



US Loan Market Snapshot



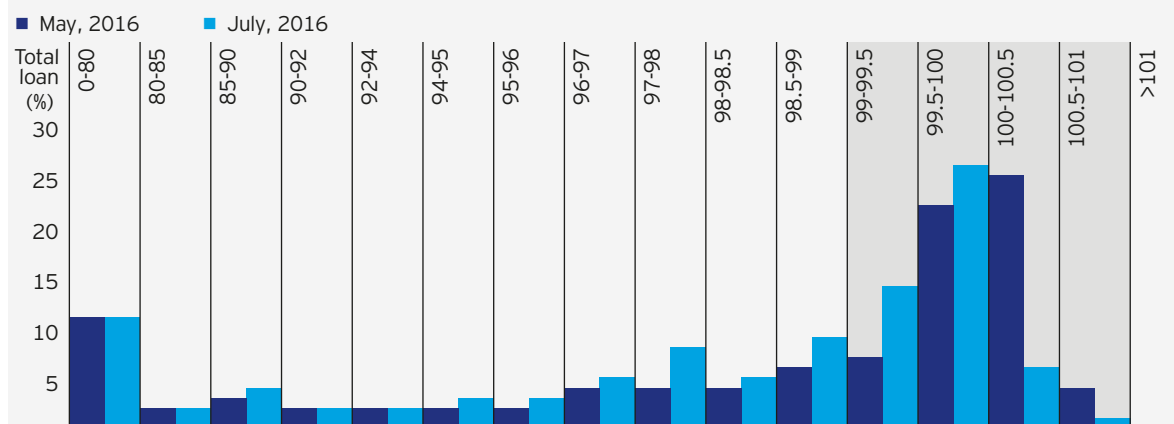
Monthly US loan market update: July 2016

The loan market returned 0.02%¹ in June, as a combination of factors influenced returns during the month. Early in the month the loan asset class experienced an uptick in re-pricing transactions as issuers used the strong technical backdrop to reduce interest expense and extend maturities. This pressured loans trading above par to migrate back towards par. Near the end of the month, negative sentiment and uncertainty weighed on performance following the Brexit vote. We remain in the very early stages of what is likely to be a lengthy process and period of uncertainty; however, in volatile markets - as seen in the second half of 2015, the first 6 weeks of 2016, and the last week of June - loans have demonstrated far less volatility than high yield bonds or equities. Month-to-date returns leading up to the June 23 vote were in positive territory. In the two days following the vote, loans declined a modest -0.51% but recovered 0.27% in the final three trading days of June.² CCC and defaulted loans outperformed the higher quality spectrum in the early part of the month as commodity related sectors continued to recover, but higher quality loans outperformed post Brexit. Year-to-date returns of 4.51%¹ have exceeded the returns of the S&P 500 (3.85%) but have not kept pace with high yield bonds³ (9.32%) largely due to the lower sensitivity to the rally in commodity prices.

New issue volume in June spiked to \$73 billion with 63% of the total related to refinancing and re-pricing transactions.⁴ Market uncertainty will likely limit the volume of re-pricings in the near term as the percentage of loans trading above par has declined from 26.65% at the end of May to 6.30% at the end of June.² Technicals remained firm with CLO issuance increasing during the month, strong institutional demand, and a modest offset from retail mutual fund outflows.⁴

The average price in the loan market was \$93.49 at the end of June - with the majority of the market trading above 99 with a smaller percentage of stressed and distressed outliers weighing on the broader average. At the current average price, senior secured loans are providing a 6.61% yield.¹

The loans trading above par migrated back towards par during June



Source: Barclays, as of July 5, 2016.

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

Fundamentals

- In general we believe that fundamentals remain favorable, supported by a slow but positive GDP growth rate. The US GDP growth rate for the first quarter was revised higher to 1.1% from a 0.8% annualized rate during the first quarter.
- There were no new defaults in June, leaving the trailing 12 month default rate unchanged at 1.97%. This trails the historical average default rate of 3.1%.¹

