

LOOMIS SAYLES STRUCTURED FINANCE TEAM

Securitized Credit Exposure to the Middle East Conflict

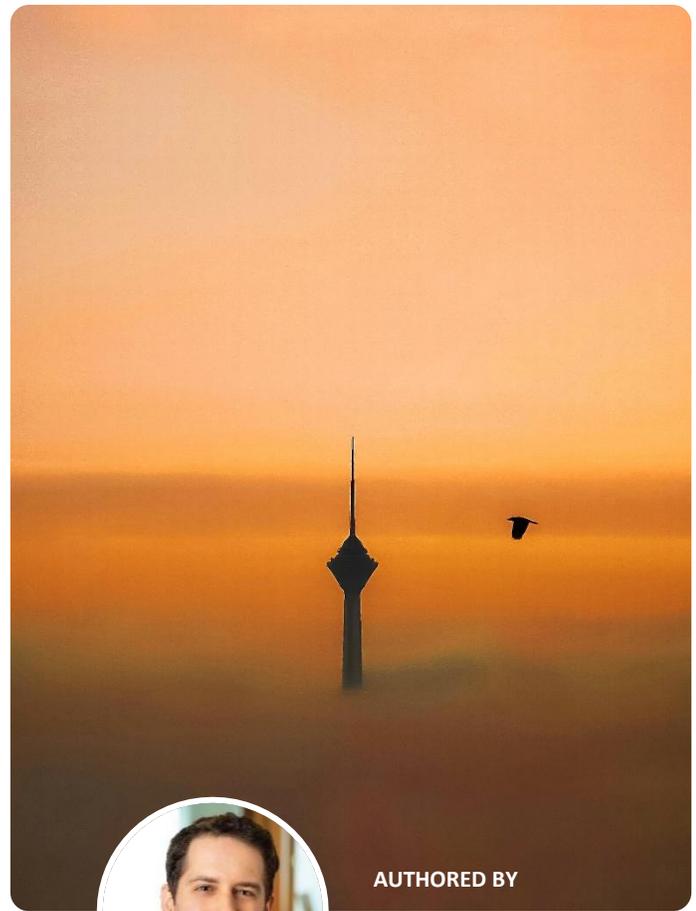
As geopolitical risks stemming from the conflict in the Middle East dominate the market narrative, many investors are assessing the potential spillover effects across asset classes.

For securitized assets, the risks are anything but uniform. The space is highly differentiated, with sensitivities that vary meaningfully by structure, collateral and cash-flow profile. Below, we examine how heightened geopolitical risk could affect major securitized sub-sectors, highlighting which areas are most vulnerable, and which are more insulated.



Commercial Asset-Backed Securities (ABS)

Aircraft ABS backed by leases to airlines could face pressure from higher fuel costs and potentially weaker travel demand. Fuel typically accounts for roughly 25% of airline operating expenses according to the *International Air Transport Association*, and sustained increases in oil prices can compress margins even when airlines partially hedge fuel exposure. Airlines based in the Middle East, which currently represents roughly 5–10% of lessees across many aircraft ABS pools according to *Kroll*, may see the most direct demand impacts, although many benefit from implicit or explicit government support and remained solvent even during the severe drop in passenger travel during the COVID-19 pandemic. From a collateral perspective, we believe higher oil prices may actually support demand for newer-generation aircraft that offer greater fuel efficiency. In addition, structural factors such as delays in next-generation aircraft deliveries, continued recovery in global air travel demand, production bottlenecks and higher aircraft conversion costs have helped support aircraft lease rates and residual values. As a result, while airline profitability could face pressure from higher fuel costs, aircraft lease fundamentals remain relatively stable, in our opinion.



AUTHORED BY

DAVID RITTNER, CFA
Investment Strategist

Container ABS, backed by shipping container fleets used in global shipping, may also experience indirect effects from the conflict as vessels avoid routes through the Strait of Hormuz and the Red Sea and reroute shipments. These changes increase transit times and freight costs while also raising war-risk insurance costs for vessels operating near the conflict zone. However, we believe container leasing fundamentals remain strong, and disruption in established trade routes could actually support container shipping and lease rates as ships and cargo must be redirected along longer routes. Container utilization has remained above 95% since the pandemic, and lessors have locked a significant portion of their fleets into long-term fixed-rate leases according to *BofAML*. In addition, container lessors have been conservative with capital expenditures to avoid creating excess supply, while shipping lines strengthened their balance sheets significantly during the pandemic after generating record profits. We believe these factors suggest that large container lessors should remain resilient, supported by strong lessees, healthy balance sheets and attractive lease yields attached to the fleets.

