upward momentum in recent weeks, reflecting the effect of elevated energy prices as tensions involving Iran keep oil prices in the USD 80-100 per barrel range under our delayed-resolution base-case scenario.[3]
- Against this backdrop, short-duration floating-rate assets may offer a more defensive alternative to traditional fixed income allocations. The periodic coupon resets embedded in the underlying leveraged loans held by CLOs allow investors to benefit from higher short-term interest rates, helping to generate resilient income while mitigating the impact of rising yields on prices. Euro AAA CLOs currently offer an average coupon of 3.61%, compared with the ECB deposit rate of 2.25%.[4]

The takeaway

The floating-rate structure of CLOs has historically resulted in a larger proportion of total return coming from coupon income rather than price appreciation. As policy rates rise, coupon payments reset higher, increasing the contribution of income to overall returns. Figure 1 illustrates the cumulative performance of the J.P. Morgan European AAA CLO Index since inception, decomposed into coupon and price returns. During the previous ECB tightening cycle, higher rates initially weighed on price performance, but this was increasingly offset by stronger coupon income as policy rates moved higher. We believe the current environment is more supportive than the previous hiking cycle. Unlike the negative-rate regime that prevailed at the start of the last tightening period, CLO coupons today are resetting from a materially higher base. As a result, the income component of returns is already elevated, which may help cushion periods of market volatility and contribute to more stable total returns.

Investors seeking to capture this opportunity may consider the State Street® Blackstone Euro AAA CLO UCITS ETF (Acc) as well as the currency hedged shareclasses with State Street® Blackstone Euro AAA CLO GBP Hdg UCITS ETF (Acc) and State Street® Blackstone Euro AAA CLO USD Hdg UCITS ETF (Acc)

Figure 1: EUR AAA CLOs performance – Coupon income provides a cushion against price volatility



Source: Bloomberg Finance L.P, JP Morgan. Cumulative returns from 2 January 2018 to 30th July 2026 for J.P. Morgan Euro CLOIE AAA Index. The performance data quoted represents past performance. Past performance does not guarantee future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Footnotes

1 – The 5 year forward 5 Year EUR Inflation swap has remained relatively stable suggesting limited market concern that long-term inflation risks are rising. Soft PMIs suggest the ability of business to pass costs on may be limited.

2 – Source: Bloomberg Finance LP, World Interest Rate Probability based on Eur OIS ESTR – as of 31 July 2026.

3 – The Hormuz conflict | State Street.

4 – Source: Bloomberg Finance LP for the ECB Deposit Rate, JP Morgan Index using the average coupon of the JP Morgan Euro AAA CLO Index (CLOIE)– as of 31 July 2026.

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