STATE STREET ETF SPOTLIGHT

CLOs: Coupon Key Driver of Return

The lead

- The ECB delivered a second rate rise on 10 September, taking the Refinancing Rate to 2.65%.
- Above target CPI and high oil prices hints at more tightening to come. The market prices another 25bp rate rise in 2026 and 50bp of tightening in 2027.[1]
- This has proved a challenging backdrop for fixed income with all maturity Euro Treasury returns down around 2% YTD. Short duration and floating rate strategies have proved more resilient.[2]

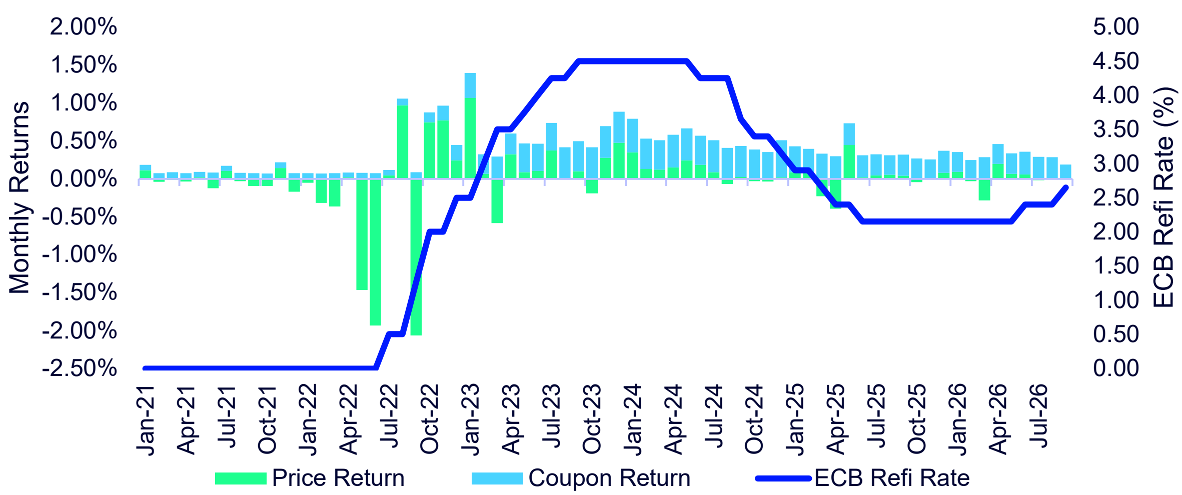
The takeaway

Euro AAA CLOs are a floating rate exposure that may help investors navigate central bank policy tightening. The very short interest rate duration and high quality reduce sensitivity to rising market yields.[3] For CLOs, coupon payments are the key driver of returns and these rise as market rates increase. The bars on the chart show the breakdown of monthly Euro CLO index returns split between price and coupon components. Exiting the zero-rate environment has led to coupon rates becoming the key driver of CLO performance, accounting for 96% of returns over the past 12 months.[4]

In addition to tactical allocations investor interest in high-quality CLOs is expected to broaden as treatment under the Solvency II directive becomes more favourable. From January 2027, lower capital charges will apply, making CLOs an interesting alternative to credit for insurers. For a deeper dive into this topic see How fixed income investment rules are being rewritten for European insurers.

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 CLO returns driven by coupon rather than price returns



Monthly returns from the J.P. Morgan Euro CLOIE AAA Index. September is month to 17 September. Source: State Street Investment Management, J.P. Morgan, Bloomberg Finance L.P. as at 17 September 2026. Characteristics are indicated as of date and should not be relied upon thereafter. 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 – Source of market pricing: Bloomberg Finance L.P. as of 17 September 2026. The above targets are estimates based on certain assumptions and analysis made by the third party. There is no guarantee that the estimates will be achieved.

2 – The total return of the Bloomberg EuroAgg Treasury Index is -2.14% for 2026 year to date against -0.12% for the Bloomberg EuroAgg Treasury 1-3 Year Index. Source: Bloomberg L.P. as at 17 September 2026.

3 – The J.P. Morgan Euro CLOIE AAA Index will typically have an interest rate duration of around 0.25 years although there is also spread duration (4.5 years). Source: J.P. Morgan, Bloomberg Finance L.P. as at 17 September 2026.

4 - Coupon and Price returns for the J.P. Morgan Euro CLOIE AAA Index. Source: J.P. Morgan as at 17 September 2026.

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Tracking Number 9134062.1.1.EMEA.INST
Expiration Date: 31 December 2026

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