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Invesco Senior Secured Loans

European Loan Market **Snapshot**

Monthly European loan market update: March 2020 (covering Feb)

The Credit Suisse Western European Leveraged Loan Index ("CS WELLI" or "Index") returned -1.03% in February, comprised of principal return of -1.35% and interest return of 0.31%.[1]

Coronavirus (COVID-19) fears dominated global markets, particularly towards the end the month (the Index fell by -46 basis points (bps) on the last trading day of the month) as concerns of a global pandemic increased. More than 60 countries are now directly affected. During most of February – prior to the outbreak in Italy – the impact on Europe was largely contained to China-related export and supply-chain exposure. During the last week of the month, as the spread of the virus became more evident, a 10%-12.5% correction in European, US, and Japanese equities occurred. The Airline and Travel sectors were particularly weak.

Chinese PMI data suggests a considerable economic impact, as the latest readings indicate a record quarterly decline in output in the first quarter. Positively, there are early signs that activity is starting to return towards more stable levels in places like Hong Kong, Singapore, and even parts of China where people are becoming more familiar with the virus. Given the containment measures initiated by the Chinese government, economists currently expect negative Chinese GDP growth in Q1 with a sharp rebound thereafter in Q2 or Q3.

There is a high degree of uncertainty and the situation is in high flux, nevertheless a global slowdown is to be expected in the months ahead. Assessing the effects for 2020 global GDP growth and company earnings are at the forefront. Expectations are for further US Federal Reserve cuts (a 50bps cut was announced on March 3) and monetary action by the ECB – who are ready to "take targeted actions" – including more asset purchases (QE) amongst other measures.

February loan issuance was strong at €9.7 billion (bn), primarily occurring in the first half of the month. Increasing concerns around the impact of the coronavirus caused a halt to refinancing and recap activity. During the last week of February, three repricing transactions were cancelled and expectations for new primary supply over the coming weeks are muted, despite a generally healthy pipeline of M&A and LBOs.

Demand from CLO investors remained strong during February. YTD CLO deal volume is €4.7bn from 11 deals (2019: €3.1bn from 7 deals). While pricing in the primary market for CLO liabilities edged tighter during the month – achieving a sub-90bps AAA print for the first time in 2020 – general market weakness spilled over to the CLO market during the last week of February. Going forward, primary CLO volume is expected to subside until markets stabilize from the coronavirus-induced volatility.

The CS WELLI's nominal value (size of the market) at the end of the month was €316 billion, a 1.5% increase YTD.[1]

Returns

- Within the CS WELLI, no major industry delivered positive total returns during the month. The weakest sectors in the Index were the Media/Telecommunications (-1.72%), Energy (-1.54%), and Retail (-1.47%) sectors, while the Housing sector performed the strongest, with a total return of -0.09%.[1]
- Lower quality (higher yield) CCC rated loans performed the best this month, with a total return of -0.69%, as compared to -0.79% and -1.17% for BB and B rated loans, respectively.
- At month end, the average price of the CS WELLI was €97.29, down by €1.25 during the month.[1] The CS WELLI's three-year discount margin is 4.47% (a 48bps decrease across the month).[1] For comparison, the Credit Suisse Western European High Yield Index returned -1.78% for the month and had a spread-to-worst yield of 5.16%.[2]

Fundamentals

- Eurozone manufacturing PMIs (surveys closed at February 21) were revised up to 49.2 (versus flash 49.1) and above January's level of 47.9. The latest reading pointed to the 13th straight month of contraction in factory activity, as output and new orders shrank at the weakest pace in nine and fifteen months, respectively. Export orders continued to decline and average lead times for the delivery of inputs lengthened for the first time in a year, mainly linked to the coronavirus-related factory shutdowns in China.
- Germany manufacturing PMIs were revised up to 48.0 (versus flash 47.8), which is a 13-month high, but remain in contractionary territory. While all components that make up the headline readings, including output and new orders, were positive, an increase in suppliers' delivery times accounted for almost half the increase. Usually seen as a sign of increased demand, this time it signaled disruption in Asian supply chains. Amid uncertainties about the impact of the coronavirus outbreak on supply chains and the global economy, confidence eased from January's 17-month high.
- 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%.[3] The historical average annual default rate is 3.43%.[3]

Index returns (%)	2013	2014	2015	2016	2017	2018	2019	Jan. 2020	Feb. 2020
Credit Suisse Western European Leveraged Loan Index (EUR-HDG)	8.73	1.96	3.14	6.52	3.30	0.55	5.03	0.51	-1.03
Credit Suisse Western European HY Index (EUR-HDG)	9.10	4.31	1.36	9.63	6.28	-3.85	11.05	0.12	-1.78

Source: Credit Suisse, as of Feb. 29, 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 Feb. 29, 2020.
2 Credit Suisse Western European High Yield Index in EUR as of Feb. 29, 2020.
3 S&P European Leveraged Loan Index, average default rates covering June 1, 2007 through Feb. 29, 2020.

Investment risks

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Important information

All data provided by Invesco, as at Feb. 29, 2020 in Euro unless otherwise noted. Please note index returns represent total returns in respective base currencies.

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