Invesco

Invesco Senior Secured Loans

European Loan Market Snapshot

Monthly European loan market update: March 2018 (covering February 2018)

Returns

- The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") returned 0.13% in February. Interest income of 0.31% was offset by 0.18% of principal decline. Year-to-date the CS WELLI has returned 0.79%.[1]
- February marked another strong month of institutional loan issuance with new supply reaching €8.4 billion, a 51% increase from the same period last year, and the most issued in February since 2007. More than half of this new issuance, €4.9 billion, was related to M&A activity (as opposed to refinancing and re-pricing of existing deals), representing a 4.3x increase year-over-year. There were 14 deals completed in the month of February including Action's, (Europe's largest non-food discount retailer), jumbo €2,285 million Term Loan at Euribor+350/0% floor, issued at par.[2]
- From a sector perspective, the Consumer Durables sector posted by far the strongest return (+0.87%). The Energy sector retraced (–0.37%) a small part of the +10.22% bounce seen in January. From a rating perspective, single B rated loans (+0.13%) continue to outperform BB (+0.05%) and C CC (+0.23%), albeit not to the same degree as seen in January.[1]
- The average price of loans in the European market ended February at €99.12, with a spread-to-three year of 3.77%.[1]

Fundamentals

- Preliminary Euro-area consumer prices for February were in line with expectations, with Headline inflation easing to 1.2% from 1.3% in January, while core inflation was unchanged at 1.0%. January and February data suggest that core inflation remains on a modest recovery trajectory; tradable goods prices' improvement is capped by a strengthening EUR while core services inflation struggles to accelerate.
- Euro-area manufacturing PMIs reading of 58.6 was a four-month low in February. The decline was primarily due new export orders falling for a third consecutive month – po tentially reflecting the impact of EUR appreciation. Lower demand (although remaining above historical averages) led to some cooling in output and hiring intentions.
- The last twelve month default rate of 1.24% remained flat from January to February and is well below the historical average annual default rate of 3.27% (S&P European Leveraged Loan Index defaults covering the period Dec. 31, 2007 through Feb. 28 2018).[2]

Technicals

- New institutional loan issuance for the month was €8.4 billion, more than 50% greater than the same month last year and in line with monthly average of €8.4 billion in 2017.[2]
- CLO formation was €2.93 billion in February (year-to-date: €4.19 billion from 10 deals). CLO AAA spreads remain in the mid-to-low 70s context. Interestingly, during the month of February, a CLO manager that had not issued a CLO since 2007, brought a new deal to market that is believed to be the first CLO issued that includes so-called environment, social, and governance (ESG) criteria.[2]

Valuations

- Primary:
  - Lagging three-month senior leverage increased slightly from 4.8x at the end of January 2018 to 4.9x at the end of February 2018. Total leverage also slightly increased from 5.2x to 5.3x over the same one month period.
- Secondary:
  - At month end, European loans were providing a spread-to-three year takeout of 3.77%. In comparison, the spread-to-worst for European high yield bonds was 3.52%.[1]

Figure 1

Total return (EUR, in %)	2013	2014	2015	2016	2017	Jan 2018	Feb 2018	YTD 2018
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	8.73	1.96	3.14	6.52	3.30	0.66	0.13	0.79
Credit Suisse Western Europe HY Index (EUR-HDG)	9.10	4.31	1.36	9.63	6.28	0.17	-0.61	-0.44

Source: Credit Suisse, as of Feb. 28, 2018. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Most senior loans are made to corporations with the 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 greater risk of default or price changes due to changes in the issuer's credit quality. Diversification does not guarantee of profit or eliminate the risk of loss.

1 Credit Suisse Western European Leveraged Loan Index (CS WELLI) as of Feb. 28, 2018. Please note that the average spread refers to the average spread in the CS WELLI.
2 Standard & Poor's, Loan Market Commentary and Data (LCD) as of Feb. 28, 2018

Important information

All data provided by Invesco, as at Feb. 28, 2018 in Euro unless otherwise noted.

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