Invesco

Invesco Senior Secured Loans

US Loan Market Snapshot

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

The senior secured loan market began 2020 with a 0.56% monthly gain[1] as the supportive price environment of December extended into the new year. Loan prices vaulted higher in the first weeks of January on optimism over the 'phase-one' US-China trade agreement and receding recession fears; however, the coronavirus outbreak late in the month dampened investor enthusiasm and caused prices to retrace much of their early gains. With markedly improved demand in loans beginning in December and inadequate new issue supply, a wave of repricing activity swept through the market in the first weeks of January as many issuers sought to capitalize on their loan prices topping par. Issuers encountered little, if any, resistance to these efforts early in the month, but investor pushback became more pronounced as the market softened and, ultimately, several repricing attempts were abandoned towards month-end.

Loans outperformed high yield bonds (0.00%) in January, but underperformed investment grade (2.38%)[2] and the 10-year Treasury (3.71%). As repricings dominated the market during the month, the percentage of loans trading above par fell slightly from 53% to 48%.[3] "BBs" (0.30%) lagged "Bs" (0.66%) and "CCCs" (1.29%) in light of the buoyant price environment early in the month.[4] The average price in the loan market was $97.36 at the end of January.[5] At the current average price, senior secured loans are providing a 5.77% yield inclusive of the forward LIBOR curve.[5]

Fundamentals

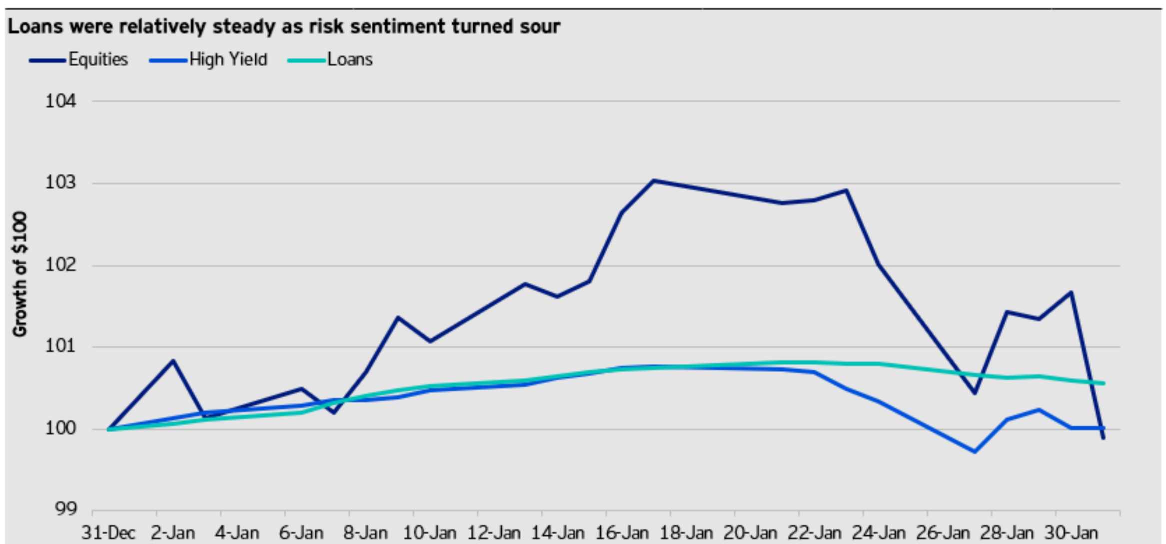
- Economic data remained broadly constructive in January, including healthy job creation, low borrowing costs, and signs of stabilization in global manufacturing. The first reading on Q4 GDP slightly bested expectations although the contribution from consumption was sequentially weaker.
- The trailing 12-month default rate rose to 1.83% during the month as McDermott, Constellis, Moran Foods, and Doncasters Group joined the list of recently defaulting issuers.[4]

