US Loan Market Snapshot

Monthly US loan market update: August 2016

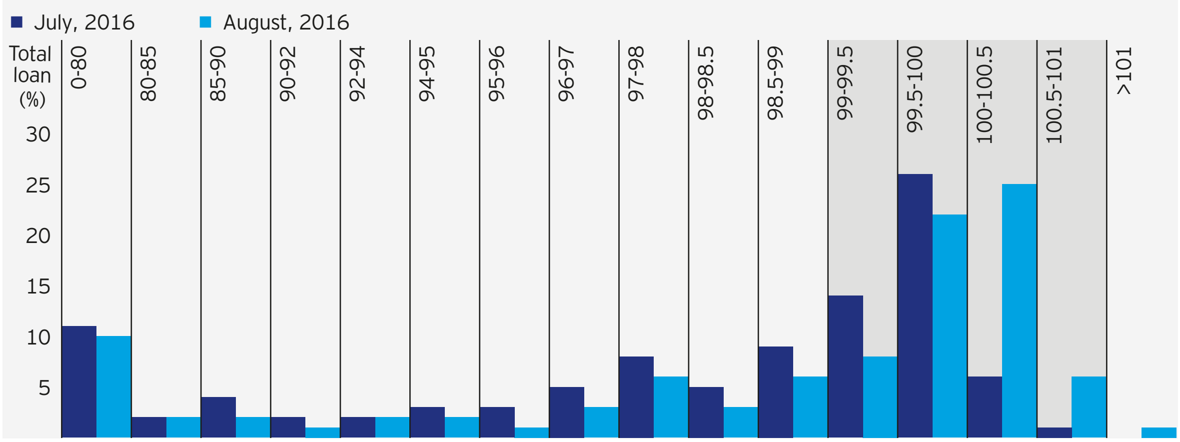
The loan market returned 1.43%[1] in July as most "risk" based assets rebounded strongly following the Brexit related weakness from the last week of June. In hindsight, the weakness in the trading days post the Brexit vote appear to have been a relatively small "hiccup" amidst a broader market rally that has persisted since mid-February. The 6% return is the strongest return through the first seven months of a year since 2009.[1] Loan performance trailed the S&P 500 (3.69%) and high yield bonds (2.53%), but outpaced longer duration fixed income products such as the 10 year Treasury (0.42%) and high grade bonds (1.36%).[2] Risk assets, including loans, were boosted by improving economic data along with expectations for continued accommodative central bank policies to further support global growth.

As in other "risk-on" periods, lower rated "CCC" and "D" rated loans outperformed the higher quality spectrum. From a sector perspective, commodity related sectors outperformed the broader market – decoupling from an approximate 15% decline in oil prices during the month. Technicals continued to favor issuers as steady CLO issuances, strong demand from institutional accounts, and modest inflows from retail mutual funds were met with little net new supply.

The average price in the loan market was $94.46 at the end of July – with the majority of the market trading above 99 with a smaller percentage of stressed and distressed outliers weighing on the broader average. As of the end of July, approximately 63% of loans traded above $99.50. At the current average price of $94.46, senior secured loans are providing a 6.32% yield.[1]

The Loan Syndication & Trading Association (the "LSTA") released its second quarter study during the month – highlighting robust secondary trading volumes during the second quarter. Secondary trading volumes were $160 billion in Q2, up 9% from the first quarter. First half volumes totaled $306 billion – on pace to be the second year with over $600 billion of secondary trading volume.

The loans continued to pull towards par in July



Source: Barclays, as of July 31, 2016

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

Fundamentals

- In general we believe that fundamentals remain supported by a slow but positive GDP growth rate. The advanced estimate for Q2 US GDP growth was 1.2%. Second quarter earnings performance of the S&P 500, a proxy for corporate performance, has been better than expected.[3]
- There were two new defaults in July – C &J Energy Services and Transtar – lifting the trailing 12 month default rate to 2.17%. This trails the historical average[4] default rate of 3.1%. Commodity related issuers represent 65% of the trailing 12 month default rate.[1]

