US Loan Market Snapshot

Monthly US loan market update: November 2017

Senior secured loans returned 0.60% in October and 3.59% year-to-date[1]. Gains were driven by the impact of encouraging macroeconomic data, healthy corporate earnings, and firming energy prices, as well as the resurgence of investor focus on rate risks. These factors contributed to demand for loans, and fueled outperformance versus longer duration assets.

Meanwhile, after a more active month for new issuance in September, the loan market returned to being short on new supply in October as it has been for much of the year. Gross supply in October grew sequentially to $65.9 billion, however this was due to accelerated repricing activity. The $23.9 billion of net new supply in October was similar to September levels, but did not blunt the loan price tailwind coming from firmer demand. During the quarter, the percentage of loans trading above par rose to 74.4%.

Loans outperformed other fixed income credit markets in October, with the High Yield Bond Index returning 0.39% and the High Grade Bond Index returning 0.40%[2]. The 10 year Treasury fell 0.23% as yields rose 5 basis points to 2.38%. Loans' lower yielding, higher quality "BB" (0.55%) and "B " (0.60%) ratings categories lagged the performance of "CCC's" (1.72%)[3]. The average price in the loan market was $97.98 at the end of October[4]. At the current average price, senior secured loans are providing a 6.00% yield[5].

Fundamentals

- The Q3 GDP estimate was 3.0%, exceeding consensus expectations.
- Although there was one new default in October, Appvion, the trailing 12 month default rate fell to 1.51%[6].

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

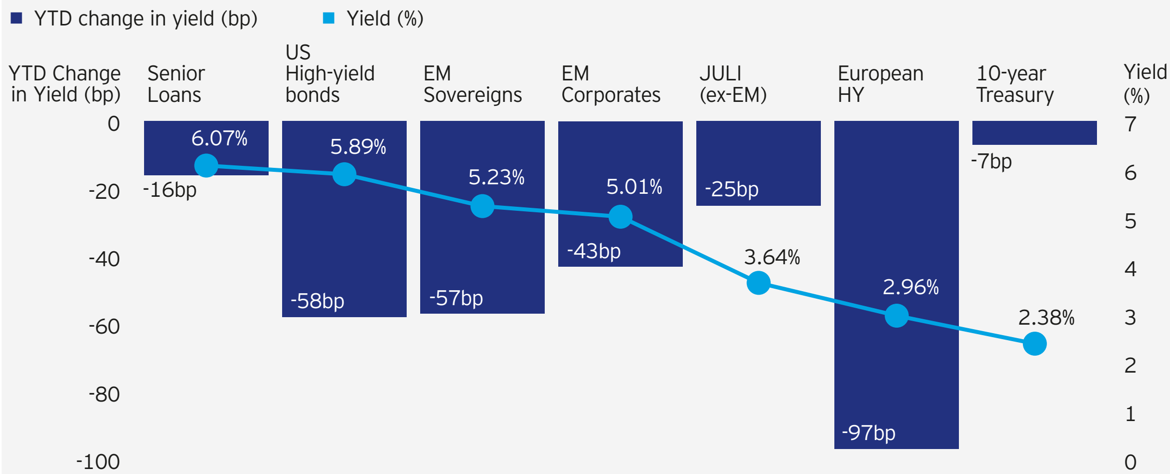
Technicals

- Technical conditions in October were tighter, favoring loan price appreciation. Net supply increased modestly while demand from CLO's increased sequentially and retail flows returned to positive territory.
- Gross CLO volume was $28.4 billion in October, with $12.1 billion of issuance net of resets and refinancings[7]. Year-to-date CLO issuance is $238.7 billion (gross) and $94.6 billion (net).
- Retail mutual funds and ETF's recorded a small inflow of $95 million for the month. Year-to-date inflows are $17.5 billion[8]. Meanwhile, demand from institutional investors has remained solid throughout the year.
- New issuance volume was $65.9 billion in October, and $23.9 billion excluding refinancing and repricing activity. Year-to-date, gross and net issuance have totaled $798 billion and $219.5 billion, respectively.

