Invesco Senior Secured Loans

US Loan Market Snapshot

Monthly US loan market update: July 2018

Senior secured loans delivered positive returns of 0.12% in June, bringing year-to-date returns up to 2.16%[1]. A spate of new supply came to market in June ahead of the usual summer slowdown, pressuring loan prices for a second consecutive month. As investors rotated capital out of the secondary market for redeployment in the busy primary calendar, loan prices moderated, particularly towards month end. Adding to this looser technical environment in loans was a tepid risk appetite across capital markets amid ongoing trade war-related headline risk. June saw the percentage of loans trading above par fall even further, from 55.4% to 20.1%, the lowest level since July 2016. Despite the optics of mild loan price declines, credit fundamentals remain strong due to broad-based earnings growth and supportable leverage metrics among the universe of borrowers.

As June's new issue supply swelled, underlying demand for the asset class remained in place, albeit slower than in prior months. The excess supply situation in June further dampened repricing and refinancing activity and bolstered lenders' ability to negotiate both on pricing and documentation. The ratio of issuer-friendly price flexes to investor friendly price flexes was 1.1x in the second quarter, down substantially from 6.8x in the first quarter,[2] indicative of a healthier balance in the loan market as prices have relaxed.

The loan market underperformed the High Yield Bond Index, which returned 0.33%, but outperformed the High Grade Bond Index, which returned -0.55%[3], and the 10 year Treasury, which returned -0.02%, as yields were flat at 2.86%. Loans' lower yielding, higher quality "BB" (0.03%) and "B" (0.16%) ratings categories lagged "CCC's" (0.80%)[4]. The average price in the loan market was $97.97 at the end of June[5]. At the current average price, senior secured loans are providing a 6.97% yield inclusive of the forward LIBOR curve.[6]

Fundamentals

- Labor market, personal consumption, and business spending indicators point to an acceleration of economic growth in Q2 from Q1.
- There was one new default in June – Westmoreland Coal – however the trailing 12 month default rate declined to 1.95%[7].

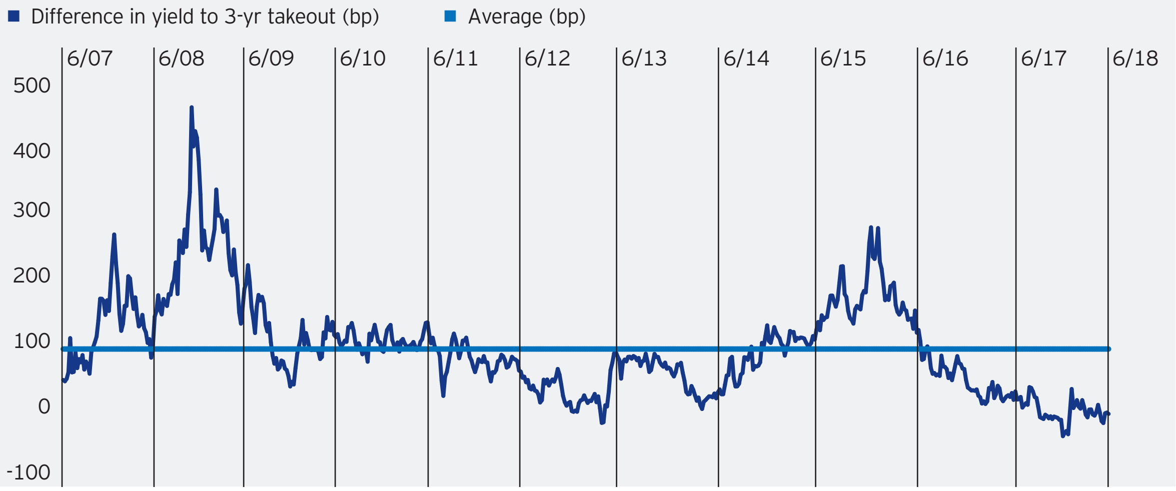
Technicals

- Despite steady demand, excess supply loosened loan market technicals in June, alleviating pressure on spreads and influencing more "investor friendly" terms in credit agreements.
- Gross CLO volume was $30.9 billion in June, with $15.1 billion of issuance net of resets and refinancings[8].
- Retail mutual funds and ETF's reported a $1.3 billion inflow for the month[9], maintaining the momentum of recent months.
- New issuance volume was $88.5 billion in June, with $45 billion of issuance excluding refinancing and repricing activity. Repricing and refinancing activity, just $43.5 billion in June, continued to decline.

