Invesco Senior Secured Loans

US Loan Market Snapshot

Monthly US loan market update: June 2017

Senior secured loans returned 0.37% in May and 1.96% year to date.[1] Loans were steady throughout the month as first quarter earnings reporting wrapped up. With interest rate concerns receding amid uncertainty surrounding the administration's stimulus-oriented agenda, inflows into the loan asset class remained positive but moderated from prior months. Repricing activity also slowed from the frenetic pace witnessed thus far in 2017; $51.8 billion of repricing and refinancing activity was completed during May, compared to a monthly average of $83 billion during the first four months of 2017. Since the beginning of the year, 42% of the outstanding loan base has repriced or refinanced.[2] Continued demand for loan assets despite an easing of rate concerns was balanced by new issue supply which, together with a stable credit backdrop, kept loans well bid. The percentage of loans trading above par remained steady at 68.5%.

Loans were outperformed by peer asset classes during the month of May amid positive risk sentiment and a lack of loan price appreciation. The 10 year Treasury returned 0.85%, the High Grade Bond Index returned 1.16%, and the High Yield Bond Index returned 0.89%.[3] The 10 year Treasury yield rose to 2.34% before ending the month at 2.20%, down 8 bps from last month. Loans' lower yielding, higher quality "BB" (0.33%) and "B" (0.42%) ratings categories were outperformed by the "CCC's" (0.96%).[1] The average price in the loan market was $98.36 at the end of May.[1] At the current average price, senior secured loans are providing a 5.67% yield.[1]

Fundamentals

- May's economic data releases indicated supportive macroeconomic conditions including a resumption of robust payrolls growth and steady PMI numbers.
- Estimated Q1 GDP was upwardly revised from 0.7% to 1.2%, as overall growth benefited from stronger consumer spending than was initially expected, and energy sector investment.
- There were two new defaults in May, Rue21 and AFGlobal. Despite this, the trailing 12 month default rate fell from 1.43% to 1.29%[1] as several older defaults rolled out of the 12 month calculation.

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

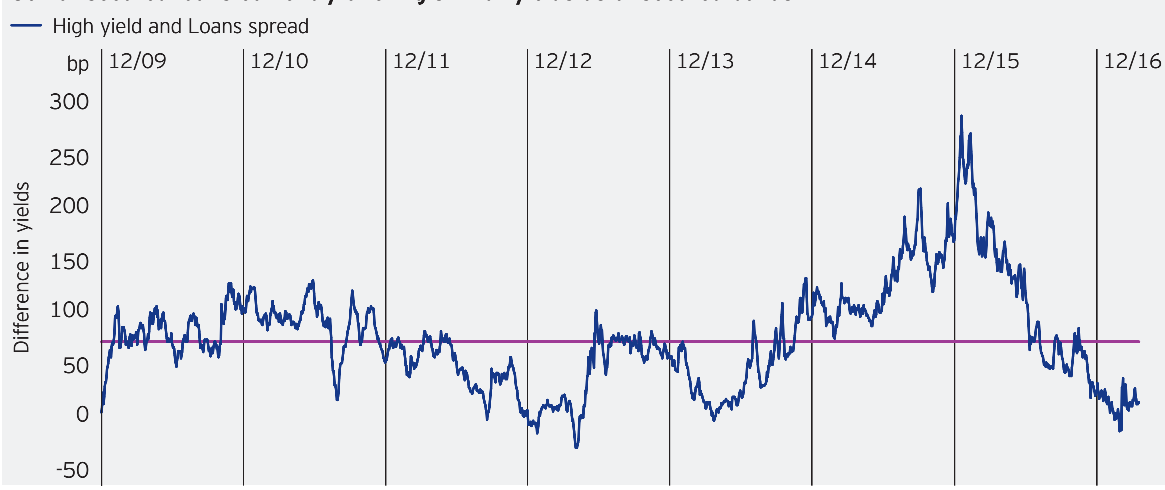
Technicals

- Technical conditions were better balanced in May with healthier net new supply met by slower demand.
- CLO volume stayed elevated but slowed from prior periods. Gross volume was $18 billion, with $9.8 billion of issuance net of refinancings.[2] Year to date CLO issuance is $117.6 billion (gross) and $37.4 billion (net).
- Retail mutual funds and ETF's continued to attract inflows, but at a lesser pace than in recent months. May inflows totaled $873 million and year to date inflows are $16.5 billion.[2]
- New issuance volume was $72 billion in May, and $20.2 billion excluding refinancing and re-pricing activity. Year-to-date, gross and net issuance have totaled $490.1 billion and $106.2 billion, respectively.

