Invesco Senior Secured Loans

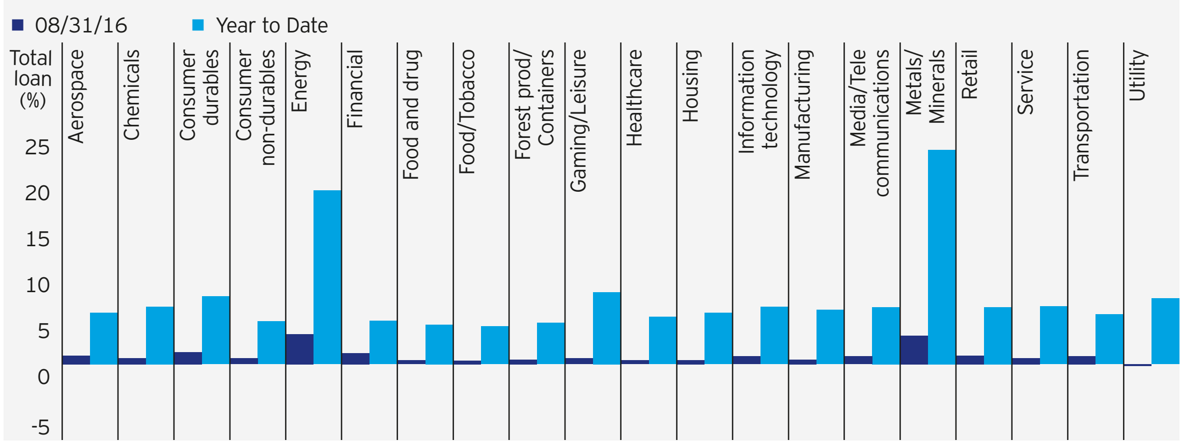
US Loan Market
Snapshot

Monthly US loan market update: September 2016

The loan market returned 0.75% in August bringing the year to date return to 6.80% – the highest return total through the first 8 months of the year since 2012.[1] Global markets were relatively tranquil during the month as macroeconomic concerns eased, commodity prices continued to recover, and central banks remained accommodating. The theme of low volatility permeated the broader capital markets as volatility in the S&P 500 was the lowest in more than two decades.[2]

Loan performance outpaced the S&P 500 (0.14%), the High Grade Bond Index (0.27%), and 10 year Treasuries (-0.97%) but trailed high yield bonds (2.23%).[3] The outperformance of high yield bonds is not surprising given the 7.5% improvement in oil prices (WTI) and the high yield index's outsized exposure to the energy sector. The commodity sectors' rally and risk-on tone led to outperformance by the lower rated "CCC" (2.66%) and "D" (1.60%) loans versus the higher quality "BB" (0.49%) and "B" (0.80%) ratings categories.[1]

Commodity related sectors outperformed in August and for the year-to-date period



Source: Credit Suisse Leveraged Loan Index as of Aug. 31, 2016. Past performance is not a guarantee of future results.

Technical factors continued to favor issuers as demand from retail mutual funds and senior secured loan ETF's have gained traction, inflows from institutional accounts remained strong, and CLO issuances continued. Supply remained constrained as the majority of new issue activity was related to refinancing and repricing transactions. Issuers have used the accommodating conditions to extend maturities; the amount of performing loans maturing in 2016-2018 has been reduced to $58 billion from $108 billion at the end of 2015.[1]

The average price in the loan market was $94.95 at the end of August – with 46.3% of the market trading at or above par and a small percentage of stressed and distressed outliers weighing on the broader average.[4] At the current average price, senior secured loans are providing a 6.26% yield.[1]

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

Fundamentals

- Year-over-year EBITDA growth of S&P/LSTA Leveraged Loan index issuers that file publicly slowed to +5.8% in the second quarter versus +7.1% for the same period last year and the first quarter of 2016. Commodity related issuers weighed on the broader average as EBITDA growth excluding oil & gas and metals & mining totaled +8.5%.
- There were no new defaults in August – lowering the trailing 12 month default rate to 1.98%. This trails the historical average default rate of 3.1%. [1]