Technicals

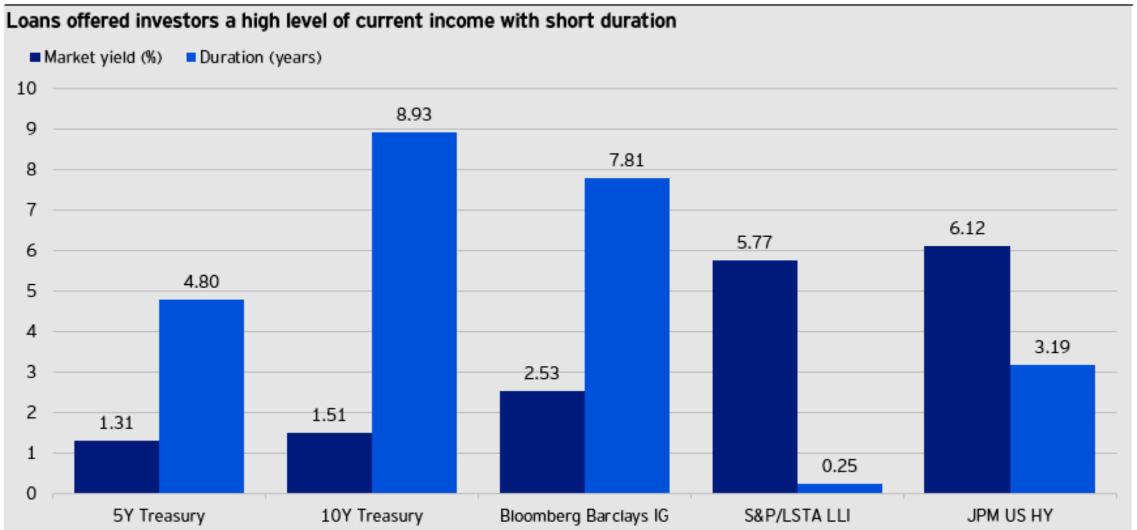
- A tight technical balance supported rising loan prices for most of January, laying the groundwork for a record-high $79 billion of repricings. As risk sentiment downshifted later in the month, prices eased lower and the pace of repricings slowed.[4]
- Gross CLO volume was $8.0 billion in January, with $4.1 billion of issuance net of resets and refinancings. Challenged equity arbitrage for new structures contributed to a slow start to the year as loan assets spreads have tightened faster than CLO liability spreads.[4]
- Retail mutual funds and ETFs reported their first monthly inflow since September 2018 of $106 million.[4]
- New issuance activity rose to a record high of $122.9 billion driven by repricings. Excluding the $79 billion of repricings and $27.3 billion of refinancings, new issuance was $16.7 billion (slightly in excess of the $15.2 billion of loan paydowns).[4]

Relative value/market opportunity

A topsy-turvy month in which bullish sentiment abruptly swung to haven demand reminded loan investors of a key attribute of the asset class: low volatility. The coronavirus outbreak and its accompanying uncertainties flipped the prevailing market narrative on its head without any warning, and yet loans were comparatively steady in the aftermath versus other risk assets. Despite the compression in nominal spreads from repricings in January, the average loan spread remained at L+350 in January – the highest level since August 2017 – meaning loans continue to offer both high carry and low volatility.[5] Market fundamentals are supportive, including low defaults and stable earnings; however, this combination of high carry/low volatility is appealing given that late cycle concerns, unresolved trade tensions, virus anxiety, and election uncertainty all serve as potential volatility drivers for risk assets in the year ahead.



Sources: LCD, an offering of S&P Global Market Intelligence; Bank of America Merrill Lynch as of Jan. 31, 2020. Equities represented by the S&P 500 Index; high yield represented by the Merrill Lynch US High Yield Master II Index; loans represented by the S&P/LSTA Leveraged Loan 100 Index. **Past performance is not a guarantee of future results.** An investment cannot be made directly in an index.



Source: Bloomberg L.P., Barclays, JP Morgan, and S&P LCD as of Jan. 31, 2020. **Past performance is not a guarantee of future results.** An investment cannot be made directly in an index.

Relative yield

	$ Price	Yield to worst (%)	Spread to worst	At forward Libor	Duration (years)
5 Year Treasuries	100-09	1.31	–	–	4.80
10 Year Treasuries	102-06	1.51	–	–	8.93
Bloomberg Barclays US Agg. Index	107.36	2.02	T + 0.57	–	5.85
Bloomberg Barclays IG Index	111.28	2.53	T + 0.99	–	7.81
JPM US HY Bond Index	101.07	6.12	T + 4.74	–	3.19
S&P/LSTA Leveraged Loan Index	**97.36**	**L + 4.51**	**T + 4.47**	**5.77%**	**0.25**

Source: S&P LCD, Barclays, JP Morgan and Bloomberg L.P. as of Jan. 31, 2020. Loan "spread to worst" and "at forward Libor" incorporate LIBOR forward curve.

1 S&P/LSTA Leveraged Loan Index as of Jan. 31, 2020.
2 S&P/LSTA Leveraged Loan Index and Bloomberg as of Jan. 31, 2020. High yield represented by BAML US High Yield Index; investment grade represented by the BAML Investment Grade Index.
3 JP Morgan as of Jan. 31, 2020.
4 S&P LCD as of Jan. 31, 2020.
5 S&P LCD and Invesco as of Jan. 31, 2020.

About risk

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.
Many senior loans are illiquid, meaning that the investors may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the senior loans. The market for illiquid securities is more volatile than the market for liquid securities. The market for senior loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates. Senior loans, like most other debt obligations, are subject to the risk of default.

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of Jan. 31, 2020, unless otherwise noted. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

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