Relative value/market opportunity

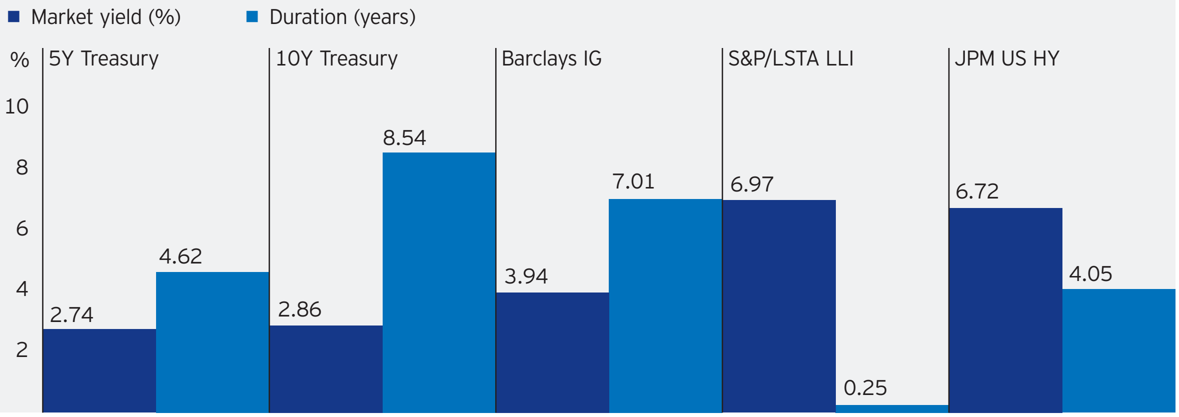
Recent loan price declines have improved the relative value rationale for allocating to loans versus high yield bonds. Although interest rate concerns have receded momentarily, supporting bond prices, the ongoing normalization of rates is expected to continue benefitting the loan asset class – both in terms of buttressing demand for the asset class and absolute coupon accretion. 3-month LIBOR has steadied at 2.34% in recent months, however the 3 year forward curve foresees LIBOR rising to 2.81%, which will directly feed into higher interest income for loan investors as coupons reset. Coupled with the recent slowdown in spread compression from less aggressive repricing activity and more effective lender push back on new deal economics, rising LIBOR bodes well for the relative attractiveness of the loan asset class.

Favorable yield differential between high yield bonds and loans



Source: Bloomberg L.P., Barclays, JPM, S&P LCD June 30, 2018.

Loans offer investors a high level of current income with short duration



Source: Bloomberg L.P., Barclays, JPM, S&P LCD June 30, 2018

	$ Price	Yield to worst (%)	Spread to worst	At forward Libor	Duration (years)
5-year Treasury	99-15	2.74			4.62
10-year Treasury	100-03	2.86			8.54
Bloomberg Barclays US Agg Index	99.88	3.29	T + 0.44		6.01
Bloomberg Barclays IG Index	100.52	3.94	T + 1.18		7.01
J.P. Morgan US HY Bond Index	98.82	6.72	T + 4.06		4.05
S&P/LSTA Leveraged Loan Index	**97.97**	**L+3.87**	**T + 4.35**	**6.97%**	**90 Days**

Source: Standard & Poor's LCD, Barclays, JPM and Bloomberg L.P. as of June 30, 2018. Loan "spread to worst" and "at forward Libor" incorporate LIBOR forward curve as of June 30, 2018.

[1] S&P/LSTA Leveraged Loan Index June 30, 2018
[2] S&P/LSTA Leveraged Loan Index June 30, 2018
[3] BAML High Grade Corporate Bond Index, BAML HY Master Index June 30, 2018
[4] S&P/ LCD June 30, 2018
[5] S&P LCD June 30, 2018
[6] S&P LCD and Invesco as of June 30, 2018
[7] S&P LCD June 30, 2018
[8] JP Morgan June 30, 2018
[9] JP Morgan June 30, 2018

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of June 30, 2018, unless otherwise noted.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

This document is written, unless otherwise stated, by Invesco professionals. The opinions expressed herein are based upon current market conditions and are subject to change without notice. This document does not form part of any prospectus. This document contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns. This document is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This document is by way of information only. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell financial instruments.

This document has been prepared only for those persons to whom Invesco has provided it for informational purposes only. This document is not an offering of a financial product and is not intended for and should not be distributed to retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. Circulation, disclosure, or dissemination of all or any part of this document to any person without the consent of Invesco is prohibited.

This document may contain statements that are not purely historical in nature but are "forward-looking statements", which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to amounts which are not in local currencies;
- may contain financial information which is not prepared in accordance with the laws or practices of your country of residence;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address local tax issues.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.