

STATE STREET ETF SPOTLIGHT

CLOs offer defence ahead of the ECB

The lead

- The market is 97% priced for an ECB hike on 11 June. Euro CPI has accelerated to 3.2% YoY and a post conflict weakening of the EUR are catalysts for a tightening¹
- ECB rhetoric has been hawkish despite limited scope for second round effects².
- In this environment, short-duration floating rate exposures may provide a more defensive alternative to traditional fixed income allocations.

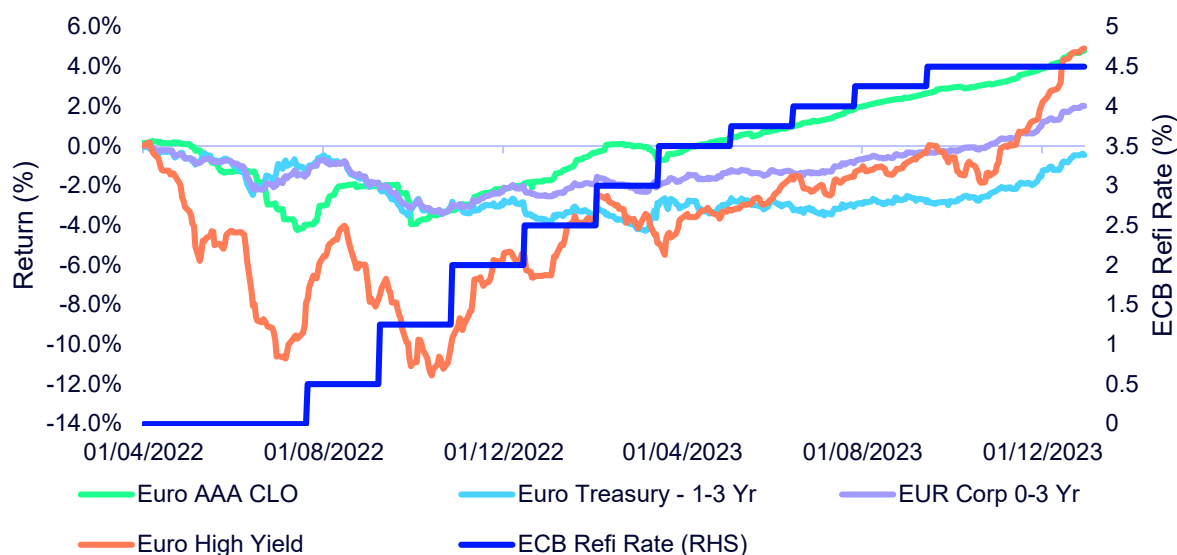
The takeaway

Euro AAA CLOs are a floating rate exposure that can help investors to navigate the negative impact on fixed income of central bank policy tightening. During the 2022-23 ECB tightening cycle CLOs proved more defensive than other short duration fixed income strategies (Chart). Underperformance into the first rate rise was due to CLOs' reliance on coupon payments as a driver of returns. With rates at zero, coupon returns were low which meant CLOs returns were driven by price declines. At present, rates are higher and coupons have made up the majority of the CLO's year-to-date returns³.

There is always a risk that the ECB falls short of current market expectations. Even so, we remain cautious on longer-duration exposures given the potential for curve steepening under such a scenario. In June, the JGB curve bear-steepened when the BoJ failed to validate market pricing and tighten policy.

Investors seeking to capture this opportunity may consider the [State Street® Blackstone Euro AAA CLO UCITS ETF \(Acc\)](#) or the [State Street® Blackstone Euro AAA CLO USD Hdg UCITS ETF \(Acc\)](#)

EUR AAA CLOs proved resilient during the last ECB hiking cycle



Cumulative returns from 31 March 2022 for J.P. Morgan Euro CLOIE AAA Index, Bloomberg Euro-Aggregate: Treasury -- 1-3 Year Index, Bloomberg EUR Corporate 0-3 Year Index, Bloomberg Liquidity Screened Euro High Yield Bond Index. Source: Bloomberg Finance L.P. as at 29 May 2026. Characteristics are indicated as of date and should not be relied upon thereafter.

Footnotes

- 1 – Source of market pricing: Bloomberg Finance L.P. as of 4 June 2026
- 2 – 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.
- 3 – The total returns for the J.P. Morgan Euro CLOIE AAA Index are 1.41% year to date of which 1.38% is accounted for by coupons. Source: J.P. Morgan as at 4 June 2026.

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