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Drivers of 2025 New Issue CLO Pricing: Equity Performance and Secondary Market Visibility

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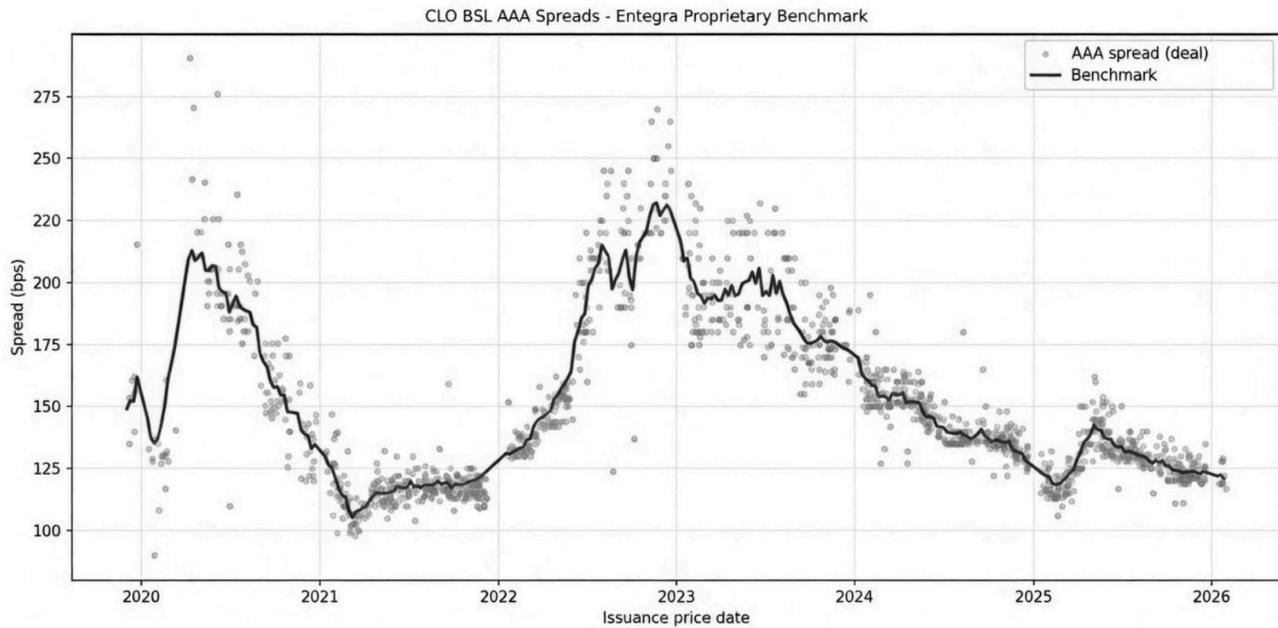
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Reporting: Sid Punjabi

CLO primary deals have continued to print at new tights, even as secondary pricing softens down the stack, highlighting growing dispersion across managers. Performance and scale are widely viewed as the key drivers of pricing power. An analysis of 2025 issuance of U.S. CLOs using Octus Portfolio Analytics data suggests, however, that another factor may be embedded in primary market outcomes.

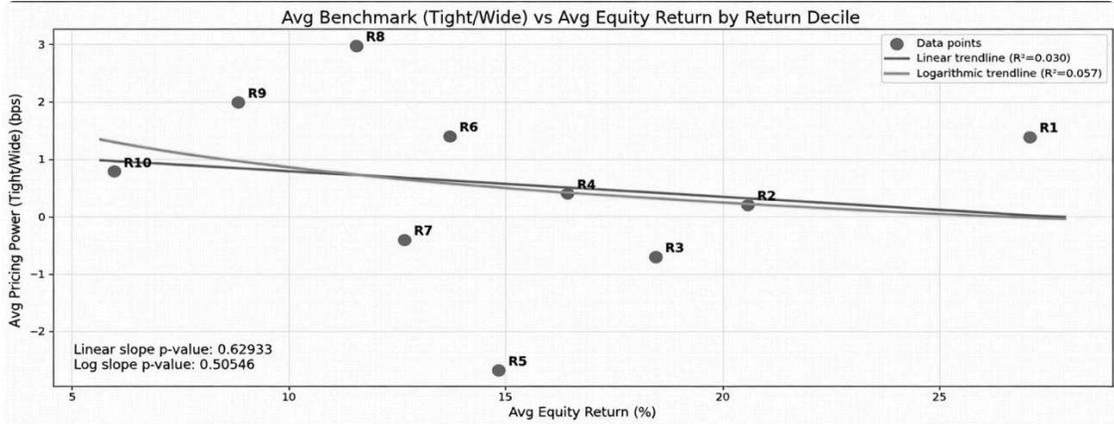
In order to create a standardized measure of a manager's pricing power, Entegra has created a new issue pricing benchmark. This benchmark was determined by the five-day pre-pricing average of AAA spreads. Subsequently, each manager's triple-A pricing was compared with this benchmark, and the differentials were averaged over the course of 2025 to create a "pricing power" metric. The point-in-time value helps establish a benchmark for pricing power, the ability of a manager to price tighter than competitors at a given time, and helps standardize the data, which accounts for the number of deals as well as the timing of each deal across managers.



A “visibility” variable of perceived liquidity, however, is a correlated factor in triple-A pricing against the pricing power benchmark.

Testing the Performance Assumption

To test whether performance explains pricing power, the analysis first examined annualized equity returns. Using Octus Portfolio Analytics, Octus has run a regression on annualized equity returns across 78 U.S. BSL CLO managers to determine the impact of equity returns on pricing power.



