Invesco

Invesco Senior Secured Loans

European Loan Market Snapshot

Monthly European loan market update: October 2017 (covering September 2017)

Returns

- The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") returned 0.34% during September, of which 0.33% was interest income and 0.01% of principal appreciation.[1]
- "Ready for business" was the senior loan markets' mantra post the summer slumber. September was a very active month: the second-highest gross monthly institutional loan volume this year, with €11.76 billion of total supply. Furthermore, the €8 billion of net new supply (excluding refinancings and repricings) for September was the highest institutional volume this year, and the most since June 2007. Two large new-money deals were highlights; Stada's LBO financing across loan (€1.7 billion) and bond (€0.7 billion) facilities; and Avantor's M&A financing totaling $7.3 billion, of which €1 billion was in loans and €0.5 billion in bonds were placed in Europe. Elevated supply enabled Managers' options for greater credit selection. Several deals needed to flex (increase) margins and improve documentation to entice investors.
- All sectors in the CS WELLI had positive returns for the month of September, led by the Energy and Shipping sectors returning 2.8% and 1.2% respectively. Consumer Durables and Healthcare were laggards, both contributing approximately 0.1% to the overall Index returns. Given the vast majority of CCC rated loans reside in the Energy sector, it was no surprise that the CCC ratings category also saw a significant shift from August to September, with -1.38% versus 2.05%, respectively. BB and B rated loans posted 0.31% and 0.27% respectively in September, a notable improvement from August of 0.00% and 0.02% respectively.[1]
- The average price of loans in the European market ended September at €99.17, with a spread-to-three year of 3.98%.[1]

Fundamentals

- The Eurozone growth story remains positive. Composite PMIs beat expectations, gaining one point to 56.7, a four month high. PMI data suggests a stable GDP growth story for the region in 3Q17, following the 2.5% annualized expansion in the second quarter.
- The ECB kept the terms of its QE program unchanged, although they are scheduled to make an announcement on reducing monthly asset purchases in October 2017.
- The last twelve-month default rate for the CS WELLI remained flat at 1.73% from August to September 2017, well below the historical average annual default rate of 2.58% (CS WELLI defaults covering the period Jan. 1, 2003 through December 31, 2016).[1]

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

Technicals

- New institutional loan volume for the month was €11.76 billion, a sizable increase compared to August 2017 volume of €0.83 billion. Year-to-date institutional issuance has reached €72.95 billion, just under 2.0 times more than in the first nine months of issuance in 2016 of €38.8 billion.[2]
- CLO generation accelerated in September with €1.60 billion of formation compared to August of only €0.78 billion, not surprisingly given the summer slowdown. CLO spreads tightened given that actual new issue was limited (a portion of the volume was refinancing of existing CLOs). Year-to-date CLO formation reached €12.82 billion, which compares favorably with the 16.82 billion of new creation in the whole of 2016.[2]

Valuations

- Primary:
  - The average lagging three month all-in-yield on primary deals was 4.17%. Lagging three-month senior leverage slightly increased from 4.5x at the end of August 2017 to 4.8x at the end of September 2017.[2] Total leverage also slightly increased from 5.1x to 5.3x over the same two-month period.
- Secondary:
  - At month end, European loans were providing a spread-to-three year takeout of 3.98% (compared to 3.98% at the prior month's end and 5.31% at the same time last year). In comparison, the spread-to-worst for European high yield bonds was 3.24% (compared to 3.66% at the prior month's end and 5.15% at the same time last year).[1]

Figure 1

Total return (EUR, in %)	2015	Sep-16	2016	1Q17	2Q17	Jul-17	Aug-17	Sep-17	3Q17	2017 YTD
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	3.14	0.74	6.52	1.18	0.88	0.48	-0.02	0.34	0.80	2.88
Credit Suisse Western Europe HY Index (EUR-HDG)	1.36	-0.42	9.63	1.97	2.08	0.81	0.41	0.53	1.76	5.93

Source: Credit Suisse, as at 30 September 2017. 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 at 30 September 2017
2 Standard & Poor's, Loan Market Commentary, and Data (LCD) as at 30 September 2017

Important information

All data provided by Invesco, as at 30 September, 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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