



European Loan Market Snapshot



Monthly European loan market update: May 2018 (covering April 2018)

The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") returned 0.47% in April (Interest income of 0.37% and 0.10% of principal) bringing year-to-date ("YTD") total returns to 1.37%. The cooling trade-war fracas between the US and China helped to dampen market volatility experienced in March. Risk assets in general were stable throughout April, notwithstanding the sell-off in US Treasuries towards the end of the month. European Sovereign debt monthly total-returns were -0.30% (1.00% YTD) and Bunds -0.50% (-0.20% YTD).

April's loan supply of €4.8 billion, across ten deals, was light relative to the strong volumes seen in the first quarter. Net supply (excluding repricing/refinancing) continued to be the significant driver of monthly volume at €4.5 billion. This is 1.5x the volume seen in the same month last year. Year-to-date issuance of €32.5 billion is 10% below the equivalent period for 2017, however the elevated M&A activity has contributed to almost 70% YTD supply versus just 28% for the same period last year. This is very much a positive technical factor for the loan asset class.¹

Despite strong investor demand for loans, several transactions flexed tighter with regard to credit agreement terms. On a rolling three-month-basis 15% of facilities have flexed-up at the end of April. This compares to 10% of new issue transactions at the end of March, and is a reflection of the better balance between the borrower and lender in terms of risk (credit metrics and improved terms) and returns (margin flex).¹

Returns

- The CS WELLI sector returns were all positive for the month, led by the Energy (+1.78%) and Food/Tobacco (+0.69%) and laggards in the Metals/Minerals (+0.01%) and Aerospace (+0.28%) sectors. CCC rated loans continued to outperform, returning 1.64% for the month (dominated by Energy credits) while BB and B credits returned 0.31% and 0.48% respectively, both experiencing a strong month-on-month improvement (both returned 0.07% in the prior month).²
- The average price of loans in the European market ended the month at €99.35 (+€0.17 on the month versus -€0.09 change for March), with a three-year discount margin of 3.71%. In comparison, the spread-to-worst for European high yield bonds was 3.55% and YTD return of -0.19%.²

Fundamentals

- The Euro area's ("EA") estimate for Q1 GDP was in line with expectations at +2.5% year-over-year.
- The EA final April composite PMIs printed at 55.1, reflecting little change from March levels (55.2). Manufacturing output rebounded to 56.2 from 55.9 seen in March, while services activity PMI fell slightly relative to March to 56.2 from 56.7. Forward looking indicators (new orders, future output) slowed, although well above the 50 breakeven level. There were no policy announcements at the April ECB meeting, or changes to forward guidance. The Governing Council remains confident about the outlook for growth and inflation, but considers that the soft patch recorded in Q1 warrants monitoring. Monetary policy was not discussed. The EURIBOR forward curve remains negative until mid 2019.
- The last twelve month default rate for the S&P/LCD ELLI (principal weighted) is 1.17%, well below the historical average annual default rate of over approximately 3.40%.³
- Lagging three-month senior leverage remained at 4.6x with total leverage remaining stable at 5.3x.¹

Technicals

- New CLO issuance was €2.5 billion for the month (YTD: €8.7 billion from 21 deals). CLO AAA spreads widened to a mid-to-high-70bps context, from a record low of 68bps observed in February. This was a reflection of sustained issuance. Momentum is strong with over 30 CLO warehouses accumulating assets.¹

Figure 1

Total return (EUR, in %)	2013	2014	2015	2016	2017	Feb 2018	Mar 2018	April 2018	YTD 2018
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	8.73	1.96	3.14	6.52	3.30	0.13	0.10	0.47	1.37
Credit Suisse Western Europe HY Index (EUR-HDG)	9.10	4.31	1.36	9.63	6.28	-0.61	-0.31	0.56	-0.19

Source: Credit Suisse, as of April 30, 2018. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

1 S&P LCD European Leveraged Loan Index as of April 30, 2018.

2 Credit Suisse Western European Leveraged Loan Index (CS WELLI), and Credit Suisse Western European High Yield Index as of April 30, 2018.

3 S&P LCD European Leveraged Loan Index as of April 30, 2018. Historical default rate measured from 12/31/2007-4/30/2018.

Important information

All data provided by Invesco, as at April 30, 2018 in Euro unless otherwise noted.

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