Invesco

Invesco Senior Secured Loans

European Loan Market **Snapshot**

Monthly European loan market update: February 2018 (covering January 2018)

Returns

- The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") returned 0.66% in January. Interest income of 0.36% was bolstered by 0.30% of principal appreciation.
- The year began strongly – the busiest since the financial crisis – Institutional supply reached €12.3 billion, a 29% increase from the same period last year. €9.3 billion (76%) was related to M&A activity (as opposed to refinancing and re-pricing of existing deals) a 2.5x increase year-over-year. There were 24 deals completed in the month including several jumbo TLB deals: Petrol station operator EG Group €1.9 billion; Engineering servicer Altran €1.9 billion; Cineword €1 billion (and $2.8 billion); Ice-cream manufacturer Froneri €1.2 billion. Encouragingly, the increased supply enabled investors to negotiate improved economics and terms for several deals. Moreover, average spreads for Institutional loans were 364 bps[1], a level last seen in the third quarter of last year and a good barometer of the equilibrium between supply and demand currently in the markets.
- All CS WELLI sectors had positive returns for the month. Energy (+10.22%) was the leader, consumer-durables were the laggard at 0.22%. The vast majority of CCC rated loans reside in the Energy sector, and therefore unsurprisingly the CCC ratings category was the highest returning category at 4.77%. B and BB rated loans returned 0.56% and 0.47% respectively during the month.[1]
- The average price of loans in the European market ended January at €99.27, with a spread-to-three year of 3.80%. [1]

Average loan price includes all loans January 1998 through January 2018.

Fundamentals

- There were no policy announcements at the January ECB policy meeting. President Draghi delivered a bullish view of euro area growth, even if inflation remains uninspiring. He referred several times to the robust pace of economic expansion, which accelerated in 4Q17. As a result, the Governing Council has increased its confidence that inflation will gradually converge towards the inflation objective of 2%. In contrast, Draghi delivered a dovish policy message: showing some concerns about the recent euro appreciation and rising market expectations about future policy rate hikes. On current data, he saw very little chance that interest rates could be raised this year, and emphasized the importance of being "well past the end of net asset purchases" for the first rate hike.
- Euro area flash Q4 17 GDP grew by 0.6% quarter-on-quarter and 2.7% year-on-year. January economic confidence and business climate indices were both softer than expected. The final print for consumer confidence was 1.3 – a 17 year high and supported by buoyant sentiment in all sectors, and expectations of the general economic situation for 2018 at an all-time high. Industrial confidence indicators remain at a record high since the creation of the measure in 1985. The Composite PMI index rose to the highest reading since June 2006. Euro area January core CPI was in line at 1% year-on-year ("yoy") (+0.1ppt higher month-on-month).
- The last twelve month default rate for the CS WELLI (issuer weighted) is 1.24%, w ell below the historical average annual default rate of 3.64% (S&P European Leveraged Loan Index defaults covering the period Dec. 31, 2007 through Jan. 31, 2018).

Technicals

- New institutional loan volume for the month was €12.3 billion, almost 50% greater than the monthly average €8.4 billion of 2017.
- CLO formation was €0.8 billion in January (€0.4 billion was raised in January 2016 and 2017). CLO AAA spreads remain in the mid-to-low 70s context. At least thirteen CLOs are currently ramping.

Valuations

- Primary:
  - Lagging three-month senior leverage increased from 4.6x at the end of December 2017 to 4.8x at the end of January 2018.[2] Total leverage also slightly increased from 4.9x to 5.1x over the same one month period.
- Secondary:
  - At month end, European loans were providing a spread-to-three year takeout of 3.80%. In comparison, the spread-to-worst for European high yield bonds was 3.23%.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Most senior loans are made to corporations with the 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 greater risk of default or price changes due to changes in the issuer's credit quality. Diversification does not guarantee of profit or eliminate the risk of loss.

1 Credit Suisse Western European Leveraged Loan Index (CS WELLI) as of Jan. 31, 2018. Please note that the average spread refers to the average spread in the CS WELLI.
2 Standard & Poor's, Loan Market Commentary and Data (LCD) as of Jan. 31, 2018

Important information

All data provided by Invesco, as at Jan. 31, 2018 unless otherwise noted.

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