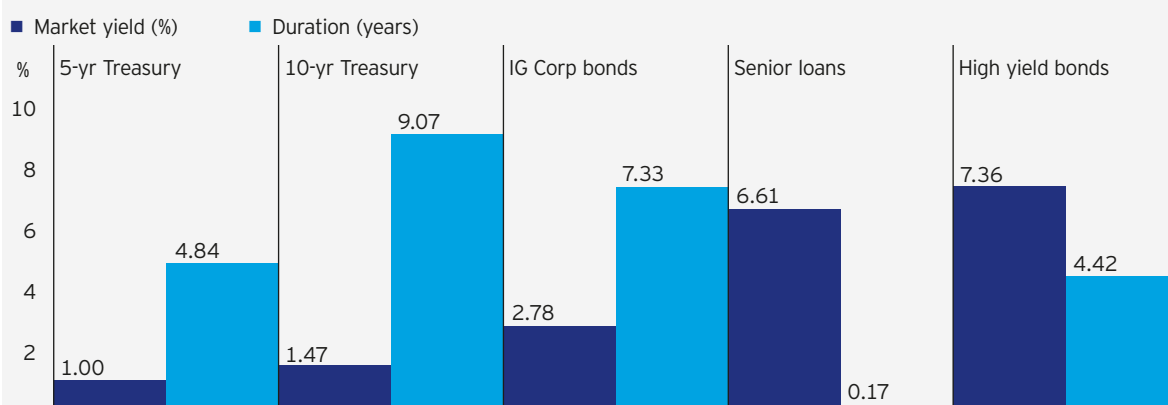
Technicals

- Technicals remained firm during the month with limited new supply, an increase in CLO issuances, and continued demand from institutional accounts. The \$73 billion in loan issuances was a 122% month-over-month increase and the third highest monthly total on record, but the majority was dedicated to refinancing and re-pricing activity. Only \$27 billion was net new supply.⁴ Re-pricings trailed off post of the Brexit vote.
- Retail mutual funds and ETF's had an outflow of \$566 million in June following a \$277 million inflow May. While \$525 million of the outflows occurred in the last week post Brexit, it was relatively small in comparison to outflows experienced in December 2015 - demonstrating that flows remained orderly even during this period of market stress. Year-to-date retail mutual funds and ETF's have reported outflows of -\$6.7 billion versus -\$6.6 billion for the same period last year.⁴
- CLO volume totaled to \$7 billion in June - the highest total this year. Year to date CLO issuance has totaled \$27.1 billion versus \$68.7 billion during the first half of last year.⁴

Relative value/market opportunity

Markets quickly reacted and later absorbed the unexpected Brexit outcome. The loan market is predominantly exposed to the US domestic economy and uncertainty is likely to keep global central banks policies accommodating. Loans continued to perform with low volatility - providing attractive returns on an absolute and risk adjusted basis. With the modest sell-off in prices, loans continued to offer spreads in excess of historical averages and imply a default rate that we believe is unlikely to occur. With 10-year Treasury yields down 38 basis points in June and near record lows, a change in sentiment could be punitive for longer duration asset classes. Despite the uncertainty, loans remained well positioned - providing a high level of current income with short duration and low correlation to both stocks and treasuries.

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



Source: Bloomberg L.P., Barclays, BAML, S&P LCD as of June 30, 2016. Investment grade corporate bonds represented by a subset of Barclays 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	100-19	1.00			4.84
10-Year Treasury	101-25	1.47			9.07
Barclays US Agg Index	107.06	1.91	T + 0.80		5.47
Barclays IG Index	108.47	2.78	T + 1.48		7.33
ML US HY Index	95.27	7.36	T + 6.31		4.42
S&P/LSTA Leveraged Loan Index	93.49	L + 5.89	T + 5.92	6.61%	45-60 Days

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

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of May 31, 2016, unless otherwise noted. Average loan price includes all loans January 1997 through May 2016.

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.

This document is written, unless otherwise stated, by Invesco professionals. The opinions expressed herein are based upon current market conditions and are subject to change without notice. This document does not form part of any prospectus. This document contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. Opinions and forecasts are subject to change without notice. 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. Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns. This document is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This document is by way of information only. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This document has been prepared only for those persons to whom Invesco has provided it for informational purposes only. This document is not an offering of a financial product and is not intended for and should not be distributed to, or relied upon, by members of the public. Circulation, disclosure, or dissemination of all or any part of this document to any person without the consent of Invesco is prohibited. This document may contain statements that are not purely historical in nature but are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to amounts which are not in local currencies;
- may contain financial information which is not prepared in accordance with the laws or practices of your country of residence;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address local tax issues.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.