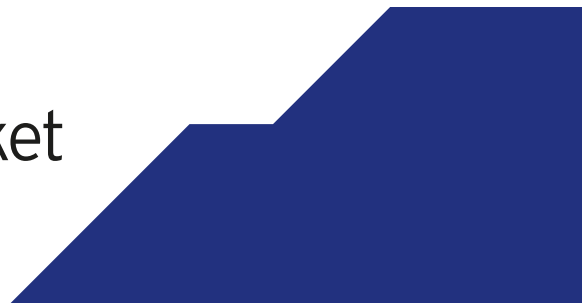




European Loan Market Snapshot



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

Technical

- 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.

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