Invesco Senior Secured Loans

US Loan Market **Snapshot**

Monthly US loan market update: October 2017

Senior secured loans returned 0.39% in September and 2.97% year-to-date.[1] Loans prices were steady during the month even as net new loan issuance picked up. Broadly speaking, risk assets rallied on firming macroeconomic sentiment, an improving energy price environment, and rising optimism about prospects for tax relief. With loan prices steady, coupon income drove solid returns for the asset class.[1]

Following a typical summer slowdown in August, new issuance perked up after Labor Day due to M&A and dividend financings. Gross supply in September of just $52 billion was below 2017's monthly average of $81.3 billion, however this was due to quieter repricing activity. The $22 billion of net new supply in September was an increase from August levels and in-line with 2017's monthly average. Meanwhile, retail funds experienced a second consecutive small outflow but new CLO creation remained in-line with this year's monthly average. The percentage of loans trading above par rose slightly to 64%.[2]

Loans underperformed high yield bonds, with the High Yield Bond Index returning 0.90%, but outperformed the more rate sensitive High Grade Bond Index, which declined -0.23%.[3] The 10-year Treasury fell 1.61% as yields rose nearly 22 basis points to 2.33%. Loans' lower yielding, higher quality "BB" (0.34%) and "B " (0.41%) ratings categories lagged the performance of "CCC's" (0.83%).[1] The average price in the loan market was $97.96 at the end of September.[1] At the current average price, senior secured loans are providing a 5.93% yield.[1]

Fundamentals

- The Q2 GDP estimate was upwardly revised again, from 3.0% to 3.1%.
- There was one new default in September, Toys 'R' Us, which caused the trailing 12-month default rate to climb to 1.53%.[1]

Average loan price includes all loans January 1997 through September 2017.

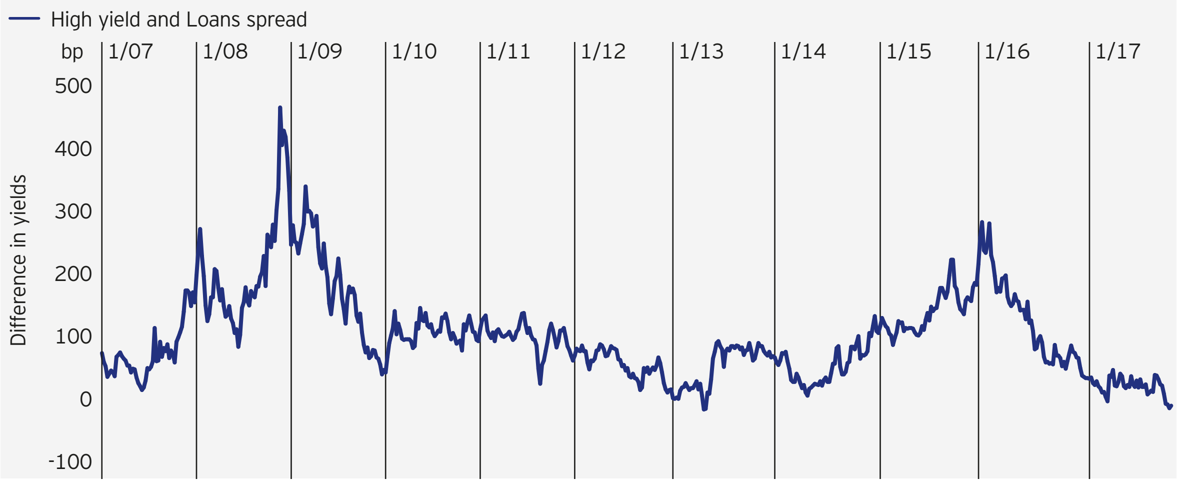
Technicals

- Technical conditions remained balanced in September; net supply increased modestly while demand from CLO's greatly surpassed modest outflows from retail accounts.
- Gross CLO volume was $15.9 billion in September, with $9.3 billion of issuance net of resets and refinancings.[2] Year-to-date CLO issuance is $209.4 billion (gross) and $82.5 billion (net).
- Retail mutual funds and ETF's recorded a small outflow of $335 million for the month. Despite two consecutive monthly outflows, year-to-date inflows are $17.3 billion.[2] Meanwhile, demand from institutional investors has remained solid throughout the year.
- New issuance volume was $52 billion in September, and $22 billion excluding refinancing and repricing activity. Year-to-date, gross and net issuance have totaled $732.3 billion and $196.3 billion, respectively.

