Invesco

Invesco Senior Secured Loans

US Loan Market Snapshot

Monthly US loan market update: December 2016

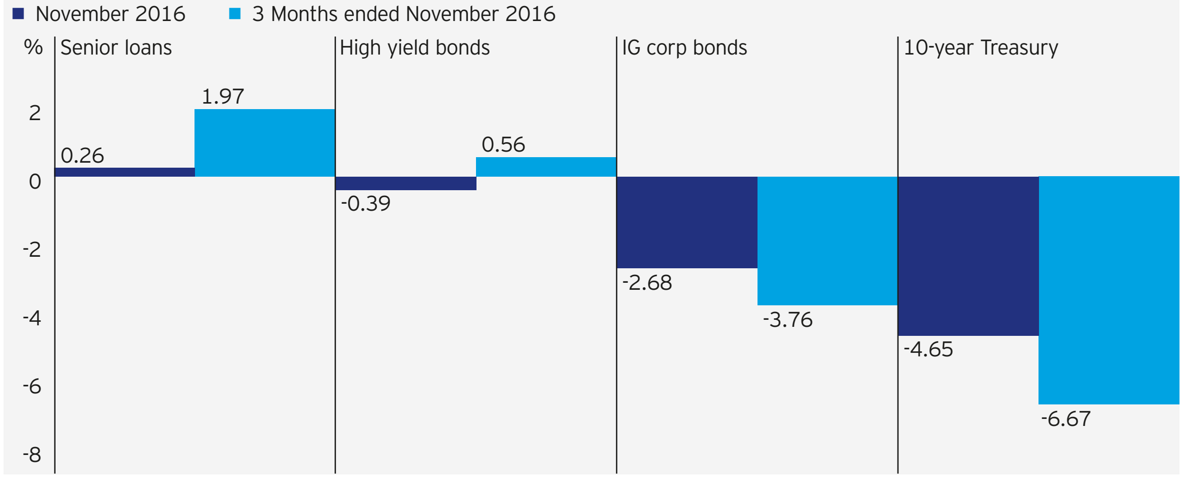
The loan market returned 0.26% in November as strong technical dynamics and supportive fundamentals guided loans safely through a month characterized by heightened political risks and a steepening of the yield curve. Year-to-date returns of 8.90% were a result of attractive current income and price appreciation as loan prices have rebounded from mid-February lows with muted volatility.[1] Loans continued to perform well on both an absolute and risk-adjusted basis while the broader capital markets adjusted to shifting interest rate expectations following a widely unanticipated US Presidential election outcome and testimony from US Fed officials.

In mid-November, Federal Reserve chairwoman Janet Yellen signaled that the central bank is close to lifting interest rates given the supportive economic environment. The indications of central bank action, combined with policy pronouncements from president-elect Trump that have lifted inflation expectations, caused 10-year Treasury yields to rise 56bps to 2.38% - the highest level in 11 months. Consequently and as expected, loans outperformed longer duration fixed income across the spectrum with the 10-year Treasury returning -4.65%, the High Grade Bond Index returning -2.68%, and the High Yield Bond Index returning -0.39%.[2]

Amid these broad macro themes, loan prices benefitted from an ongoing tailwind in the commodity related sectors during November as energy prices remained stable and then rallied at month end following OPEC's decision to reign in production. Overall, higher quality "BB" (0.22%) and "B" (0.23%) ratings categories were modestly outperformed by the "CCC's" (0.85%) and "D's" (0.30%).[1] The average price in the loan market was $97.48 at the end of November with 57% of the market trading at or above par and a small percentage of stressed and distressed outliers weighing on the broader average.[1] At the current average price, senior secured loans are providing a 6.06% yield.[1]

Average loan price includes all loans January 1997 through November 2016.

Loans outperformed other fixed income asset classes in November



Source: S&P LCD, BAML as of Nov. 30, 2016. Senior loans represented by the S&P/LSTA Leveraged Loan Index, high yield bonds by BAML HY Master Index, IG corp bonds by BAML High Grade Corporate Index. Returns represented are total returns in USD. Past performance cannot guarantee comparable future results.

