US Loan Market Snapshot

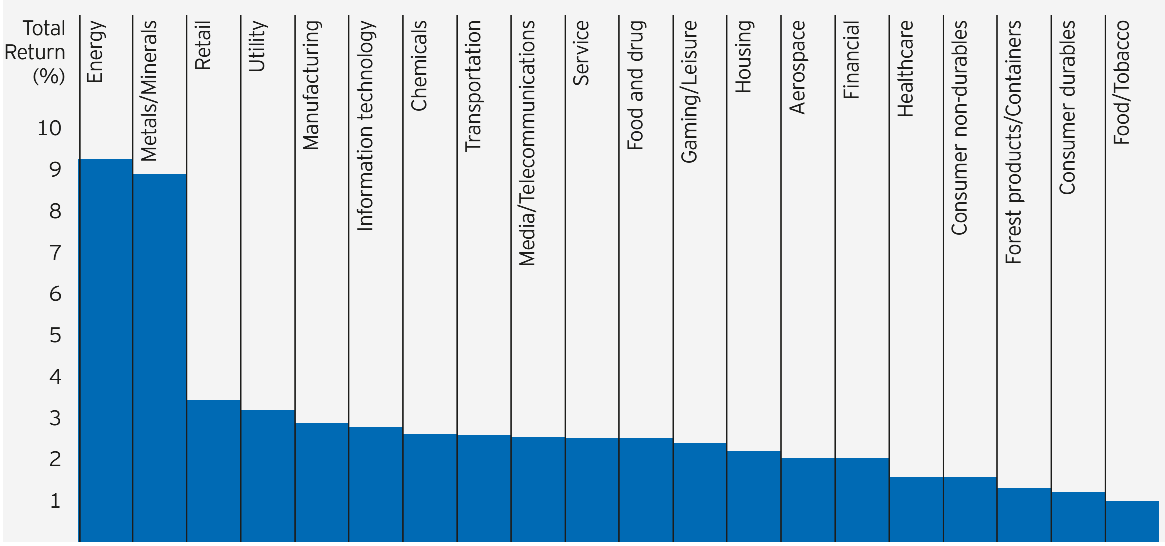
Monthly US Loan Market Update: April 2016

The positive momentum in the loan market carried from the back half of February into March as the asset class returned a positive 2.76%, marking the first month of positive performance for the asset class in 9 months. March's strong performance brought year-to-date returns back into positive territory at 1.55%.[1] The tone of the market has dramatically improved as many of the factors that were headwinds earlier this year reversed – namely recessionary fears subsided, oil prices recovered, technicals firmed and central bank policies remained accommodating. The positive tone has permeated the broader capital markets as well fueling outperformance in "risk" based asset classes.

Technical factors that have been pressuring the loan market reversed during March as demand resurfaced across the buyer spectrum. Retail mutual fund flows turned positive, reversing 8 consecutive months of outflows; demand from CLO issuances increased; and institutional investors capitalized on loans' high level of current income and discounted prices with very strong flows into the loan space. Demand was further buoyed by strength in high yield bonds which witnessed over $7 billion of retail inflows during the month.[2]

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 rebound in commodity prices and the "risk-on" tone of the market drove outperformance in sectors that have suffered the most in recent months. At the current average price of $92.01, up from $89.91 at the end of last month, senior secured loans are providing a 6.86% yield.[1]

The "risk-on" tone of the market and stabilization in commodity prices drove performance across sectors



Source: Credit Suisse Leveraged Loan Index as of March 31, 2016.

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

Fundamentals

- There were four new defaults in March – three energy related companies (Templar Energy, Foresight Energy, and Southcross Holdings) and one technology company (Aspect Software) lifting the trailing 12 month default rate to 1.75% from 1.41% at the end of February.[1]
- US GDP growth for the fourth quarter of 2015 was revised upward again to 1.4%, up from 1.0%. We reiterate that a slow but positive GDP growth environment is supportive of loan fundamentals. Positive GDP growth along with the Fed's continuation of accommodating policies has alleviated some recessionary concerns.
- Year over year EBITDA growth of S&P/LSTA Leveraged Loan index issuers that file publicly increased by 7% in the fourth quarter despite the drag from issuers in the energy sector. With EBITDA expanding and the market's lack of appetite for incremental debt, average leverage ratios declined in Q4.[3]

