



US Loan Market Snapshot



Monthly US loan market update: January 2018

Senior secured loans returned 0.40% in December and 4.12% in 2017¹. Gains were again buoyed by coupon income as prices only rose slightly during a seasonally quiet month for new issuance. Volatility was muted through the final month of the year with the passage of tax reform and the Fed raising rates 0.25% as was widely anticipated. From a sector standpoint, energy led the way as oil prices touched a multi-year high.

Gross supply in December totaled \$71.5 billion, however the majority of new issuance was dedicated to refinancing and repricing transactions – a relatively consistent theme for 2017. With respect to demand, CLO issuance remained steady in December. Retail outflows continued during the month, but ended the year positive overall. During the quarter, the percentage of loans trading above par increased to 67.3%.¹

Loans continued to outperform the high yield bond market in December, consistent with recent months. The High Yield Bond Index returned 0.29%, while the High Grade Bond Index returned 0.85%². The 10 year Treasury rose 0.26% as yields were flat at 2.41%. Loans' lower yielding, higher quality "BB" (0.37%) and "B" (0.35%) ratings categories underperformed "CCC's" (1.08%)³. The average price in the loan market was \$97.96 at the end of December⁴. At the current average price, senior secured loans are providing a 6.25% yield⁵.

Fundamentals

- The Q3 GDP estimate was revised from 3.3% to 3.2%.
- The lone new default in December was Expro Oilfield Service, although the fourth quarter saw six new defaults in total. These drove the trailing 12 month default rate to a 17 month high of 2.05%⁶.

Technicals

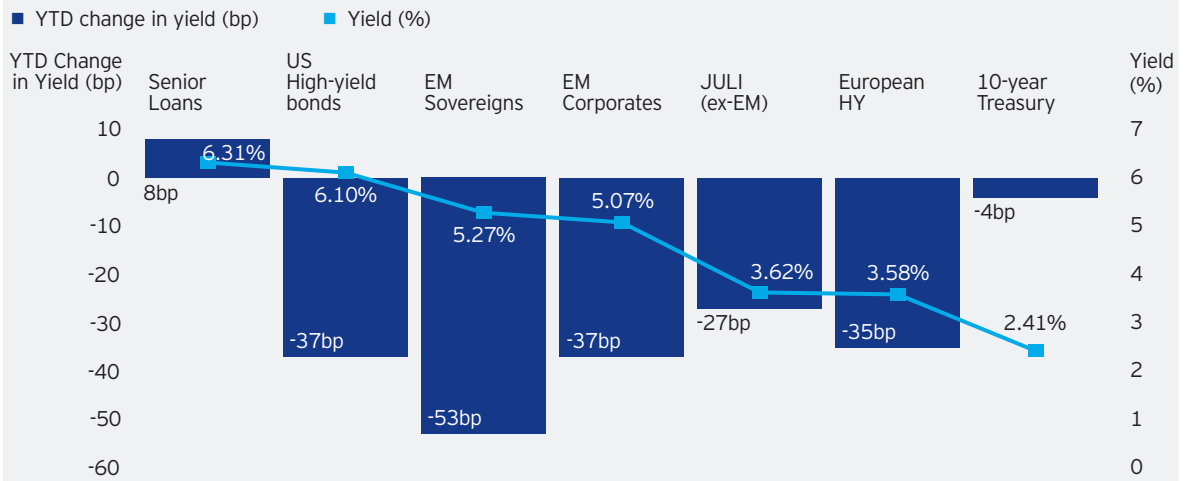
- Technical conditions remained balanced in December. Net supply increased modestly while modest retail outflows did not fully offset new demand from CLO's.
- Gross CLO volume was \$19.96 billion in December, with \$8.7 billion of issuance net of resets and refinancings⁷. 2017 CLO issuance was \$282.2 billion (gross) and \$117.1 billion (net).
- Retail mutual funds and ETF's reported a \$1.1 billion outflow for the month. 2017 inflows were \$13.5 billion⁸.
- New issuance volume was \$73.1 billion in December, and \$21.9 billion excluding refinancing and repricing activity. In 2017, gross and net issuance totaled \$973.6 billion and \$258 billion, respectively.

