Invesco Senior Secured Loans

European Loan Market Snapshot

Monthly European loan market update: February 2020 (covering January 2020)

The Credit Suisse Western European Leveraged Loan Index ("CS WELLI" or "Index") returned 0.51% in January, comprised of principal return of 0.16% and interest return of 0.35%.[1]

Markets began the year with enthusiasm as a US and China Phase-one trade deal was signed and the UK/EU (Brexit) departure was a fait accompli. Sentiment was short-lived with the outbreak of the coronavirus in China. Commodities have been greatly affected; for instance, oil prices falling by almost 20% from its highs seen at the earlier in the month. The Euro Stoxx 50 fell by 2.8% during the month[2] and the Chinese CSI300 lost $720 billion in market-cap (7.9%) when the market reopened following the lunar new year holiday.[3] Global growth is now estimated to contract to below 1% in the first quarter of 2020, a significant pull-back the from previous consensus of at least 3%. A rebound in Q2 is expected reflecting delayed consumption effects in China.

Despite the coronavirus-induced volatility, the European leveraged loan market's 0.51% return during the month[1] was supported by benign macroeconomic fundamentals in Europe and a favorable supply/demand technical. Primary issuance conditions were exceptionally strong at €14.4 billion – more than in any month of 2019 – and in stark contrast to the €1.5 billion recorded in January 2019. Issuance was supported by a steady pipeline of M&A and LBO (€7.8 billion) transactions, including jumbo transaction Froneri (B+/B1) that allocated a €5.75 billion cross-border financing package backing the firm's takeover of Nestle's US ice cream business. Additional activity came from a flurry of repricing and refinancing transactions (€6.6 billion) as new issue yields continued to fall to 3.89%, down 21 basis-points over the past three months.[4]

Despite strong primary issuance, secondary prices rallied with the average price of the CS WELLI up by €0.23 to €98.54 at the end of the month.[1] In particular, 'CCC' assets returned a strong performance of 1.74% during the month.[1]

Demand from CLO investors remained strong with three CLOs pricing in the month. The S&P Leveraged Commentary & Data's (LCD) forward CLO volume stands at €6.7 billion across 19 deals, its highest in approximately 6 months. Therefore, we anticipate the new issue pipeline of currently €6.0 billion to be met by good demand in the near-term.

The CS WELLI's nominal value (size of the market) at the end of the month was €314 billion, a 1.2% increase year-to-date.[1]

Returns

- Within the CS WELLI, the Retail sector was the top outperformer during the month, with a total return of 2.00%, followed by the Consumer Durable sector which returned 1.96%, and the Aerospace sector which returned 1.13%.[1] The Media / Telecommunications sector's return was the weakest, at 0.19%.[1]
- Lower quality CCC rated loans performed best this month, with a 1.74% total return.[1] Returns for B and BB rated loans were 0.56% and 0.28%, respectively.[1]
- At month end, the average price of the CS WELLI was €98.54, up by €0.23 during the month.[1] The CS WELLI's three-year discount margin is 3.99% (a 7bps decrease across the month).[1] For comparison, the Credit Suisse Western European High Yield Index returned 0.12% for the month and had a spread-to-worst yield of 4.08%.[5]

Fundamentals

- The Eurozone economy grew by 0.1% over the last three months of 2019, easing from an upwardly revised 0.3% expansion in the previous period and missing market expectations of 0.2%, a flash estimate showed. This is the weakest growth rate since a contraction was recorded in 1Q13, as the economies of France and Italy shrank unexpectedly, offsetting Spain's GDP growth. The preliminary estimate of the Eurozone economy's growth expanded at 1% year-over-year in 4Q19, easing from a 1.2% growth in the previous three-month period and missing market expectations of 1.1%. For the full year 2019, the Euro Area's economy grew by 1.2%.
- The Eurozone's January Composite PMI was revised higher to a five-month high of 51.3 (versus 50.9 in December). Expansion of the private sector was again driven by the service sector (PMI at 52.5 versus 52.8 in December) while manufacturing continued to contract (PMI at 47.9 versus 46.3 in December). Ireland led the way, expanding at its fastest pace in just under a year, followed by Spain, Germany, France, and Italy.
- The Eurozone consumer confidence indicator was confirmed at -8.1 in January (unchanged from December), reflecting households' broadly stable assessments of both their past and future financial situation and a slight increase in their intentions to make major purchases, which was offset by a decrease in their expectations about the general economic outlook.
- The UK left the EU on the 31st of January and is starting a transition period until 2021.
- There are three defaults on a rolling twelve-month basis as of month-end. The last twelve-month default rate for the S&P European Leveraged Loan Index (based on principal amount) is 0.44%.[6] The historical average annual default rate is 3.45%.[6]

Index returns (%)	2013	2014	2015	2016	2017	2018	2019	Nov. 2019	Dec. 2019	Jan. 2020
Credit Suisse Western European Leveraged Loan Index (EUR-HDG)	8.73	1.96	3.14	6.52	3.30	0.55	5.03	0.41	0.75	0.51
Credit Suisse Western European HY Index (EUR-HDG)	9.10	4.31	1.36	9.63	6.28	-3.85	11.05	0.55	1.22	0.12

Source: Credit Suisse, as of Jan. 31, 2020. **Past performance is not a guide to future returns.** An investment cannot be made directly in an index.

1 Credit Suisse Western European Leveraged Loan Index (CS WELLI) in EUR as of Jan. 31, 2020.
2 STOXX Europe 600 Index in EUR as of Jan. 31, 2020. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.
3 CSI 300 Index as of Jan. 31, 2020. The CSI 300 is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges.
4 S&P Leveraged Commentary & Data (LCD) as of Jan. 31, 2020.
5 Credit Suisse Western European High Yield Index in EUR as of Jan. 31, 2020.
6 S&P European Leveraged Loan Index, average default rates covering June 1, 2007 through Jan. 31, 2020.

Investment risks

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. 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 low. 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 the investment grade bonds, junk bonds involve greater risk of default or price changes due to changes in the issuer's credit quality. Diversification does not guarantee profit or eliminate the risk of loss.

Important information

All data provided by Invesco, as at Jan. 31, 2020 in Euro unless otherwise noted. Please note index returns represent total returns in respective base currencies.

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 retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful.. 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 solictation 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.