Invesco

US Loan Market Snapshot

Invesco Senior Secured Loans

Monthly US loan market update: August 2024

Loans gained 0.60% in August, raising year-to-date returns to 5.84%.[1] Returns were comprised of 0.76% in coupon income, offset by a 0.16% decline in principal return.[1] Following a weak start to the month on the back of a lower than expected jobs report data that triggered economic concerns, loan prices recovered strongly. The percentage of loans trading above par declined from 52% to 47%, but this was a notably above the intra-month low watermark of 10%. [4] Year-to-date repricing activity continued, but has only lowered the average spread in the loan market by 23 basis points (bps) to 374bps.[1] Together with 3-month SOFR above 5.3%, the average loan market coupon remains near historic highs at 8.99%.[1]

With the near certainty of a September rate cut following Fed Chairman Powel's remarks at Jackson Hole, fixed rate portions of US credit outperformed loans for the month, with high yield returning 1.61% and investment grade returning 1.57% in August.[3] Within loans, "Bs" (0.67%) led the way in total return during the month, followed by "BBs" (0.56%) and "CCCs" (-0.08%).[1] Single Bs outperformed in the month as 8 of the top 10 advancers in the month were single-B rated. The average price in the loan market ended the month at 95.69, nearly flat to July.[1] At their current average price, senior secured loans provide an 8.42% yield inclusive of the forward curve.[1]

Fundamentals

- A higher than forecasted US unemployment rate as well as the Bank of Japan raising its benchmark rate prompted an unwind of positioning in risk assets to begin the month. However, sentiment improved as investors gained comfort that the sell-off early in the month was mostly technical in nature and 3Q GDP growth is tracking stronger on the back of solid consumer spending. The only debate around the September rate cut is whether the Fed will start with a 50bps cut or a more modest 25bps cut.
- The trailing 12-month par-weighted default rate declined to 0.78% from 0.92% in July. While there were no new defaults in the month, two issuers rolled out of the trailing twelve-month calculation.[4] The pocket of distress in the market (i.e., the percentage of loans trading below $80) declined over the month, down from 4.41% in July to 3.82%, the first time this was below 4% since April.[4]

Technicals

- Technicals remained supportive of loan prices in August amid robust CLO origination and persistently low net new supply.
- CLO volume strengthened in August, with gross issuance of $47.2bn across 99 deals (including $31.5bn of refinancings and resets) up from $41.3bn across 92 deals in June.[2] August supplanted July as the second highest refinancing and reset volume on record.
- Retail mutual funds and ETFs reported $4.1bn of outflows in the month, with ETFs recording outflows of $2.7bn and active manager experiencing outflows of $1.4bn. Despite the outflows in the month, total year-to-date inflows total $10.7bn.[2]
- While primary activity decreased significantly vs July (-69%), gross issuance of $25.9bn was not far off the August historical average of $31.3bn since 2010. Gross issuance was comprised of $9.2bn of repricings, $7.6bn of refinancings, leaving $9.0bn of net new supply, a decrease from July's $13.0bn. [2]

Past performance is not a guarantee of future results.
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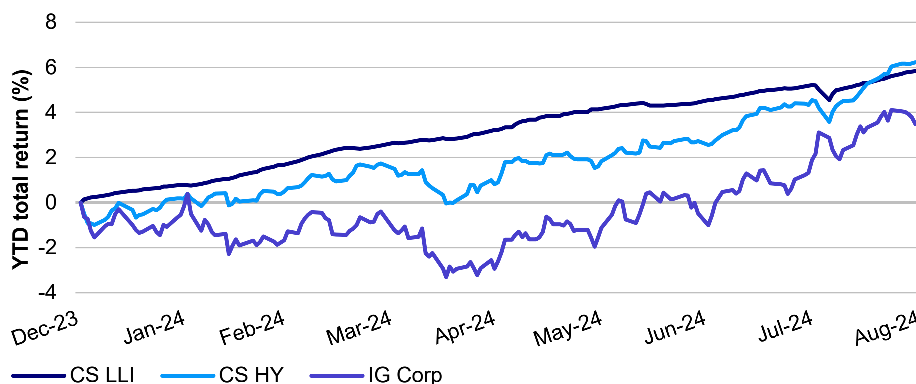
Market opportunity

The risk-off sentiment to begin August and retail fund withdrawals in the face of expected Fed easing impacted the loan asset class early in the month, only for it to rapidly recover. The asset class is performing nearly on top of high yield on a year-to-date basis as shown in Figure 1 below but loans have outperformed high yield over the 1 year, 3 year, and 5 year time horizons, including within the BB, B, and CCC ratings cohorts.[3] Given the elevated base rate, shortage of net new issue supply, and stable credit fundamentals, loans remained on track to potentially deliver another year of strong returns, even with the evolving outlook for policy rate reductions.

Figure 1: Year-to-date stable asset class performance



Source: Credit Suisse, Barclays, Bloomberg as of July 31, 2024. **Past performance is not a guarantee of future results**. CS LLI represents the Credit Suisse Leveraged Loan Index, CS HY represents the Credit Suisse High Yield Index, and IG Corp represents the Bloomberg US Corporate Bond Index.

Relative yield

	$ Price	Yield to worst	Spread*	Duration (years)
5 Year Treasuries	99.20	3.70	—	4.52
10 Year Treasuries	99.24	3.90	—	8.18
Bloomberg US Aggregate Bond Index	93.00	4.42	48	6.16
Bloomberg US Corporate Bond Index	94.46	4.94	94	7.08
Credit Suisse High Yield Index	95.73	7.21	342	3.28
Credit Suisse Leveraged Loan Index	95.69	8.42	495	0.25

Source: Barclays, Credit Suisse and Bloomberg L.P. as of August 31, 2024. Loan “yield to worst” and “spread to worst” incorporates the SOFR forward curve. Average Spread utilized for the Bloomberg US Agg and Corporate Indices and spread to worst for the CS LLI and CS HY.

1 Credit Suisse Leveraged Loan Index as of August 31, 2024.
2 JP Morgan as of August 31, 2024.
3 Credit Suisse Leveraged Loan Index and Bloomberg as of August 31, 2024. High yield represented by Credit Suisse High Yield Index; investment grade represented by the Bloomberg US Corporate Bond Index.
4 PitchBook Data, Inc. as of August 31, 2024.

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.

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