Asset-Backed Securities: Clearing up Misconceptions in the Market

Increased access and familiarity with structured credit markets has spurred an overnight sector boom that some observers worry could cause another financial crisis.

The hubbub: A feature story in the February 28, 2025, edition of the Wall Street Journal casts doubt on the stability of rated asset-backed securities (ABS), citing S&P Global data showing "record levels" of ABS market growth and echoing cautionary comments made by conferees at a recent structured finance confab in Las Vegas.

- The article's tone rests heavily on tying the SFVegas conference — and its attendees' genuine enthusiasm for structured finance — to the 2015 film *The Big Short* that explores the 2008 financial crisis.

Interesting subplot: The story states that structured finance products like collateralized loan obligations (CLOs) and other similar sector investments are "cool" and attracting the next generation of finance services professionals.

- The rise of interval funds is largely the result of the sector's emphasis on credit-focused strategies. As of March 27, 2025, there were 117 non-listed interval funds with $115 billion in total assets under management, according to CEF Advisors data. Many interval funds allocate 30%–70% of their portfolios to structured credit.

What's Changed Since 2008?

Regulation: Legislation signed into law by Presidents George W. Bush and Barack Obama, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, strengthened oversight of banking, consumer lending, and credit rating.

- And as the Wall Street Journal story notes, regulations put in place following the 2008 financial crisis constrained bank lending, creating opportunities for asset managers like Ares and others to "step in and make loans with their own capital."

Access and Familiarity: Formerly a niche market, structured credit has grown in scale, generating managerial experience over time that better helps the sector adjust to credit fluctuations and other market movements.

- According to Ares, asset-based credit is a $28 trillion global market underpinned by ABS, banks, and private capital.[1]

Research Availability: Large entities like FINRA and SIFMA Research gather data and statistics on structured credit markets and rated ABS products, giving broker-dealers, financial advisors, asset managers, and other market players more insight into the market.

- CEF Advisors, a leading provider of closed-end fund research, tracks $953 billion in assets across 796 funds, including debt-focused business development companies, CLOs, interval funds, and tender offer funds.

All investments carry some degree of risk. But any review of the risks associated with structured finance products should be made in the context of recent changes to ABS markets.

"We have much more confidence in funds that invest in ABS securities since the 2008 financial crisis," AICA Chairman John Cole Scott said. "The ABS market has become more transparent, diversified, and resilient — thanks to stronger regulation, investor and advisor education, better fund structures, and broader exposure to diverse asset classes."

References

[1]Ares Management, In the Gaps, Summer 2024: https://www.aresmgmt.com/sites/default/files/2024-08/Ares-Alternative-Credit-Newsletter_In-the-Gaps_Summer-2024_0.pdf