US Loan Market Snapshot

Monthly US loan market update: December 2017

Senior secured loans returned 0.12% in November and 3.71% year-to-date[1]. Gains were buoyed by coupon income as prices retreated during the month amid a sell-off in high yield. The first half of the month was characterized by retail outflows and sector-specific selling that most heavily impacted consumer products, metals and mining, and transportation. Price erosion was then partly recovered towards month-end as credit markets rallied on tax reform progress and firming oil prices. Despite the spillover of weakness from high yield, loans displayed relative resilience; at November's low point, the decline in loan prices was one-third as severe as the declines in high yield.

Gross supply in November swelled to $103.5 billion, however this was dominated by repricing activity. The modest $16.2 billion of net new supply in November declined sequentially, but was met by lighter overall inflows into the asset class. While CLO demand remained robust, retail funds reported a $2.7 billion outflow. During the quarter, the percentage of loans trading above par declined to 66.6%.

Loans outperformed other fixed income credit markets in November for the second consecutive month, with the High Yield Bond Index returning -0.27% and the High Grade Bond Index returning -0.14%[2]. The 10 year Treasury fell 0.31% as yields rose 3 basis points to 2.41%. Loans' lower yielding, higher quality "BB" (0.17%) and "B " (0.14%) ratings categories outperformed "CCC's" (0.03%)[3]. The average price in the loan market was $97.65 at the end of November[4]. At the current average price, senior secured loans are providing a 6.26% yield[5].

Fundamentals

- The Q3 GDP estimate was upwardly revised to 3.3%, again exceeding consensus expectations.
- There were four new defaults in November; Pacific Drilling, ExGen Texas Power, Cumulus Media, and Walter Investment Management. These drove the trailing 12 month default rate to a 13 month high of 1.95%[6].

Technicals

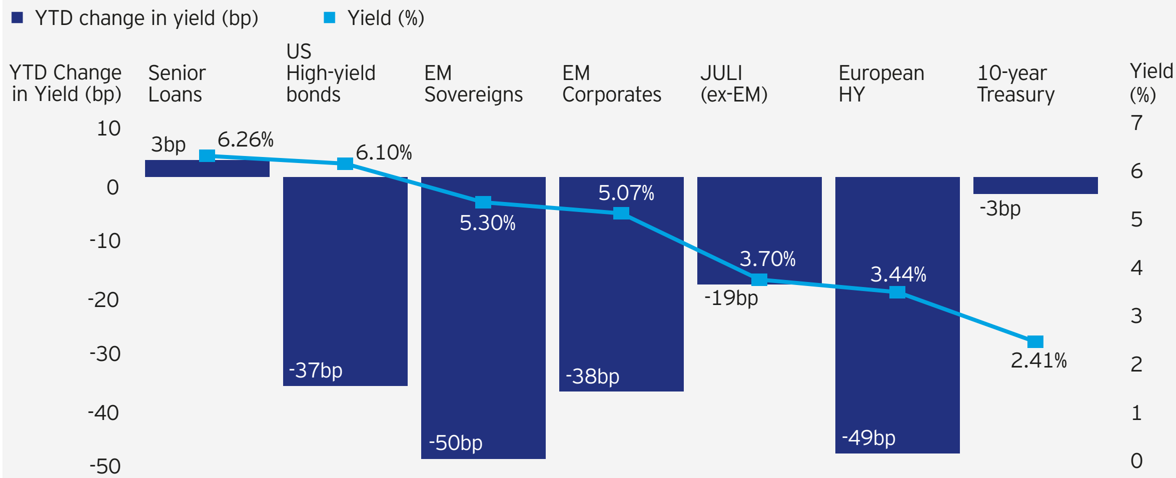
- Technical conditions remained balanced in November, but loosened relative to October. Net supply increased modestly while retail outflows did not fully offset new demand from CLO's.
- Gross CLO volume was $22.2 billion in November, with $13.8 billion of issuance net of resets and refinancings[7]. Year-to-date CLO issuance is $262.3 billion (gross) and $108.4 billion (net).
- Retail mutual funds and ETF's reported a $2.7 billion outflow for the month. Year-to-date inflows are $14.6 billion[8].
- New issuance volume was $103.5 billion in November, and $16.2 billion excluding refinancing and repricing activity. Year-to-date, gross and net issuance have totaled $902 billion and $236.3 billion, respectively.

