Invesco Senior Secured Loans

European Loan Market Snapshot

Monthly European loan market update: February 2017 (covering January 2017)

Returns

- The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") returned 1.00% during the month of January, representing interest income of 0.40% and principal return of 0.60%.[1]
- The dominant drivers of return in 2016, rolled into January 2017 with the Energy industry (4.30% of the CS WELLI) returning 7.56%, and CCC-rated assets (3.74% of the CS WELLI) returning 7.30% during January. For completeness, we note that the majority of Energy sector borrowers have loans rated CCC or below, and therefore contributed to the outperformance at the riskier end of the quality spectrum. In contrast, BB-rated loans returned positive 0.34% in January and B-rated loans returned positive 0.87% during January.[1]
- As expected, new issuance got off to a strong start to the new year. Institutional loan volume for the month of January was €8.4 billion (compared to €6.6 billion for the same period last year).[2] Although robust, this supply was insufficient to meet the overwhelming demand from both CLO and institutional buyers. As a result of the demand for loans, borrowers had the upper hand on pricing as they were able to push through a number of repricing and refinancing transactions. Repricing and refinancing transactions represented 54% of the total new issuance volume during the month.[2]
- We attribute the continued strong demand for loan assets to be due to (1) The general demand for risk assets as the default environment remains low, (2) The desire to reduce duration as investors focus more on the factors that may indicate a risk of the European Central Bank's (ECB) tapering later in 2017 or early 2018 (inflation), and (3) The halo effect from the ECB's monetary support through their Asset Purchase Program ("APP").
- The average price of loans in the European market ended January at €98.73. At January month end, European loans were providing a spread to three years of 4.86%.[1]

Fundamentals

- The Euro area ended 2016 with positive momentum, providing a solid platform for companies to prosper. GDP growth in the last quarter of 2016 reached 0.5% quarter-over-quarter ("QoQ"), ahead of the consensus estimate of 0.4% QoQ. Additionally, 3Q 2016 GDP growth was revised upwards to 0.4% QoQ from the initial reading of 0.3% QoQ. Full year 2016 GDP growth was 1.7%.
- January CPI increased to 1.8% from 1.1% in December and was ahead of the consensus estimate of 1.5%. Core inflation, however, was flat at 0.9% and remains below the ECB's target level of 2.0%.
- There were no new defaults in January. Accordingly, the trailing 12 month default rate on the CS WELLI was unchanged at 0.50% at the end of the month.[1]

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

Technicals

- New institutional loan volume for the month of January was €8.4 billion (compared to €6.6 billion for the same period last year).[2]
- Notable loan deals in syndication in the period included:
  - €4.605 billion of cross-border senior secured loan (SSL) facilities (€/$) to support VodafoneZiggo's refinancing of existing term loan facilities. The deal included a €2.25 billion Term Loan F, which priced at E+3.00% with 0% Euribor floor and was issued at par.[2]
  - €1.6 billion SSL facilities, including €1.45 billion term loan B, to fund Lone Star's acquisition of Xella, which produces and sells concrete-related construction and raw materials globally. The term loan priced at E+4.00% with a 0% Euribor floor and issued at 99.75.[2]
- CLO formation in January totaled €0.4 billion, down from €1.3 billion in December 2016, and unchanged from the same period last year.[2] Based on our understanding of currently open warehouses, we expect around €15-20 billion of CLO issuance in 2017, roughly in line with the 2016 level.

Valuations

- Primary Loan Market:
  - The average all-in-yield on new primary deals decreased 13 basis points (bps) to 4.17% in January from December due to both a decline in margin upfront discount. The average yield for single-B assets was 4.28%, the tightest level over the last four years.[2]
- Secondary Loan Market:
  - At January month end, European loans were providing a Spread-to-three year takeout of 4.86%, 52 bps more than the Spread-to-Worst of the high yield bonds.[2, 3]

Figure 1
Total return (EUR, in %)

	Q4 15	2015	Q1 16	Q2 16	Q3 16	Sept-16	Oct-16	Nov-16	Dec-16	Q4 16	2016 full year	Jan-17
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	-0.25	3.14	0.78	1.49	2.80	0.74	0.50	0.18	0.63	1.31	6.52	1.00
Credit Suisse Western Europe HY Index (EUR-HDG)	0.99	1.36	1.70	1.75	3.67	-0.42	0.78	-0.40	1.82	2.20	9.63	0.70

Source: Credit Suisse, as at Jan. 31, 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 Jan. 31, 2017
2 Standard & Poor's, Loan Market Commentary and Data (LCD) as at Jan. 31, 2017
3 Credit Suisse Western European High Yield Index – All Denominations (hedged to EUR) Jan. 31, 2017

Important Information

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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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