



# European Loan Market Snapshot



## Monthly European loan market update: September 2017 (covering August 2017)

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### Returns

- The Credit Suisse Western European Leveraged Loan Index (“CS WELLI”) returned negative 0.02% during August, of which interest income was 0.35% and principal return of negative 0.37%.<sup>1</sup>
- With market participants away on summer vacations, the primary market slowed this month with less than €1 billion of new supply coming to market. Accordingly, during this anticipated summer slowdown, buy-side managers had to balance identifying opportunities in the secondary market or to hold cash. In reality, the choice favored increasing cash reserves primarily due to (1) a well ‘sign-posted’ pipeline of new deals in September and October and (2) geopolitical risks/tensions due to North Korea. The “wait and see” approach from Managers affected the secondary market with trading desks finding it difficult to recycle low-margin paper - a reflection of Manager concerns on how low-margin loans would likely trade when (expected) higher-margin primary deals are launched post the summer slow-down.
- The Energy sector was the largest detractor in the CS WELLI for the month with a return of negative 5.62%, a reversal the +6.01% return in July. Manufacturing was slightly weak (-0.32%), however the majority of remaining sectors posted positive returns, with strong performances in the Retail (+0.48%) and Aerospace (+0.46%) sectors. By credit quality, BB and B rated loans had more-or-less zero total return whilst CCC's declined by 1.38%.<sup>1</sup>
- The average price of loans in the European market ended August at €98.81, with a spread-to-three year of 3.98%.<sup>1</sup>

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### Fundamentals

- The Eurozone growth story continues thanks to strong export led manufacturing. Given where the growth is derived we focus on global growth trajectory as well as any headwinds for euro appreciation. Based on survey data so far, third quarter GDP growth is on track for 2% annualized growth.
- Based on the current macroeconomic data set, we expect announcements on the form of tapering at the ECB's economic meeting and anticipate the ECB will reduce in purchase program from €60 billion per month to €40 billion per month in 2018.
- The last twelve month default rate for the CS WELLI declined slightly to from 1.8% in July to 1.7% at the end of August 2017, well below the historical average annual default rate of 3.3% (CS WELLI defaults covering the period Jan. 1, 2003 through Aug. 31, 2017).<sup>1</sup>

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

## Technicals

- New institutional loan volume for the month was €0.6 billion, 4.9 times less than the volume of August 2016. Year-to-date institutional issuance reached €61.2 billion, 2.0 times more than in the first eight months of 2016.<sup>2</sup>
- CLO generation accelerated in €0.7 billion of formation, not surprisingly given the summer slowdown this was materially down on the €1.4 billion average in the seven six months of the year. CLO liability spreads remained relatively unchanged through the month leaving the arbitrage intact. Year-to-date CLO formation reached €11.2 billion, €0.7 billion more than in the eight months of 2016.

## Valuations

- Primary:
  - The average lagging three month all-in-yield on primary deals was 4.14%. Lagging three-month senior leverage slightly decreased from 4.6x at the end of July 2017 to 4.5x at the end of August 2017.<sup>2</sup> Total leverage was constant at 5.0x over the same two month period.
- Secondary:
  - At month end, European loans were providing a spread-to-three year takeout of 3.98% ( compared to 3.92% at the prior month's end and 5.41% at the same time last year). In comparison, the spread-to-worst for European high yield bonds was 3.66% ( compared to 3.55% at the prior month's end and 4.79% at the same time last year).<sup>1</sup>

**Figure 1**

Total return (EUR, in %)	2015	1Q 16	2Q 16	3Q 16	4Q 16	2016	1Q 17	2Q 17	Jun-17	Jul-17	Aug-17	2017 YTD
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	3.14	0.78	1.49	2.80	1.31	6.52	1.18	0.88	0.06	0.48	-0.02	2.53
Credit Suisse Western Europe HY Index (EUR-HDG)	1.36	1.70	1.75	3.67	2.20	9.63	1.97	2.08	0.08	0.81	0.41	5.37

Source: Credit Suisse, as at Aug. 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 Aug. 31, 2017

2 Standard & Poor's, Loan Market Commentary and Data (LCD) as at Aug. 31, 2017

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## Important information

All data provided by Invesco, as at Aug. 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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