Invesco Senior Secured Loans

US Loan Market Snapshot

Monthly US loan market update: May 2017

Senior secured loans returned 0.44% in April and 1.59% year to date.[1] A steadier tone across capital markets underpinned modest loan price appreciation during the month. Several factors contributed to the smoother market environment in April including ongoing reporting of corporate earnings growth, the Trump administration's opening tax plan proposal, and a first round French presidential election outcome that alleviated global risk concerns.

In addition to a firmer backdrop for risk assets, cash continued to flow into the loan asset class while the new issuance supply shortage persisted. The modest rebound in loan prices brought the percentage of loans trading above par to 71% from 67% at the end of last month. With loan market technical conditions largely unchanged, repricing and refinancing transactions continued coming to market, and another $66.1 billion of activity was completed during the month.

As capital markets stabilized from a more volatile March, loans were outperformed by peer asset classes. The 10 year Treasury returned 1.18%, the High Grade Bond Index returned 1.00%, and the High Yield Bond Index returned 1.13%.[2] The 10 year Treasury yield dipped to 2.17%, a level not seen since the days following November's election, before ending the month at 2.28%, down 10 bps from last month. Amid a sturdier market environment, loans' lower yielding, higher quality "BB" (0.28%) and "B" (0.40%) ratings categories were outperformed by the "CCC's" (1.23%).[1] Even as oil fluctuated in April and ended down on the month, energy issuers performed well. The average price in the loan market was $98.34 at the end of April.[1] At the current average price, senior secured loans are providing a 5.76% yield.[1]

Fundamentals

- April's US economic data releases indicated a slight softening in macroeconomic conditions including weaker than expected payrolls, inflation, and PMI numbers. This soft patch arrives after months of improvement to the near term economic outlook.
- The first estimate of Q1 US GDP, 0.7%, showed a widely anticipated slowdown in the pace of growth from recent quarters. A pullback in consumer spending was the main culprit, despite steady personal income gains during the quarter. Economists broadly expect growth to improve for the remainder of 2017 as seasonal factors, consumer spending, and inventories normalize.
- There was one new default in April, Payless ShoeSource. Despite this, the trailing 12 month default rate to edged lower from 1.49% to 1.43%.[1]

Average loan price includes all loans January 1997 through April 2017.

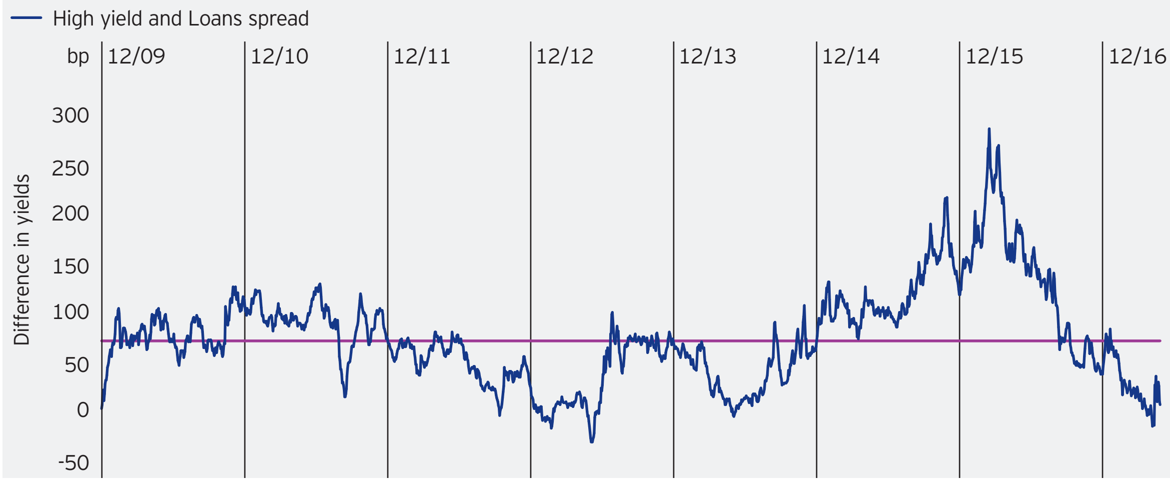
Technicals

- Technical conditions continued to pressure loan spreads given continued demand for assets amid comparatively light supply.
- CLO volume set a new monthly record, with $29.8 billion of gross volume, though just $9.8 billion of issuance net of refinancings.[3] Year to date CLO issuance is $95.1 billion (gross) and $27.2 billion (net).
- Retail mutual funds and ETF's continued to attract inflows, collecting $1.5 billion in April.[3] Year to date inflows are $15.4 billion.
- New issuance volume remained elevated at $87 billion in April, but only $20.9 billion excluding refinancing and re-pricing activity. Year-to-date, gross and net issuance have totaled $418 billion and $86 billion, respectively.