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

Relative value/market opportunity

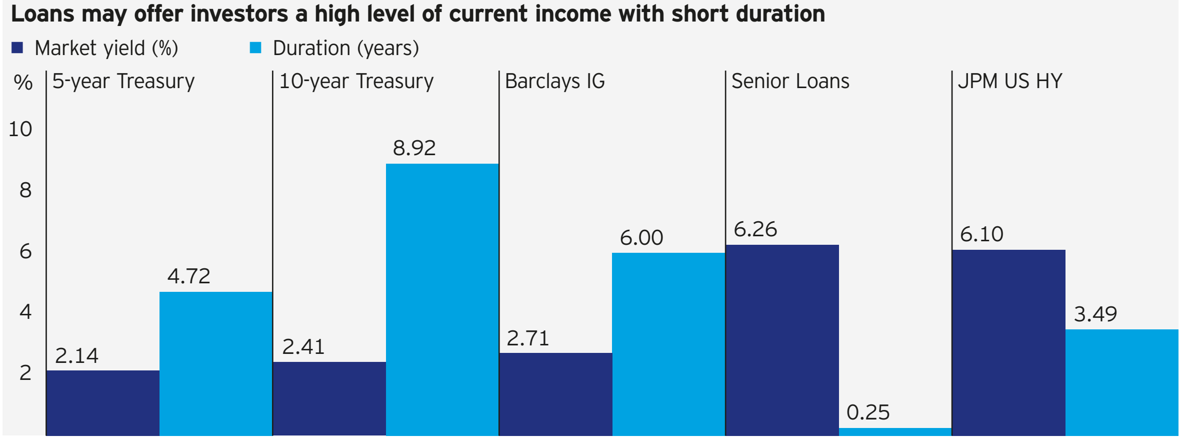
Although loan returns (3.71%) have trailed the comparatively riskier high yield market (7.17%) year-to-date, loans have outperformed over the last three months. Notwithstanding November's high yield sell-off, bond yields remain near 3-year lows as prices have trended higher throughout 2017 on healthy 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 1.49%, 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 a policy rate increase in December, and three additional increases in 2018.

Loan yields increasingly attractive relative to other fixed income alternatives[9]



Source: J.P. Morgan, as of Nov. 30, 2017. The Leveraged Loan yield shown reflects the JPM Loan Index. Past performance cannot guarantee comparable future results.

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



Source: Bloomberg, Barclays, JPM, S&P LCD Nov. 30, 2017.

	$ Price	Yield to worst (%)	Spread to worst	At forward Libor	Duration (years)
5-year Treasury	99-11	2.14			4.72
10-year Treasury	98-19	2.41			8.92
Bloomberg Barclays US Agg Index	102.86	2.71	T + 0.52		6.00
Bloomberg Barclays IG Index	105.24	3.20	T + 0.95		7.28
J.P. Morgan US HY Bond Index	102.31	6.10	T + 4.11		3.49
S&P/LSTA Leveraged Loan Index	**97.65**	**L+4.10**	**T+ 4.37**	**6.26%**	**90 Days**

Source: Standard & Poor's LCD, Barclays, JPM and Bloomberg L.P. as of Nov. 30, 2017. Loan "spread to worst" and "at forward Libor" incorporate LIBOR forward curve as of Nov. 30, 2017.

1 S&P/LSTA Leveraged Loan Index Nov. 30, 2017
2 BAML High Grade Corporate Bond Index, BAML HY Master Index Nov. 30, 2017
3 S&P/ LCD Nov. 30, 2017
4 S&P LCD Nov. 30, 2017
5 S&P LCD and Invesco as of Nov. 30, 2017
6 S&P LCD Nov. 30, 2017
7 JP Morgan Nov. 30, 2017
8 JP Morgan Nov. 30, 2017
9 JP Morgan Nov. 30, 2017. The Leveraged Loan yield shown reflects the JPM Loan Index

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of Nov 30, 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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