Relative value/market opportunity

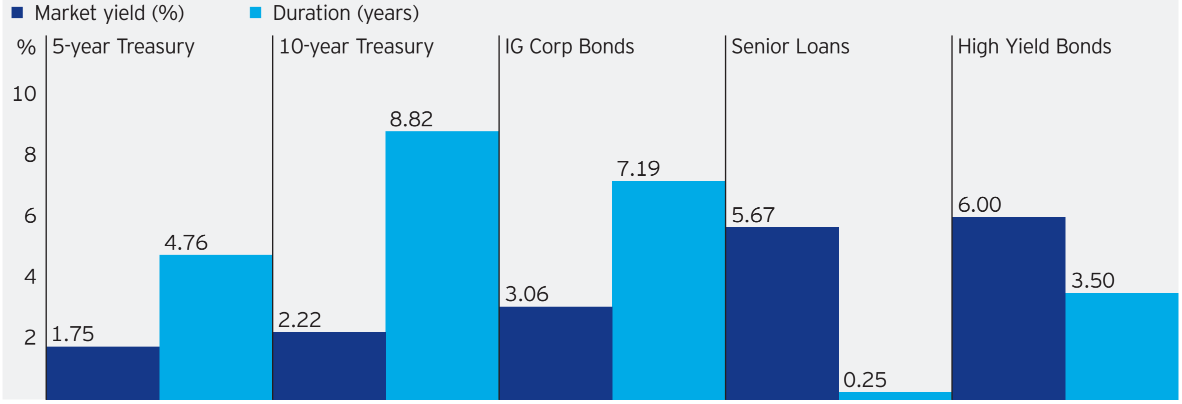
High yield bonds continued to appreciate in May with limited new supply, robust risk appetite, and rate concerns retreating from the forefront of investors' concern for the time being. This dynamic continued to support loans' attractive relative value despite the compression in loan spreads following months of repricing activity. The yield differential between loans and unsecured bonds remains at historical lows, enabling investors to purchase a less volatile, more defensively positioned product at a similar yield to unsecured bonds. Minutes from the last Federal Reserve (Fed) meeting indicate policymakers are inclined to increase rates again at the June meeting, adding to the case for owning floating rate instruments. Currently, 3-month LIBOR is 1.20%, exceeding the vast majority of loans' LIBOR floors.[1]

Senior secured loans currently offering similar yields as unsecured bonds



Source: J.P. Morgan, as of May 31, 2017. High yield represented by the J.P. Morgan US HY Bond Index; Loans represented by the J.P. Morgan Leveraged Loan Index. Past performance cannot guarantee comparable future results.

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



Source: Bloomberg L.P., J.P. Morgan, S&P LCD as of May 31, 2017. Investment grade corporate bonds represented by a subset of the BBG BARC 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 the J.P. Morgan US HY Bond 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	99-31	1.75%			4.76
10-year Treasury	101-11	2.22%			8.82
Bloomberg Barclays US Agg Index	103.74	2.46%	T + 0.60		5.95
Bloomberg Barclays IG Index	105.60	3.06%	T + 1.09		7.19
J.P. Morgan US HY Bond Index	102.70	6.00%	T + 4.40		3.50
S&P/LSTA Leveraged Loan Index	**98.36**	**L+4.13%**	**T + 4.23**	**5.67%**	**90 Days**

Source: Bloomberg L.P., J.P. Morgan and S&P LCD as of May 31, 2017. Loan yields incorporate LIBOR forward curve as of May 31, 2017. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of May 31, 2017. Past performance is no guarantee of future results. Past performance cannot guarantee comparable future results.

1 S&P LCD (Leveraged Commentary and Data) as of May 31, 2017; Total returns and other data stated are for the S&P LSTA Leveraged Loan Index.
2 J.P. Morgan as of May 31, 2017.
3 HY Bonds: BAML HY Master Index, High Grade Bonds: BAML High Grade Corp; data as of May 31, 2017. Returns stated are total returns.

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of May 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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