Relative value/market opportunity

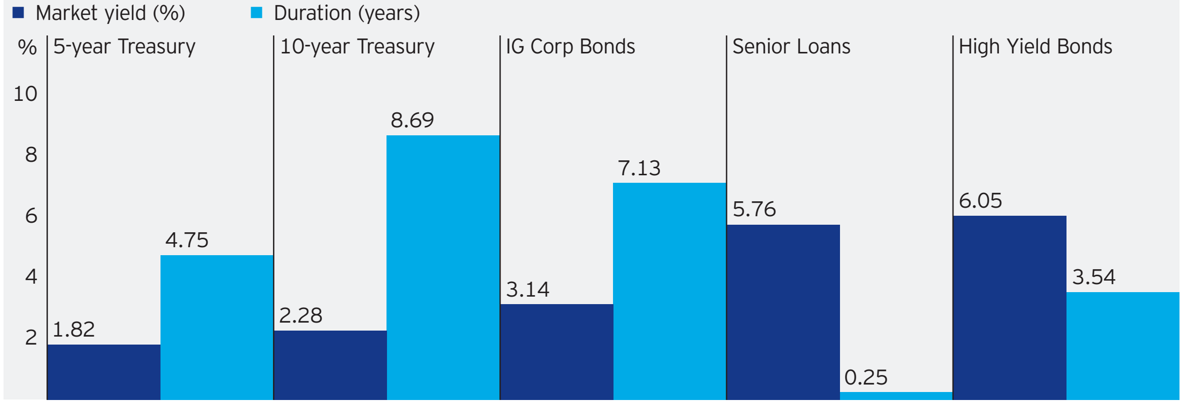
Given high yield bonds' year-to-date outperformance versus the loan market, loans' relative value remains attractive despite the compression in spreads resulting from months of repricing activity. The yield differential between loans and unsecured bonds remains at historical lows, meaning investors can own a less volatile, more defensively positioned product at a similar yield to unsecured bonds. The medium term outlook for rates to rise is unchanged despite April's softer hard data releases, particularly as the Fed has begun to contemplate reducing its massive Treasury holdings along with policy rate increases. Currently, 3-month LIBOR is 1.17%, exceeding the vast majority of loans' LIBOR floors.[1]

Senior secured loans currently offering similar yields as unsecured bonds



Source: J.P. Morgan, as of April 30, 2017. High yield represented by the J.P. Morgan US HY Bond Index; Loans represented by the J.P. Morgan Leveraged Loan Index.

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



Source: Bloomberg L.P., J.P. Morgan, S&P LCD as of April 30, 2017. 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 the J.P. Morgan US HY Bond 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	100-09	1.82%			4.75
10-year Treasury	99-23	2.28%			8.69
Bloomberg Barclays US Agg Index	103.20	2.53%	T + 0.61		5.96
Bloomberg Barclays IG Index	104.87	3.14%	T + 1.13		7.13
J.P. Morgan US HY Bond Index	102.47	6.05%	T + 4.45		3.57
S&P/LSTA Leveraged Loan Index	**98.34**	**L+4.20%**	**T + 4.32**	**5.76%**	**90 Days**

Source: Source: Bloomberg L.P., J.P. Morgan and S&P LCD as of April 30, 2017. Loan yields incorporate LIBOR forward curve as of April 30, 2017. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of April 30, 2017. Past performance is no guarantee of future results.

1 S&P LCD (Leveraged Commentary and Data) as of April 30, 2017; Total returns and other data stated are for the S&P LSTA Leveraged Loan Index.
2 HY Bonds: BAML HY Master Index, High Grade Bonds: BAML High Grade Corp; data as of April 30, 2017. Returns stated are total returns.
3 J.P. Morgan as of April 30, 2017.

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of April 30, 2017, 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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