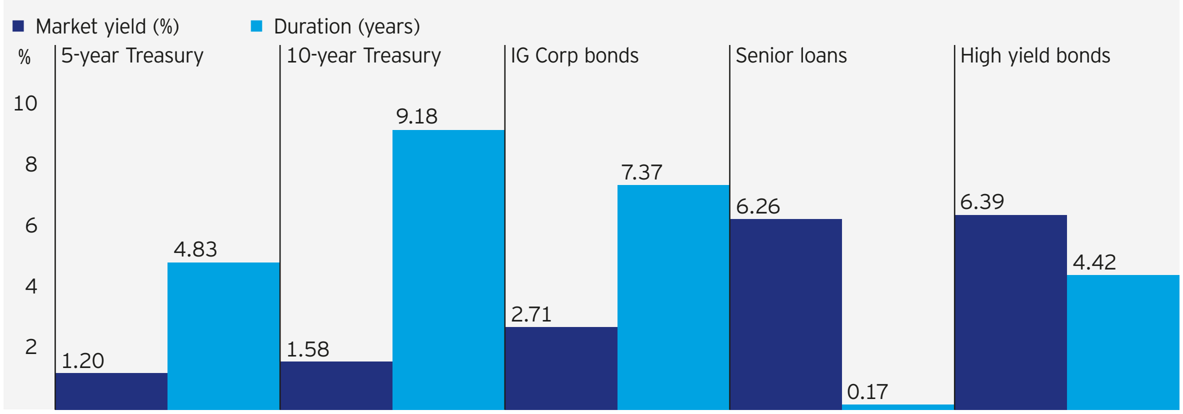
Technicals

- Technicals remained firm during the month as supply was more than offset by demand from institutional accounts, steady CLO issuances, retail mutual fund inflows, and pay downs of existing loans.
- New issuance volume of $53.1 billion in August was the second highest monthly total this year; however, 82% of new issue activity was dedicated to refinancing or repricing transactions yielding little net new supply. Total year to date volume (excluding repricings and refinancings) totals $97 billion versus $123.86 billion for the same period last year.[4]
- Notable deals included a $1.375 billion loan backing the acquisition of the Ultimate Fighting Championship. The deal priced at L+400 with a 1% floor at a 99.5 original offer price.[4]
- Retail mutual funds and ETF's had an inflow of $557 million in August. Year-to-date outflows total -$5.3 billion (ETF: +$975 million) versus -$9.9 billion (ETF: -$1.075 billion) for the same period last year.[4]
- CLO volume totaled to $7.4 billion in August, the highest total this year. Year-to-date CLO issuance has totaled $41.5 billion versus $83.8 billion during the first eight months of last year.[4]

Relative value/market opportunity

Fed Chair Janet Yellen's last speech during the month of August indicated that "the case for an increase in the federal funds rate has strengthened in recent months". While there is no certainty that policy will change in the short term, loans remain well positioned – providing a relatively high level of current income with a short duration profile. Additionally, short term LIBOR rate increased to 84 basis points, bringing it closer to the average floor in the market. As of the end of August, 7.85% of loans do not have a LIBOR floor, 24% have a LIBOR floor of 75 bps, and 63.28% have a floor set at 100 basis points.[1]

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 Aug. 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	99-20	1.20%			4.83
10-Year Treasury	99-08	1.58%			9.18
Barclays US Agg Index	107.06	1.95%	T + 0.70		5.51
Barclays IG Index	109.22	2.71%	T + 131		7.37
ML US HY Index	98.90	6.39%	T + 5.24		4.22
S&P/LSTA Leveraged Loan Index	**94.95**	**L + 5.33%**	**T + 5.34**	**6.26%**	**45-60 Days**

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

1 S&P LCD (Leveraged Commentary and Data) as of Aug. 31, 2016; Total returns and yields stated are for the S&P LSTA Leveraged Loan Index. Historical average default rate is for period January 1998 to August 2016.
2 Wall Street Journal August 23- Represents 30 days ending Aug. 23, 2016.
3 HY Bonds: BAML HY Master Index, High Grade Bonds: BAML High Grade Corp; data as of Aug. 31, 2016. Returns stated are total returns.
4 J.P. Morgan as of Aug. 31, 2016. The average price for the market is for S&P LSTA Leveraged Loan Index.

Important information

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