European Loan Market Snapshot

Monthly European loan market update: September 2018 (covering August 2018)

The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") returned 0.36% in August. Year-to-date ("YTD") total returns are 1.78%.[1]

During the month, the broader market was focused on volatility in emerging markets (e.g., Turkey, Argentina), continued global trade/tariff discussions, and the upcoming Italian budget talks. German Bunds and Italian BTPs monthly total-returns were 0.70% (+1.7% YTD) and -3.10% (-6.1% YTD), respectively. European Sovereign monthly total-returns were -0.60% (YTD -0.40%).

Total institutional loan supply in August was €0.4 billion, which was similar to last year's volume due to the market effectively closing for summer vacations. YTD volume stands at €58.20 billion, also in line with last year. Several multi-billion (cross border) loans have been earmarked for syndication early in September and discussions with arrangers have suggested that several deals are in advanced stages and will be brought to market soon.

The secondary market remained active, with loan prices on the most part grinding higher and recovering some of the weakness experienced in May and June. The average price of the CS WELLI was €98.74, €0.61 below the year-to-date high achieved in April.[1] Digging a little deeper into the secondary price movement, larger, liquid names outperformed. Unrated (typically of smaller facility size) names declined €0.38 during the month, likely as they suffered more from the summer illiquidity than the larger names in the index. In aggregate, unrated names comprise approximately 15% of the index.

The CS WELLI's nominal value is €268.98 billion, which reflects 24% growth year-to-date.[1]

Returns

- The CS WELLI sector returns were led by the Healthcare (+0.75%) and Service sectors (+0.59%), offset by Consumer Durables (-2.02%) and Housing (-0.43%). BB and B rated loans returned 0.28% and 0.50%, respectively.[1] CCC rated loans outperformed, returning 0.70%.[1]
- The average price of loans in the European market ended the month at €98.74, an increase of €0.13 from last month. Three-year discount margins are 3.94%.[1] In comparison, the spread-to-worst for European high yield bonds was 4.05% with August returns of 0.17% and year-to-date returns of 0.17%.[2]

Fundamentals

- The European economy remains in good shape. Growth is above trend, the output gap continues to close, and inflation continues to firm. The corporate sector continues to run a surplus, which is supporting continued employment gains. Therefore, domestic demand remains supported and financial conditions remain favorable for borrowers. Going forward, market consensus is that the drivers that produced softer economic data in the first half of this year are likely to abate.
- Recent data is already corroborating this positive outlook for a reacceleration in the second half of 2018. For example, Euro area composite Purchasing Managers' Index (PMI) data accelerated in August to a level that is consistent with the economy reaccelerating to a near 2% growth rate. Furthermore, headline inflation has accelerated sharply over the past few months, reaching 2.1% in July, mainly due to higher energy and food prices. Core inflation continues to increase.
- The ECB continues to ease monetary policy through its net asset purchases and remains on schedule to end balance sheet expansion by year-end. Forward guidance results in Euribor remaining below zero and is expected to remain so until late 2019.
- Principle risks to the positive outlook for Europe remain focused on Italian politics, turmoil in Turkey, global trade/tariff tensions, and Brexit negotiations.
- There were no defaults in August. The last twelve month default rate for the S&P European Leveraged Loan Index (based on principal amount) is 0.12%, well below the historical average annual default rate of 3.91%.[3]

Technicals

- The European CLO market remained active in August, with €1.3 billion issued.[4] The outlook remains positive, with approximately 30 issuers in the pipeline. With YTD volume of €19.2 billion across 46 transactions, it is likely that total volume for the year will surpass 2017's record volume of €20.91 billion across 51 deals.[4]

Index returns (%)	2013	2014	2015	2016	2017	June 2018	July 2018	Aug 2018	YTD 2018
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	8.73	1.96	3.14	6.52	3.30	-0.49	0.51	0.36	1.78
Credit Suisse Western Europe HY Index (EUR-HDG)	9.10	4.31	1.36	9.63	6.28	-0.31	1.39	0.17	0.17

Source: Credit Suisse, as of Aug. 31, 2018. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

1 Credit Suisse Western European Leveraged Loan Index (CS WELLI) as of Aug. 31, 2018.
2 Credit Suisse Western European High Yield Index as of Aug. 31, 2018.
3 S&P European Leveraged Loan Index, historical average default rates covering June 1, 2007 through Aug. 31, 2018.
4 Standard and Poor's, Loan Market Commentary and Data (LCD) as of Aug. 31, 2018.

Important information

All data provided by Invesco, as at Aug. 31, 2018 in Euro unless otherwise noted.

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 forwardlooking 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.