by Sergio Grasso

After ABS Symposiums and Conferences: my view

I entered the 2026 positioned for spread widening across structured products, coming off January's unsustainably tight levels. In my opinion the biggest distortion in the overall ABS market at the beginning of the year was a flat credit curve: lower-rated tranches offered no meaningful spread pick-up versus the IG capital stack despite materially higher risk.

The strength of the asset class—extending the momentum of a very strong 2025 but patchy in Q4—was fundamentally misaligned with underlying credit conditions. Across ABS products and CLOs, and across vintages, decreasing portfolio quality and emerging fat tails and tiering, did not justify the compression. CLO tranche spreads—particularly sub-IG BBs and Bs inside respectively 480bps and 780 bps over 3 month Euribor—were inconsistent with the conditions of leveraged loan market and cohorts of large sector decliners, to mention just one example.

Early cracks were already visible and remain so. In ABS, consumer loan default rates are gradually edging higher, with a clear divergence emerging between prime and non-prime collateral performance. In CLOs, asset quality is deteriorating due to idiosyncratic risks and increasing concentration in potentially stressed sectors where credit issues are becoming more pronounced. Over the longer term, structural risks—such as the potential disruptive impact of AI—may prove more significant than current geopolitical tensions, including the ongoing conflict in the Middle East.

This is not a technical adjustment—it is becoming a fundamental repricing that warrants higher spreads. The yield and quality decompression are now underway. Credit conditions have softened, volatility has picked up, and spreads are widening across tranches of structured credit.

In consumer and auto ABS, the "savings buffer" that has supported performance for many quarters-and years-is eroding under higher living costs and rising borrowing rates. Even though many SRT and STS structures remain resilient due to the short duration and quality, spreads look set to widen as supply-demand dynamics normalize and technical support fades. Crucial will be the expectations on monetary policies, direction of IG spreads, and affordability constraints (watch energy prices). As credit risk premia increase, this portion of the ABS market typically readjusts on a relative value basis.

In the CMBS market, anticipated supportive developments stemming from changes to Solvency II Regulation are being offset by the impact of higher interest rates. As a result, following three consecutive years of recovery, the sector is expected to see more uneven outcomes. If trends observed in the IG and HY cash market in real estate sector are transmitted to structured assets, mezzanine tranches are likely to trade wider than current levels. I suggest reducing overall exposure due to the delicate situation of CMBS market in Europe (a number of loans will mature this year and need a refinancing. Look for a better entry point).

In CLOs, dispersion across managers—first evident during the COVID period and after it from 2022 onward—is likely to persist, keeping sub-investment-grade tranches under pressure. Without delving into equity returns or cash-on-cash metrics, CLOs remain exposed to market volatility and manager-specific portfolio decisions. Risk-when possible- is being actively reduced, often through sales at discounts vs par, particularly in more vulnerable sectors. Par recovery is unlikely to be swift. I continue to advise that MVOCs should be investors' targets and signals, rather than documentation-based metrics. Ultimately, CLO buyers should conduct their own analysis and exercise independent judgment, maintaining a bearish-skewed stance rather than taking managers' views for granted (I warned about resets multiple times; please go check where the tranches of the resets of Q3 and Q4 2025 trade in secondary). There is a selective opportunity set, but the CLO debt stack should be approached gradually in a risk-off backdrop. The diversity of vintages and manager profiles provides a wide spectrum of options (only in SRTs can a portion of this variety be found).

Geopolitical factors have accelerated the decompression move but are not the root cause. The market was mispriced before these events. What we are seeing is not dislocation, but correction. The indiscriminate search for yield at this stage is fading, and disciplined underwriting is returning, leading to a more realistic pricing of risk. This is both my base case and what I believe is healthiest for the market.

Arguments around ABS resilience, credit enhancement, short WALs, MVOC levels, CCCs, defaults, ABS relative value versus cash, and robustness of excess spread buffers are valid—but, frankly, they are insufficient and somewhat overused justifications. They cannot offset a repricing that is justified and still incomplete, particularly as macro headwinds intensify in the coming months. Meantime, each market participant can continue identifying their own critical juncture by interpreting the diverse yet partial signals the market conveys.