US Loan Market Snapshot

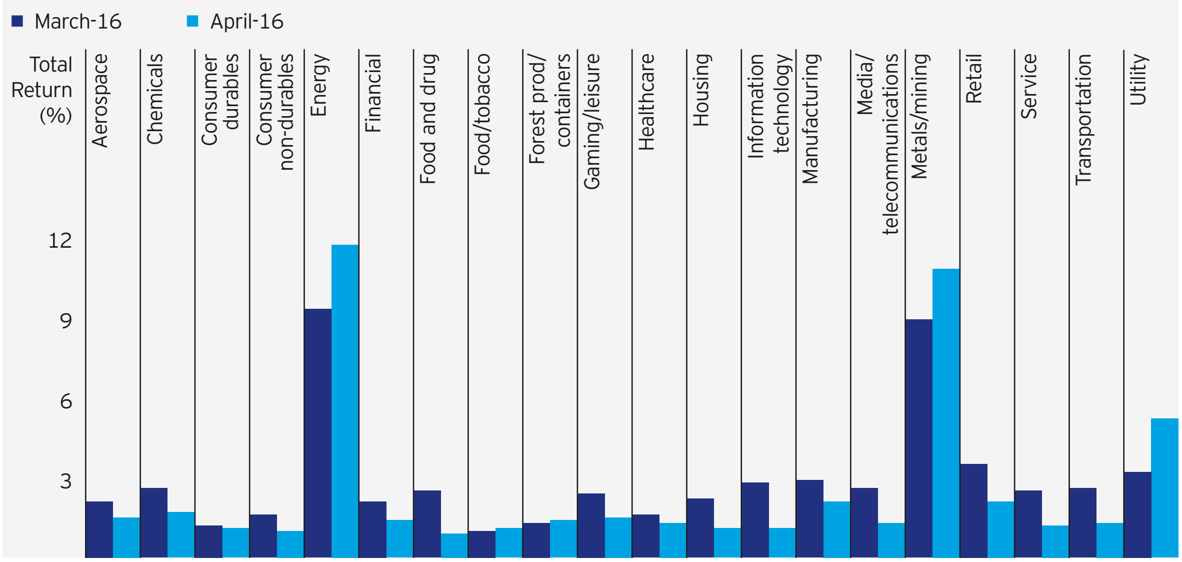
Monthly US Loan Market Update: May 2016

The loan market continued to build on March's momentum, returning 1.99%[1] in April as a combination of a "risk-on" tone and firming technicals drove returns. April's strong results along with the 2.76% return in March fully reversed the negative performance experienced in January and February bringing full year returns to 3.56%.[1]

The improvement in sentiment has largely been driven by a reversal in a broad range of concerns that dominated headlines in the first two months of the year—weak Chinese and global growth, fears of another US recession, default implications of lower commodity prices, and a negative earnings outlook. Since the back half of February, most commodity prices have rallied driving prices for energy related assets higher and global recessionary fears have faded. Additionally, central bank policies in both the US and Europe have remained accommodating.

Not surprisingly, loans in the lower quality end of the risk spectrum performed the best in April with defaulted loans and CCC-rated loans returning 11.7% and 6.2% respectively. This compares favorably to 1.3% for BB-rated loans and 2.1% for B-rated issues.[1] As expected, from a sector perspective, the energy and metals and mining sectors posted strong outperformance versus the broader index, echoing March's results. Technicals provided further support to bank loan prices as demand has stabilized—albeit at levels lower than prior years—and new issue supply has remained anemic.
We expect the new issue pipeline to grow as spreads continue to tighten and demand strengthens.

The "Risk-On" tone of the market and stabilization in commodity prices drove performance across sectors in March and April



Source: Credit Suisse Leveraged Loan Index as of April 30, 2016

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

From a pricing perspective, the market remains relatively bifurcated with higher quality loans trading at or near par with lower quality stressed and distressed names pulling down the broader average price. As of month end, 69% of Credit Suisse Leveraged Loan Index was priced between $90 and $100 and 18% traded at par or above. At the current average price of $93.32, senior secured loans are providing a 6.62% yield.[1]

Fundamentals

- In general we believe that fundamentals remain supportive as a slow but positive GDP growth rate combined with accommodating central bank policies, and modest exposure to commodities should keep default rates at or below their historical average. The US GDP grew at a 0.5% annualized rate during the first quarter.
- There was one new default in April—Peabody Energy— however the trailing 12 month default rate declined to 1.69% as two defaults rolled out of the measurement period.[1]
- We continue to see a relatively higher quality bias of new issue transaction versus previous years largely due to lower risk appetite and increased regulations. In 2014, the proportion of new large corporate loan issuers with greater than 6x leverage was 27.2% versus 18.9% in the first quarter of 2016.[2]