Relative value/market opportunity

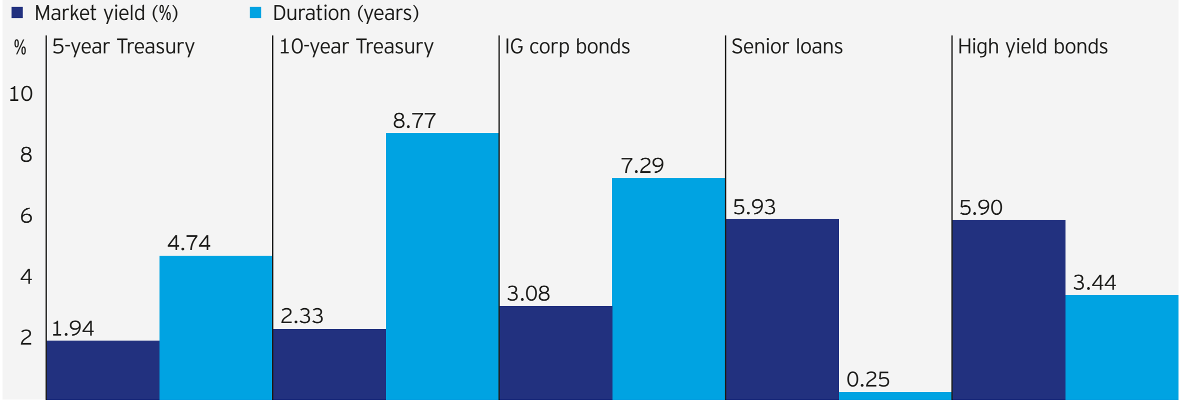
Year-to-date, loan returns (2.97%) continue to lag the comparatively riskier high yield market (7.05%) as risk assets have continued to march higher.[3] Bond yields remain at 3-year lows as prices have been driven by a bouyant stock market, healthy corporate and economic fundamentals, stabilizing oil, and relatively benign interest rate movements. As high yield has rallied, the yield differential between loans and unsecured bonds continues to hover near historical lows. As a result, investors are in a position to own less volatile, more defensively positioned loans at a similar yield to unsecured bonds, while avoiding interest rate risk. With 3-month LIBOR at 1.33%, the rise in loans' base rate has partly offset the compression of spreads stemming from repricings. Moreover, the level of income received by loan investors is positioned to benefit from any further increase in interest rates, which Fed chairwoman Janet Yellen has guided is very much under consideration as soon as December. As shown in the table below, loan yields actually exceed those of high yield bonds when factoring in the forward LIBOR curve.[1]

Senior secured loans currently offering similar yields as unsecured bonds



Source: J.P. Morgan, as of Sept. 30, 2017. High yield represented by the J.P. Morgan US HY Bond Index; Loans represented by the J.P. Morgan Leveraged Loan Index. Past performance cannot guarantee comparable future results.

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



Source: Bloomberg L.P., J.P. Morgan, S&P LCD as of Sept. 30, 2017. Investment grade corporate bonds represented by a subset of the BBG BARC U.S. Aggregate Index; the senior secured loan asset class is represented by S&P/LSTA Leveraged Loan Index; and high yield bonds represented by the J.P. Morgan US HY Bond Index. Past performance cannot guarantee comparable future results. An investment cannot be made directly in an index. Diversification does not guarantee a profit or eliminate the risk of loss.

	$ Price	Yield to worst (%)	Spread to worst	At forward Libor	Duration (years)
5-year Treasury	99-23	1.94			4.74
10-year Treasury	99-08	2.33			8.77
Bloomberg Barclays US Agg Index	103.49	2.55	T + 0.54		5.96
Bloomberg Barclays IG Index	105.84	3.08	T + 0.98		7.29
J.P. Morgan US HY Bond Index	103.00	5.90	T + 4.15		3.44
S&P/LSTA Leveraged Loan Index	**97.96**	**L+4.16**	**T + 4.31**	**5.93%**	**90 days**

Source: Bloomberg L.P., J.P. Morgan and S&P LCD as of Sept. 30, 2017. Loan yields incorporate LIBOR forward curve as of Sept. 30, 2017. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of Sept. 30, 2017. Past performance cannot guarantee comparable future results.

1 S&P LCD (Leveraged Commentary and Data) as of Sept. 30, 2017; Total returns and other data stated are for the S&P LSTA Leveraged Loan Index.
2 J.P. Morgan as of Sept. 30, 2017.
3 HY Bonds: BAML HY Master Index, High Grade Bonds: BAML High Grade Corp; Loans: S&P LSTA Leveraged Loan Index, data as of Sept. 30, 2017. Returns stated are total returns.

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of Sept. 30, 2017, unless otherwise noted.

Most senior loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, may be found invalid or may be used to pay other outstanding obligations of the borrower under applicable law. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid.

Compared to investment grade bonds, junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. Diversification does not guarantee a profit or eliminate the risk of loss.

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