Relative value/market opportunity

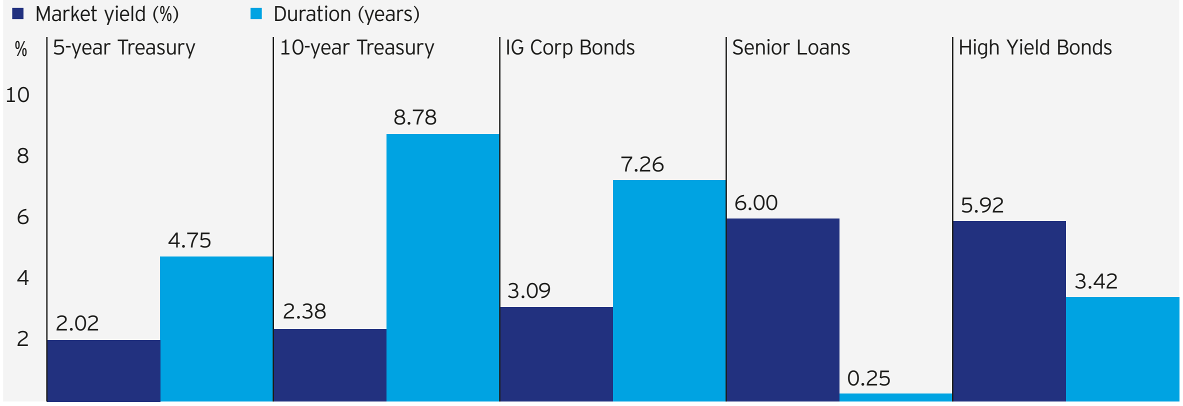
Year-to-date, loan returns (3.59%) have lagged the comparatively riskier high yield market (7.46%) as risk assets have consistently moved higher. Bond yields remain at 3-year lows as prices have been lifted by a bouyant stock market, healthy corporate and economic fundamentals, a stabilizing backdrop in energy, and relatively benign interest rate movements. As high yield has rallied, the yield differential between loans and unsecured bonds continues to hover near historical lows. As a result, investors may own less volatile, more defensively positioned loans at a similar yield to unsecured bonds, while avoiding interest rate risk. With 3-month LIBOR up to 1.39%, the rise in loans' base rate has partly offset the compression of spreads stemming from repricings. Moreover, the level of income received by loan investors is positioned to benefit from any further increase in interest rates, which the most recent commentary from the Fed indicates is very much under consideration as soon as December. As depicted in the below chart, loan yields exceed those of other fixed income alternatives despite the modest yield compression experienced throughout the year.

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



Source: J.P. Morgan, as of Oct. 31, 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 October 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 to worst (%)	Spread to worst	At forward Libor	Duration (years)
5-year Treasury	99-29	2.02			4.75
10-year Treasury	98-28	2.38			8.78
Bloomberg Barclays US Agg Index	103.28	2.60	T+0.51		5.96
Bloomberg Barclays IG Index	105.78	3.09	T+0.93		7.26
J.P. Morgan US HY Bond Index	102.87	5.92	T+4.08		3.42
S&P/LSTA Leveraged Loan Index	**97.98**	**L+4.07**	**T+4.27**	**6.00%**	**90 Days**

Source: Standard & Poor's LCD, Barclays, JPM and Bloomberg L.P. as of October 31, 2017. Loan "spread to worst" and "at forward Libor" incorporate LIBOR forward curve as of October 31, 2017. Past performance cannot guarantee comparable future results.

1 S&P/LSTA Leveraged Loan Index October 31, 2017
2 BAML High Grade Corporate Bond Index, BAML HY Master Index October 31, 2017
3 S&P/ LCD October 31, 2017
4 S&P LCD October 31, 2017
5 S&P LCD and Invesco as of October 31, 2017
6 S&P LCD October 31, 2017
7 JP Morgan October 31, 2017
8 JP Morgan October 31, 2017
9 JP Morgan October 31, 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 Oct 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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