Invesco Senior Secured Loans

US Loan Market Snapshot

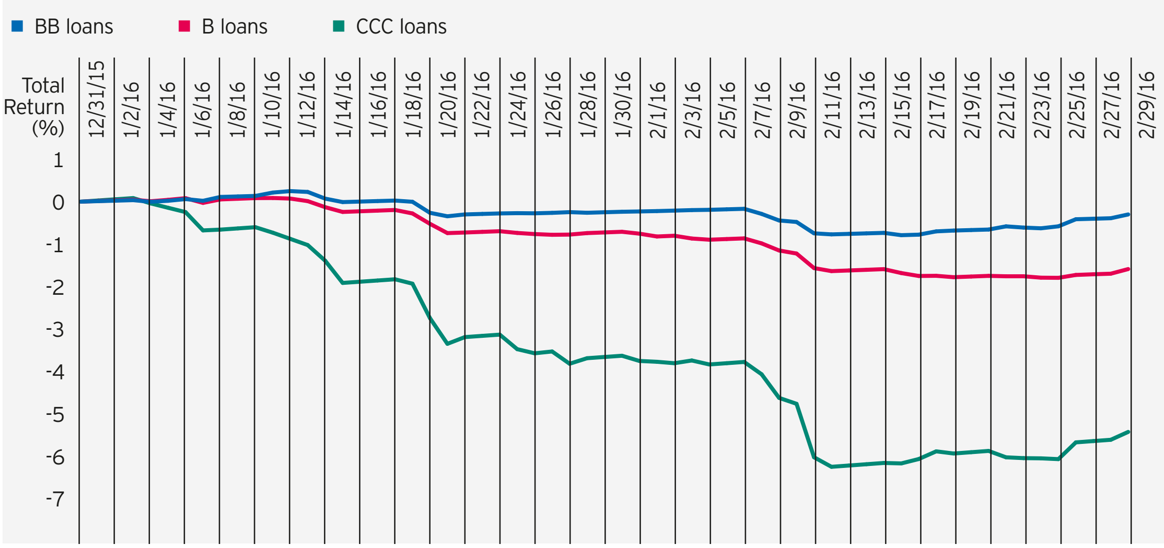
Monthly US Loan Market Update: March 2016

Have loans hit bottom?

The tone of the market shifted to positive in the back half of February and performance stabilized – driven by a recovery in oil prices, firmer technicals, and the emergence of supportive bids for higher risk assets. The recovery in the back half of February only partially offset the weakness experienced in the first half of the month. Senior secured loans returned -0.53% in February.[1] While the streak of negative monthly results has been long, the overall decline during the same period has been relatively benign. Negative sentiment continued to pressure the loan market primarily driven concerns surrounding economic growth both domestically and abroad (China), continued volatility in the commodity sectors, and a weaker technical backdrop. The negative sentiment has been a common theme across the broader capital markets and has not been unique to loans, however the tone strengthened in the back half of the month across risk assets. In general we believe that fundamentals remain supportive outside of a few "pockets of weakness". The slowdown in CLO issuance this year coupled with steady retail mutual fund outflows has pushed the average price in the market to 89.91[4] but the weaker demand has been partially offset by a light new issue calendar.

There was less dispersion in sector performance in February, largely due to the rebound in commodity prices in the second half on the month. As in previous months, the higher quality BB rated loans (-0.06%) outperformed the riskier B (-0.88%) and CCC (-1.79%) rated issuers.[2] At the current price, senior secured loans are providing a 7.65% yield.[1]

Loan performance has been bifurcated with higher quality loans outperforming



Source: S&P LCD, S&P LSTA Leveraged Loan Index as of February 29, 2016.

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

Fundamentals

- There were two new defaults in February – Noranda Aluminum and Paragon Offshore – lifting the trailing 12 month default rate to 1.45% from 1.33% at the end of January.[1]
- The pace of earnings growth has slowed leading to a heightened level of risk aversion in the loan market. We expect defaults to increase this year to 2.5%-3.0%, slightly below their historical average.
- US GDP growth for the fourth quarter of 2015 was revised upward to 1% from 0.7%. We reiterate that a slow but positive GDP growth environment is supportive of loan fundamentals.

