# European Loan Market Snapshot

## Monthly European loan market update: September 2016 (covering August 2016)

### Returns

- The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") posted a total return of 0.88% in Augus t (see Figure 1) with 0.43% o f interest bolstered by 0.45% o f price appreciation.[1] August's positive performance, brings the full year return to 4.38%. [1]
- The European senior secured loan (SSL) market entered the traditionally quiet summer period in the early part of August. Sentiment remained constructive throughout the month due to abating Brexit concerns fuelled by a slew of better than consensus UK macro data. Loan demand remained strong but starved from the seasonal lack of new issue. Only significant new issue in the period was Liberty owned Netherland's based cable company, Ziggo, with a €2.6 billion refinancing. This loan was easily absorbed by the market and traded up from issuance price of €0.9950 and is offered above par. In fact, the Euro denominated portion of the refinancing was increased from €750 million to €2.6 billion following the strong demand for BB rated paper.[2] At the end of August the BB rated portion of the CS WELLI index has a Spread-to-3-year of 3.86%, signif icantly wider than the spread–to-worst of 2.49% o f European High Yield Bonds.[1] We attribute this to the indirect impact of the European Central Bank's corporate sector purchase programme on the higher quality end of the European high yield bond market.
- The risk-on tone continues to result in compression between high and low quality paper. For example: BB and single B rated loans returned 0.45% and 0.68% r espectively. CCC rated loans returned an impressive 7.69% in the mon th.[1]
- At an industry level, only one sector posted a negative return; consumer durables (-0.20%) due t o idiosyncratic borrower concerns. The energy sector continues to be extremely volatile returning 8.01% in Augus t, following a decline of 0.78% in July. [1]

### Fundamentals

- Growth in the Euro area and the UK continues to show unexpected resilience to the Brexit outcome. Survey data is indicative of a slowdown rather than major contraction which is a distinct positive. Nevertheless, growth in both the Euro area and UK remains subdued even if backstopped by continued central bank stimulus. This backdrop continues to merit caution as significant risks remain on both the political (growing anti-austerity/EU voter sentiment across Europe, Italian referendum) and economic (actual UK extraction from the EU, fading benefit of low oil prices, continued banking sector weakness) arenas. We remain minded to avoid sectors that are likely to be most impacted if these events gain prominence.
- According to the CS WELLI index there were no new defaults in August 2016.

## Technicals

- Primary institutional loan issuance reached €2.6 billion in August; while modest, it was significantly more than was achieved in the same period last year (no issuance). As a result, year-to-date volume of €30.6 billion (107 deals), was 15% mor e than the same eight months in 2015.[2]
- Notable loan deals in syndication in the period included:
  - €2.589 million SSL facilities to support the refinancing of Ziggo, the Netherland's based cable company owned by Liberty. The tranche is priced at E+3.75% and is sued at €0.9950.[2]
- Collateralized Loan Obligation (CLO) formation in August totaled €0.36 billion issued (one deal), again like primary issuance, while shy, it was still one more than in the same month last year. The CLO liability spread environment remains benign with AAA's in particular high demand from both domestic and international players. The market is now testing multi-year lows with discount margins of 1.20% in the higher r ated tranches of the CLO structure, a level that gives considerable room for the arbitrage if asset spreads remain stable. The BBs rated CLO tranches (a bellwether level of the CLO structure) tested discount margins of 8.00% ar ound Brexit but are now rapidly tightening with recent secondary levels already inside discount margins of 6.50%. [2]
- Based on our understanding of open warehouses and current spread levels on CLO liabilities, we expect around €13 billion of CLO issuance this year, in line with the €13.6 billion seen in 2015.[2]

## Valuations

- Given the Ziggo refinancing accounted for 85% o f issue in August, the month-on-month changes should be taken with a degree of qualification. Nevertheless, in keeping with previous months' Invesco European monthly loan market update commentaries, we have provided the usual statistics in the following paragraph. The average lagging three month new issue institutional loan spread was EURIBOR + 4.46%, 32 b asis points (bps) lower than July. All-in-Yields were down (0.34%) t o 5.11% due to both the lower spread, a lower LIBOR/EURIBOR floor benefit as well as a lower Original Issue Discount (OID). Yields on primary single-B rated loan tranches were 5.1%. Cr edit metrics remained relatively conservative for new deals with first lien leverage (4.4 times) but total leverage increasing (0.3 times) to 5.0 times. Interest coverage remains at a healthy 3.9 times.[2]
- The Credit Suisse Western European High Yield Bond Index total return was 1.86% in Augus t (See Figure 1), outperforming the SSL market, meaning that HY bonds have now returned 7.72% on a year-to-date basis. At the end of the month of August, the Spread-to-3-year take out for SSLs was 5.41% v ersus the European High Yield Bond Spread-to-Worst of 4.79%. [1]

**Figure 1**

| Total return (EUR, in %) | Q1 15 | Q2 15 | Q3 15 | Q4 15 | 2015 | Q1 16 | Q2 16 | June-16 | July-16 | Aug-16 | LTM cumulative | YTD cumulative |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG) | 2.22 | 1.14 | 0 | -0.25 | 3.14 | 0.78 | 1.49 | -0.6 | 1.16 | 0.88 | 3.78 | 4.38 |
| Credit Suisse Western Europe HY Index (EUR-HDG) | 2.97 | -0.47 | -2.07 | 0.99 | 1.36 | 1.7 | 1.75 | -0.46 | 2.21 | 1.86 | 6.93 | 7.72 |

Source: Credit Suisse, as at 31 August 2016. 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 31 August 2016. European High Yield Bonds represented by the Credit Suisse Western Europe HY Index as at 31 August 2016.
2 Standard & Poor's, Loan Market Commentary and Data (LCD) as at 31 August 2016

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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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