Though spreads in aircraft and container ABS have widened modestly since the onset of the Middle East conflict, the movement appears largely driven by broader macro risk-off sentiment. Trading volumes in these sectors have been light and market depth relatively thin, suggesting that recent spread widening may not reflect fundamental deterioration in collateral performance.



EXPOSURE GAUGE
Moderate

Consumer ABS

We believe the sectors most vulnerable to higher energy prices as a result of the Middle East conflict are those backed by distressed consumers, particularly those with lower incomes. Segments of consumer lending that are most directly exposed include non-prime auto loans, personal consumer loans and student loans. An oil shock raises gasoline, food and heating costs, effectively acting as a tax on households and reducing the ability of lower-income borrowers to service debt obligations. Employment is strong but weakening, while real wage growth remains positive yet slowing. Unexpected and substantial increases in living costs could place pressure on household budgets while accelerating those negative trends through reduced spending demand. Spread widening in consumer ABS sectors has been modest since the onset of the Middle East conflict, though liquidity at current levels is weaker than before the conflict began. While we were already poised for some near-term deterioration in consumer economic health, we do not expect substantial and broad-based consumer distress as employment, real wage growth and balance sheets remain broadly strong amongst prime consumers, positioning them to handle incremental economic stress, in our view.



EXPOSURE GAUGE
Low

Commercial Mortgage-Backed Securities (CMBS)

Geopolitical uncertainty from an active conflict adds to artificial intelligence (AI) related uncertainty around future commercial property demand. Rising energy costs and a growing probability of persistent \$100/barrel oil could sustain inflation pressures and keep the yield curve steep. Higher rates and higher operating costs are meaningful headwinds for a commercial real estate market that has been slow to recover, in our view. At the same time, many firms appear to be moving through rolling waves of “right sizing” or restructuring, amplified by equity valuation pressures, which reinforces weak hiring and softer leasing activity. Ultimately, we believe the duration of the conflict will be key; corporate earnings remain strong and can likely absorb a quarter of stress, particularly if the Middle East conflict deescalates and inflation fears recede.



EXPOSURE GAUGE
Low

Residential Mortgage-Backed Securities (RMBS)

US residential real estate is not directly impacted by geopolitical shocks but could be indirectly affected by broader financial market implications. We believe deterioration in the broader macro economy will impact the credit performance of non-agency RMBS. Transmission into the rates market will likely cause changes in prepayment behavior, which would affect the tenor of most non-agency securities.



EXPOSURE GAUGE
Low

Collateralized Loan Obligations (CLOs)

CLOs have very low or no direct exposure to loans domiciled in the Middle East, including Israel, based on Loomis Sayles’ analysis. While we do not have a precise way to quantify the proportion of revenue that underlying obligors derive from specific geographies, it is possible that some portfolio companies generate a limited portion of their revenue from Middle Eastern activities. We believe any impact on CLO portfolios from the current Middle East conflict would occur indirectly through higher energy prices, rather than through direct geographic exposure, and that this impact should be manageable. Energy exposure in CLO portfolios is low and generally outside of the top-ten sector concentrations. Much of the energy exposure in US CLOs is domestically focused. Moreover, we believe several energy related borrowers may actually benefit from higher oil prices. Other sectors, including construction & building products and chemicals, plastics, and rubber, could experience some margin pressure from higher raw material and input costs tied to oil prices. Notably, chemical companies have already been under pressure for several months due to broader cyclical and industry specific challenges, and incremental cost pressure could contribute to isolated defaults or restructurings at the margin. Overall, however, we do not expect the current Middle East conflict to have a material impact on the CLO market. Portfolio diversification, limited direct exposure and the relatively modest concentrations in sectors most sensitive to energy prices should help mitigate broader credit risk.

Important Disclosure

Market conditions are extremely fluid and change frequently.

Diversification does not ensure a profit or guarantee against a loss.

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About the Team

The Structured Finance Team at Loomis Sayles has top-tier 20-year track records in both the US and in Europe investing across global securitization markets. Overall, they are responsible for \$49b in securitized assets with a team of dedicated portfolio managers, research analysts, and traders based in the US and Europe.

\$49

Billion USD

Securitized assets overseen across US and European markets, spanning agency MBS to deeply subordinated credit, in both public and private formats.

20

Year track record

In both US and European securitization markets, pre-dating & persisting through the Great Financial Crisis and subsequent market cycles.

21

Person team

Integrating specialized portfolio management, credit research, & trading.

As of 12/31/2025.