Fundamentals

- US GDP growth for the third quarter was upwardly revised to 3.2% from 2.9%, and is up from 1.4% last quarter.
- There was one new default in November, Performance Sports Group, as the trailing 12 month default rate fell to a nine-month low of 1.66%, below the historical average of 3.1%.[1]

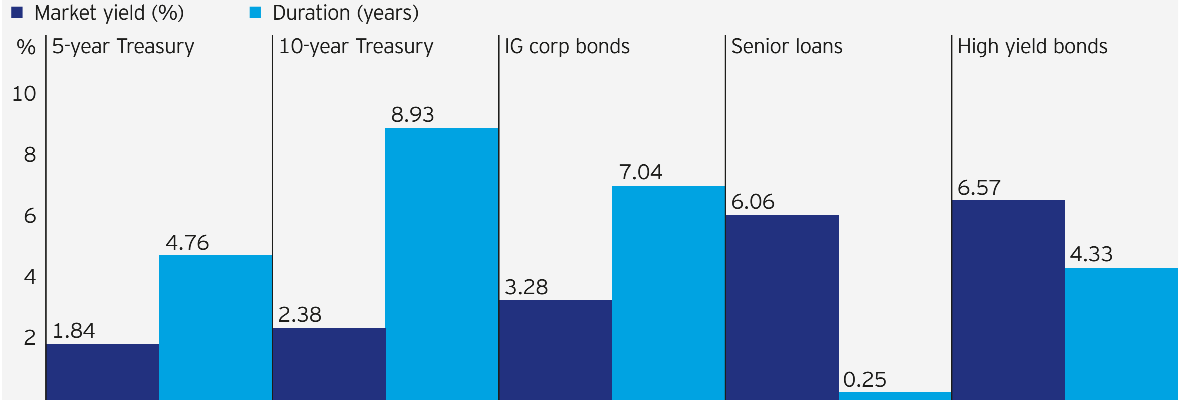
Technicals

- Technical conditions remained supportive in November, providing a strong bid for loan assets and contributing to the muted overall volatility for the asset class.
- CLO issuance of $21.8 billion followed two robust months of issuance in September and October, and was the second highest monthly total on record.[3]
- Retail mutual funds and ETF's recorded inflows of $1.8 billion in November, a fifth consecutive month of inflows. Notably, the week ended November 23rd saw $1.1 billion of inflows, the highest weekly total since September 2013. Year-to-date flows are now modestly positive at $183 million, a large reversal from the -$15.5 billion in outflows through the first 11 months of 2015.[3]
- New issuance volume of $47.5 billion in November was below October's near-record $76.9 billion total. The asset class continued to experience some spread compression as 56% of new issue volume was dedicated to refinancing and re-pricing transactions. Total new issue volume for the year is $415.7 billion and $154.1 billion net of refinancings and re-pricings versus $316.4 billion gross and $182.9 billion net through the first 11 months of 2015.[3]

Relative value/market opportunity

Given Yellen's stated openness to lifting policy rates in the near future and the market's repositioning for a new presidential administration more disposed to fiscal stimulus, loans remain well positioned for a higher interest rate environment. The floating rate nature of loans protects investors from interest rate volatility that impacts longer duration assets, as occurred in November. At LIBOR's current level of 93bps, it has surpassed the LIBOR floor set on 23.2% of loans, converting those loans back into truly floating rate instruments. At the 100 bps threshold, 94% of loans will meet or exceed the LIBOR floor.[3]

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



Source: Bloomberg L.P., BAML, S&P LCD as of Nov. 30, 2016. 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 BAML High Yield Master 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 (%)	Spread to worst	At forward Libor	Duration (years)
5-year Treasury	99-17	1.84			4.76
10-year Treasury	96-20	2.38			8.93
Bloomberg Barclays US Agg Index	102.83	2.57	T + 0.66		5.85
Bloomberg Barclays IG Index	103.81	3.28	T + 1.29		7.04
ML US HY Index	98.14	6.57	T + 4.80		4.33
S&P/LSTA Leveraged Loan Index	**97.48**	**L + 4.93**	**T + 4.67**	**6.06%**	**90 Days**

Source: Bloomberg L.P., BAML and S&P LCD as of Nov. 30, 2016. Loan yields incorporate LIBOR forward curve as of Nov. 30, 2016. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of Nov. 30, 2016.

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of Nov. 30, 2016, 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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1 S&P LCD (Leveraged Commentary and Data) as of Nov. 30, 2016; Total returns and other data stated are for the S&P LSTA Leveraged Loan Index. Historic average default rate is for period January 1998 to November 2016.
2 HY Bonds: BAML HY Master Index, High Grade Bonds: BAML High Grade Corp; data as of Nov. 30, 2016. Returns stated are total returns in USD.
3 J.P. Morgan as of Nov. 30, 2016.

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