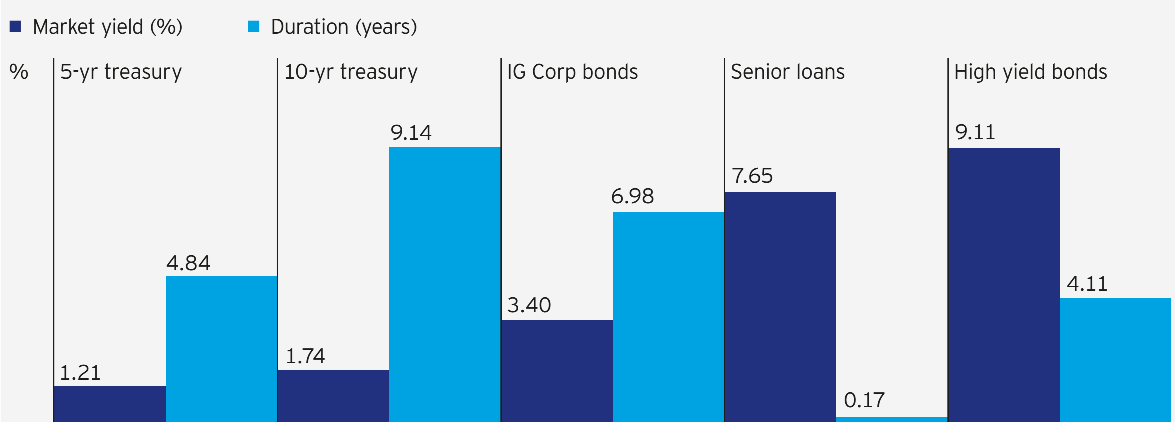
Technicals

- The market for new issue CLO's has been modest in 2016 with only $3 billion in total issuance versus $13.7 billion for the same period last year. While the absolute level of issuance has been disappointing, the pricing of three new CLO's totaling $1.4 billion in the last week of the month was an encouraging sign.[3]
- Outflows from retail mutual funds persisted in February, totaling $2.2 billion.[1] The asset class' exposure to retail mutual funds has decreased significantly with $58 billion in outflows since early 2014, representing a 90% unwind of the $63 billion of inflows experienced in 2013.[3]
- New issue loan volume was light given the market weakness, totaling $11.7 billion in February and $21.6 billion year to date. Total issuance for the same period last year was $27.4 billion.[3] New issue deals continued to price wide of historical averages. Notable deals this month included a $1.88 billion loan backing JAB's acquisition of Keurig Green Mountain. The "BB" rated deal priced at L+450 with a 0.75% floor and $98 issue price versus original price talk of L+375-400 with a 0.75% floor and 99 issue price.

Relative Value

Loans have remained relatively insulated from broader market volatility largely due to the low commodity exposure and defensive position at the top of the capital structure. While fundamental concerns have elevated given the slowing pace of revenue and earnings growth, expectations are for defaults to increase modestly – closer to historical averages. In our opinion, a weaker technical backdrop has depressed prices and pushed spreads wider than historical averages implying a default rate that is in excess of what we believe will be realized. At current discounted prices, we believe loans provide an attractive long term opportunity, while continuing to pay a high level of current income, and can serve as an effective diversifier.

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 February 29, 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	99-18	1.21			4.84
10-Year Treasury	98-31	1.74			9.14
Barclays US Agg Index	104.83	2.26	T+0.93		5.40
Barclays IG Index	103.69	3.40	T+1.89		6.98
ML US HY Index	86.64	9.11	T+7.82		4.11
S&P/LSTA Leveraged Loan Index	**89.91**	**L+7.75**	**T+6.76**	**7.65**	**45-60 Days**

Source: Bloomberg L.P., Barclays, BAML and S&P LCD as of February 29, 2016. Loan yields incorporate LIBOR forward curve as of February 29, 2016. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of February 29, 2016.

1 S&P LCD (Leveraged Commentary and Data) as of February 29, 2016; Total returns and the yield stated are for the S&P LSTA Leveraged Loan
2 S&P/LSTA Leveraged Loan Index total returns as of February 29, 2016
3 J.P. Morgan as of February 29, 2016
4 S&P LCD as of Feb. 29, 2016. Loan market as represented by the S&P LSTA Leveraged Loan Index.

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of February 29, 2016, unless otherwise noted. Average loan price includes all loans January 1997 through February 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.

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