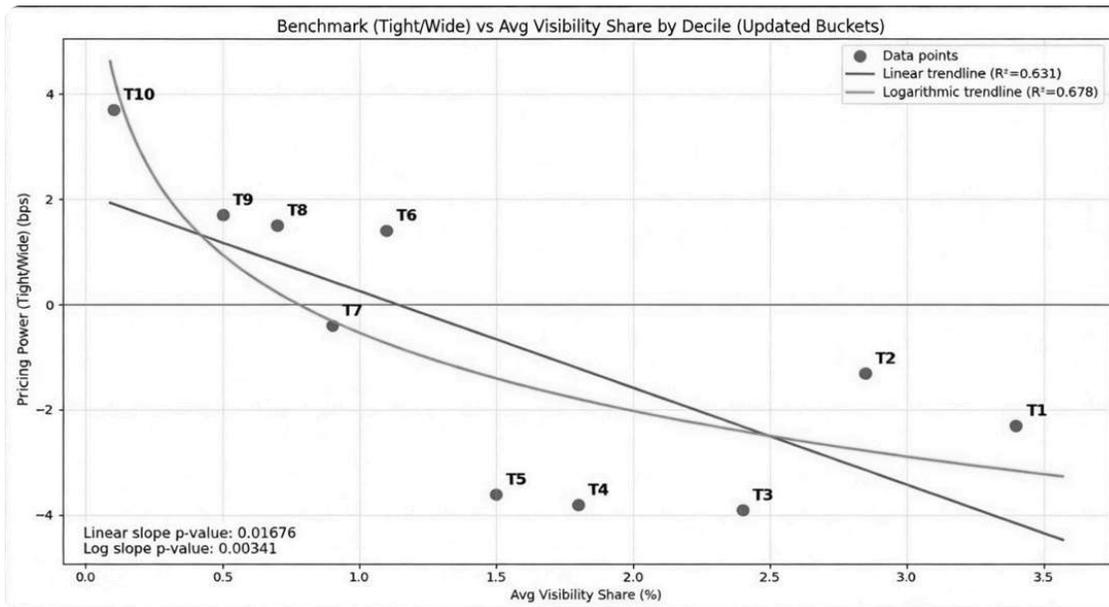
Upon running the regression, annualized equity returns were not statistically significant in explaining pricing power. Although performance certainly remains a key factor for investors, primary new issue CLO triple-A pricing seems to be largely unaffected at any given point in time by the manager’s equity performance on prior deals.

Introducing Visibility



Visibility, defined as the number of times a manager's CUSIPs are shown on a bids wanted in competition, or BWIC, bid or offer block, offers insights into how perceived liquidity can affect a manager's ability to achieve favorable pricing across primary issue deals.

Using visibility as the independent variable, the results of the study show statistical significance for visibility against pricing power. The dispersion suggests secondary market visibility is highly concentrated across a relatively small subset of managers.



Deciles and Pricing Impact

In order to understand the relationship between visibility and pricing power, managers were grouped into deciles on the basis of their visibility metrics. The visibility metric can be simply understood as the percentage chance that any manager's CUSIP would be shown on a BWIC bid or offer block on a given day in 2025. The top decile scored greater than 3%, and the bottom decile was not shown at all.

Notably, the dispersion of managers across deciles remains high. According to the study, 23 managers across the top five deciles represent over 50% of the visibility. Simply put, the top 15% of managers achieve 50% of the secondary market visibility, while the remaining 85% of the managers represented the rest.

Visibility Metrics by Decile		
Visibility Decile	Visibility Share	# Managers
T1	3.393	3
T2	2.756	4
T3	2.404	4
T4	1.834	5
T5	1.541	7
T6	1.117	8
T7	0.948	11
T8	0.733	14
T9	0.472	20
T10	0.128	79

From a manager’s perspective, the top deciles of visibility correlate with a 2 bps to 4 bps decrease in triple-A spread, indicating that potential secondary liquidity is an embedded factor in pricing. Additionally, by grouping managers into deciles and using a logarithmic regression, the study shows that managers that rank in the bottom four deciles stand to gain the most from a pricing power perspective compared with the top deciles.

Scale remains correlated with visibility, which complicates the interpretation. The logarithmic relationship, however, indicates that incremental gains in visibility may have the greatest marginal impact for smaller managers.

Although a number of factors remain important in determining new issue pricing, the study displays the effect of secondary liquidity impact for managers. Perceived optionality for investors, especially in triple-A tranches, can often influence a manager’s ability to price through the market.

Trading Concentration and Market Structure

According to **Octus league tables**, the top five U.S. managers by visibility have all appeared on BWICs totaling approximately \$2 billion original face amount in 2025. The concentration of BWIC activity among the most visible managers reinforces the link between secondary tradability and primary pricing outcomes.

On the basis of Octus’ calculations, 54% of all U.S. BWIC items by original face amount offered in 2025 represented triple-A tranches. Investment-grade bonds represented about 76% of the total, speculative-grade mezzanine tranches represented about 11% of the volume and equity represented the remaining 13%.

With increasing bifurcation in both CLO assets and liabilities as 2026 begins, the upcoming year will offer investors and managers alike the chance to take advantage of increased volatility. The analysis suggests secondary market visibility is embedded in primary pricing outcomes. As the dispersion increases in 2026, managers’ secondary presence may prove to be a measurable component of pricing power.