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

Relative value/market opportunity

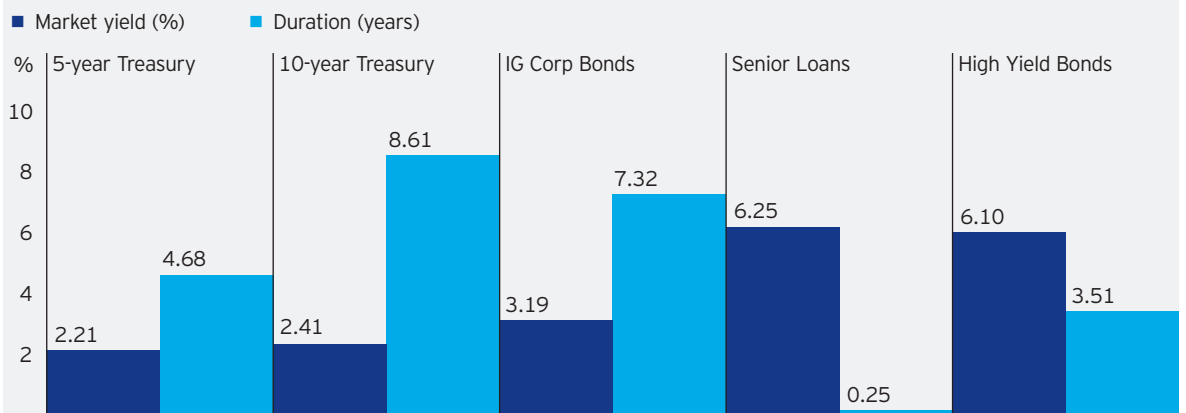
Although loan returns (4.12%) trailed the comparatively riskier high yield market (represented by the BAML US High Yield Index) (7.48%) in 2017, loans outperformed by 70 bps in the fourth quarter. Bond yields remain near 3-year lows as prices trended higher throughout 2017 on healthy corporate and economic fundamentals, a stabilizing backdrop in energy, and relatively benign interest rate movements. As a result of the outperformance in high yield prices, the yield differential between loans and unsecured bonds is historically tight. Investors may thus own less volatile, more defensively positioned loans at a similar yield to unsecured bonds, while curtailing interest rate risk. With 3-month LIBOR up to 1.69%, the rise in loans' base rate has offset much of spread compression stemming from repricings. Moreover, the level of income received by loan investors is poised to benefit from any further increase in interest rates. The Fed's most recent guidance points to three additional increases in 2018.

Loan yields increasingly attractive relative to other fixed income alternatives⁹



Source: J.P. Morgan, as of December 31, 2017. The Senior Loans yield shown reflects the JPM Loan Index. Senior Loans are represented by the JP Morgan Leveraged Loan Index; US High-yield bonds are represented by the JP Morgan Domestic High Yield Index; EM Sovereigns are represented by the JP Morgan EMBI Global Diversified Blended Index; EM Corporates are represented by JP Morgan CEMBI Div Broad Composite Index; JULI (ex-EM) is represented by the JP Morgan JULI Ex EM Index; European HY is represented by the JP Morgan European Currency High Yield Index; and the 10-year Treasury is represented by itesf. Past performance cannot guarantee comparable future results.

Loans offered investors a high level of current income with short duration



Source: Bloomberg L. P., Barclays, JPM, S&P LCD December 31, 2017

	\$ Price	Yield to worst (%)	Spread to worst	At forward Libor	Duration (years)
5-year Treasury	99-20	2.21			4.68
10-year Treasury	98-20	2.41			8.61
Bloomberg Barclays US Agg Index	103.07	2.71	T + 0.49		5.98
Bloomberg Barclays IG Index	105.73	3.19	T + 0.91		7.32
J.P. Morgan US HY Bond Index	102.18	6.10	T + 4.04		3.51
S&P/LSTA Leveraged Loan Index	97.96	L+4.05%	T+ 4.28	6.25%	90 Days

Source: Standard & Poor's LCD, Barclays, JPM and Bloomberg L.P. as of December 31, 2017. Loan "spread to worst" and "at forward Libor" incorporate LIBOR forward curve as of December 31, 2017.

Figure 1

Total annual return (%)	2013	2014	2015	2016	2017
S&P/LSTA Leveraged Loan Index	5.29	1.60	-0.69	10.16	4.12
BAML US High Yield Index	7.42	2.50	-4.64	17.49	7.48
BAML US High Grade Index	-1.46	7.51	-0.63	5.96	6.48
10-Year US Treasury	-7.73	10.92	1.00	-0.11	2.10

Source: Standard & Poor's LCD, BofA, JPM and Bloomberg L.P. as of December 31, 2017. Senior Loans are represented by the S&P/LSTA Leverage Loan Index; High yield bonds are represented by the BAML US High Yield Index; High grade bonds are represented by the BAML US High Grade Index. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

1 S&P/LSTA Leveraged Loan Index December 31, 2017

2 BAML High Grade Corporate Bond Index, BAML HY Master Index December 31, 2017

3 S&P LCD December 31, 2017

4 S&P LCD December 31, 2017

5 S&P LCD and Invesco as of December 31, 2017

6 S&P LCD December 31, 2017

7 JP Morgan December 31, 2017

8 JP Morgan December 31, 2017

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of December 31, 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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