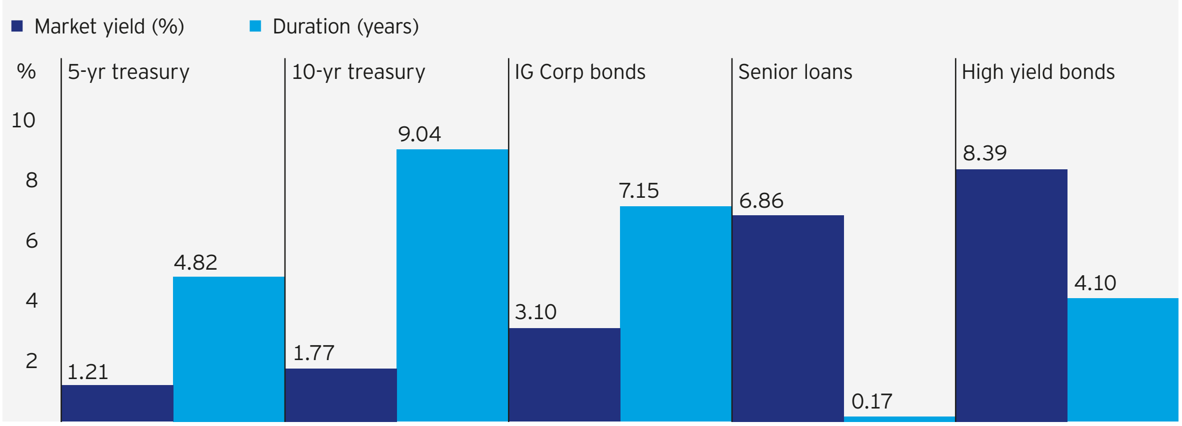
Technicals

- CLO volume increased in March to $5.4 billion, nearly doubling the combined total of January/February, but the pace remains slower than the last few years. CLO issuance in the first quarter totaled $8.8 billion versus $31.6 billion during the same period last year.[1]
- The uptick in CLO volume along with the modest reversal of retail mutual fund outflows was a positive technical indicator. Retail mutual funds experienced $169 million in inflows in March – the first positive monthly inflow since July of 2015 – but were small in comparison to the outflows experienced over the past 2 years.[1]
- New issue loan volume continued to be relatively light in March- totaling $13.4 billion for the month and $35.2 billion for the year. Total issuance for the same period last year was $48.3 billion.[2] New issue deals continued to price wide of historical averages. Notable deals this month included a $3.75 billion loan backing Western Digital's acquisition of Sandisk. The "BB+" rated deal priced at L+550 with a 0.75% floor and $97 issue price versus original price talk of L+450-475 with a 0.75% floor and 98.5 issue price.

Relative Value/Market Opportunity

Loans have remained relatively insulated from broader market volatility – providing a high level of income with relatively stable results when compared to high yield bonds and equities. Despite the 2 point increase in prices in the last month, in our opinion, at current discounted prices loans provide an attractive opportunity. The increase in CLO issuances, along with strong institutional demand, and the re-emergence of retail investor demand are positive technical indicators. We believe that defaults in the near term will modestly increase towards historical levels however the current price discount and elevated spreads continue to imply a default rate in excess of what we believe will be realized. The Fed recently revised its guidance for future rate increases lower – and closer to market expectations. Loans, with short duration and high coupons, can 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 March 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	100-06	1.21			4.82
10 Year Treasury	98-22	1.77			9.04
Barclays US Agg Index	105.55	2.16	T + 0.83		5.47
Barclays IG Index	106.06	3.10	T + 1.58		7.15
ML US HY Index	89.92	8.39	T + 7.12		4.10
S&P/LSTA Leveraged Loan Index	**92.01**	**L + 6.58**	**T + 6.01**	**6.86%**	**45-60 Days**

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

1 S&P LCD (Leveraged Commentary and Data) as of March 31, 2016; Total returns and yields stated are for the S&P LSTA Leveraged Loan Index
2 J.P. Morgan as of March 31, 2016
3 S&P LCD as of March 8, 2016

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of March 31, 2016, unless otherwise noted. Average loan price includes all loans January 1997 through March 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.

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