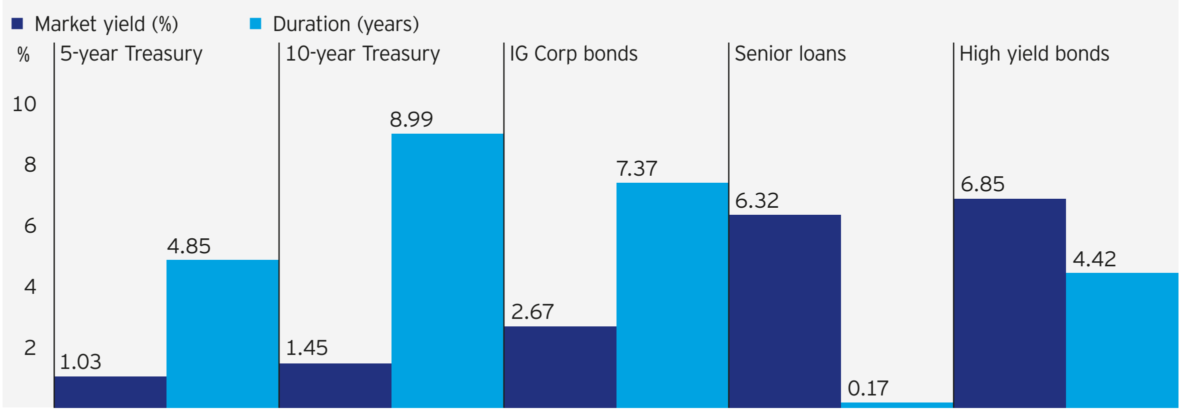
Technicals

- Technicals remained firm during the month – continuing the themes of limited new supply, steady CLO issuances, and continued demand from institutional accounts. New issuance volume of $19.4 billion in July was down substantially from June's $73 billion total, although 63% of June's total was dedicated to refinancing or repricing transactions rather than net new supply. Total year-to-date volume (excluding repricings and refinancings) totals $87.4 billion versus $115.3 billion for the same period last year.[3]
- Retail mutual funds and ETF's had an inflow of $177 million in July following outflows of $292 million in June and inflows of $220 million in May. While outflows from retail mutual funds and ETF's over the last few years have been largely negative (-$6.9 billion year-to-date and -$21.7 billion in 2015), the pace of retail outflows has moderated.[3]
- CLO volume totaled to $6.9 billion in July, nearly matching the monthly high of $7 billion in June. Year-to-date CLO issuance has totaled $34.1 billion versus $77.2 billion during the first seven months of last year.[3]

Relative value/market opportunity

Loans' unique structural features – senior in the capital structure, secured by underlying assets, and floating rate – have contributed to attractive risk adjusted returns with a low correlation to other asset classes.[5] Longer term Treasury yields are hovering near historic lows, while short term LIBOR has been approaching – and in some cases already surpassing – the LIBOR floors. At the end of July, 3-month LIBOR rose to 75 basis points – matching the minimum LIBOR floor in the loan market. While the average floor in the market is 98.5 basis points, 24% of the S&P LSTA Leveraged Loan Index has a LIBOR floor set at 75 basis points.

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 July 31, 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	100-15	1.03			4.85
10-Year Treasury	101-17	1.45			8.99
Barclays US Agg Index	107.47	1.86	T + 0.75		5.47
Barclays IG Index	109.43	2.67	T + 1.39		7.37
ML US HY Index	97.07	6.85	T + 5.81		4.30
S&P/LSTA Leveraged Loan Index	**94.46**	**L + 5.47**	**T + 5.57**	**6.32%**	**45-60 Days**

Source: Source: Bloomberg L.P., Barclays, BAML and S&P LCD as of July 31, 2016. Loan yields incorporate LIBOR forward curve as of July 31, 2016. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of July 31, 2016.

1 S&P LCD (Leveraged Commentary and Data) as of July 31, 2016; Total returns and yields stated are for the S&P LSTA Leveraged Loan Index
2 Total returns stated are for the following: HY Bonds: BAML HY Master Index; High Grade Bonds: BAML High Grade Corporate Index. Data as of July 31, 2016 3 J.P. Morgan as of July 31, 2016
4 Historical average time period is January 1998 through July 2016.
5 J.P. Morgan, data from June 30, 2006 through June 30, 2016

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of July 31, 2016, 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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