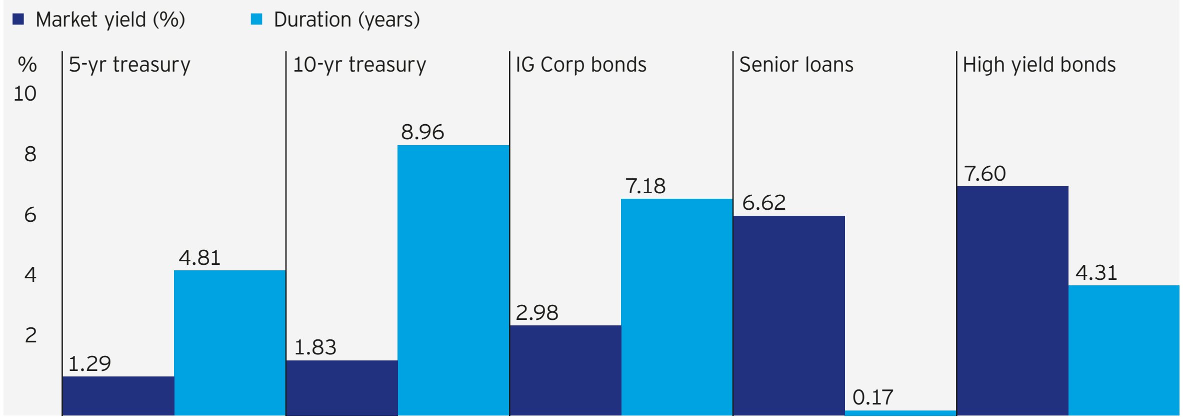
Technicals

- Technicals remained firm during the month. Demand from institutional accounts continued to provide a supportive bid along with modestly higher CLO volumes and $18.2 billion of cash from several large paydowns of existing loans.[1]
- CLO volume increased in April to $5.9 billion modestly surpassing March's $5.4 billion total. Year to date CLO issuance has totaled $14.7 billion versus $44.7 billion during the same period last year.[3]
- Retail mutual fund flows returned to negative territory in April with $451 million of outflows. Year to date retail mutual funds have reported outflows of $6.4 billion.[3]
- New issue loan volume increased to $19.9 billion in April versus $13.4 billion in March. Loan volume has averaged $13.8 billion per month in 2016 versus $27.2 billion per month in 2015.[3] New issue deals continued to price wide of historical averages. Notable deals this month included a $1.55 billion loan backing Apollo's acquisition of ADT Corp. The "BB-" rated deal priced at L+450 with a 1.0% floor and $99 issue price.

Relative Value/Market Opportunity

Loans have continued to build momentum and despite several months of strong performance and spread compression, they continue to offer spreads in excess of historical averages and imply a default rate that we believe is unlikely to occur. Year to date performance of 3.56% trails the 7.37% of high yield bonds[4] but exceeds the 1.74% achieved by the S&P 500.[1] We still believe that loans are well positioned to achieve our 2016 return forecast. Loans, with short duration and high coupons, should serve as an effective diversification tool within the context of broader portfolios.

Loans continued to offer investors a high level of current income at discounted prices



Source: Bloomberg L.P., Barclays, BAML, S&P LCD as of April 30, 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	100-12	1.29%			4.81
10 Year Treasury	98-04	1.83%			8.96
Barclays US Agg Index	105.68	2.15%	T + 0.76		5.51
Barclays IG Index	106.93	2.98%	T + 1.41		7.18
ML US HY Index	93.64	7.60%	T + 6.32		4.31
S&P/LSTA Leveraged Loan Index	**93.32**	**L + 5.97%**	**T + 5.69**	**6.62%**	**45-60 Days**

Source: Bloomberg L.P., Barclays, BAML and S&P LCD as of April 30, 2016. Loan yields incorporate LIBOR forward curve as of April 30, 2016. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of April 30, 2016.

1 S&P LCD (Leveraged Commentary and Data) as of April 30, 2016; Total returns and yields stated are for the S&P LSTA Leveraged Loan Index
2 Barclays as of April 22, 2016
3 J.P. Morgan as of April 30, 2016
4 High yield bonds represented by the BAML High Yield Master Index. Data as of April 30, 2016

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of April 30, 2016, unless otherwise noted. Average loan price includes all loans January 1997 through April 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.

This document is written, unless otherwise stated, by Invesco professionals. The opinions expressed herein are based upon current market conditions and are subject to change without notice. This document does not form part of any prospectus. This document contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. Opinions and forecasts are subject to change without notice. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns. This document is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This document is by way of information only. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This document has been prepared only for those persons to whom Invesco has provided it for informational purposes only. This document is not an offering of a financial product and is not intended for and should not be distributed to, or relied upon, by members of the public. Circulation, disclosure, or dissemination of all or any part of this document to any person without the consent of Invesco is prohibited.

This document may contain statements that are not purely historical in nature but are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to amounts which are not in local currencies;
- may contain financial information which is not prepared in accordance with the laws or practices of your country of residence;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address local tax issues.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.