US Loan Market Snapshot

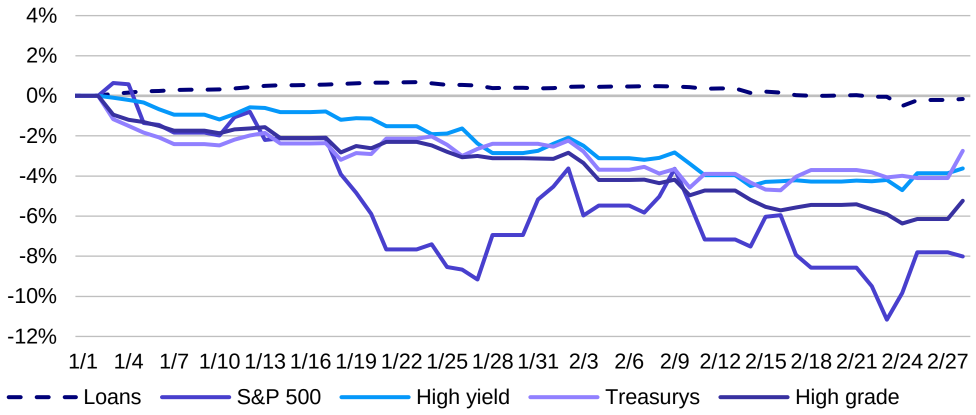
Invesco Senior Secured Loans

Monthly US loan market update: February 2022

Loans sustained modest price declines in February amid an extremely challenging backdrop for risk assets. Already digesting the prospect of tightening monetary policy in 2022, investors were suddenly faced with rapidly escalating geopolitical risks in Eastern Europe which culminated in Russia's shocking invasion of Ukraine on February 24th. This tragic, and still fluid, exogenous event roiled investor sentiment and cast a shadow of uncertainty over markets from which loans did not entirely escape. However, with monthly returns of -0.51%,[1] loans decisively outperformed other risk assets in February, and for the year-to-date period as shown in Figure 1. Loans' comparatively limited volatility during such a pronounced risk-off episode is the latest validation of their appeal as a core portfolio holding.[1]

Loans outperformed high yield bonds (-0.90%) and investment grade (-2.18%) in February.[2] "BBs" (-0.59%) slightly underperformed "Bs" (-0.49%), and both slightly outperformed "CCCs" (-0.63%) in total return.[1] The average price in the loan market fell 75 basis points (bps) to $97.80.[3] At the current average price, senior secured loans are providing a 6.07% yield inclusive of the forward LIBOR curve.[3]

Figure 1: Steady loan returns stood in stark contrast to other risk assets year-to-date



Sources: Leveraged Commentary & Data (LCD); Bank of America Merrill Lynch as of February 28, 2022. The S&P/LSTA Leveraged Loan Index represents Loans, the S&P 500 Index represents Equities, the ICE BofA US High Yield Index represents High Yield, and the ICE BofA US Corporate Index represents Investment Grade. **Past performance is not a guarantee of future results**. An investment cannot be made directly in an index.

Fundamentals

- Economic data remained healthy in February as demonstrated by the upwardly revised 7.0% annualized GDP growth during Q4, strong payrolls, PMIs, retail sales, and durable goods orders. Omicron is widely expected to result in a temporary slowing of growth during Q1 from Q4's 7.0% pace.
- No new loan defaults occurred in February, pushing the trailing 12-month par-weighted default rate lower to 0.19%, slightly above the all-time low default rate of 0.15%.[4] The percentage of loans trading below $80 hardly changed at 1.49%.[4]

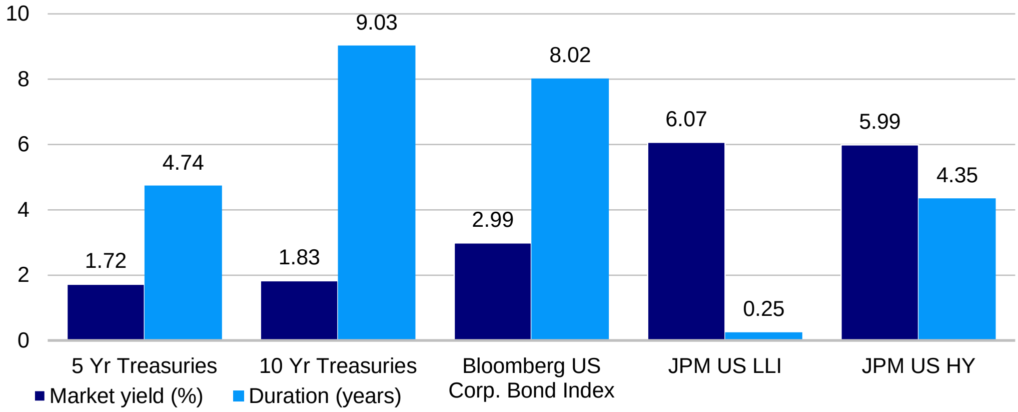
Technicals

- Demand for loans remained strong while supply was consistent until slowing in the final week of the month as geopolitical uncertainty grew.
- CLO origination accelerated in February after a very slow start to the year. $28.2bn of gross issuance priced across 56 deals, including $14.6bn net of refinancings/resets.[3]
- Retail mutual funds and ETFs continued to attract inflows for a fifteenth consecutive month, recording $5.5bn of inflows in February and bringing inflows to $62.0bn during that period.[3]
- Gross issuance totaled $48.0bn in February, including $33.6bn of net new supply after excluding refinancings ($12.1bn) and repricings ($2.3bn).[3] 94% of the total volume priced off SOFR (Secured Overnight Financing Rate) during the month.[3]

Relative value/market opportunity

The Russia-Ukraine conflicts creates stagflationary risks to the global economy as soaring energy and commodity costs put upward pressure on inflation and downward pressure on growth. Despite this dynamic, the Federal Reserve's latest communication continued to indicate it will move forward with expected rate hikes in March and thereafter, necessitated by strong labor markets and domestic pricing pressures. Thus, despite the uptick in general risk aversion during February that engulfed most risk assets, loans continued to see strong demand and limited price volatility as investors stayed focused on managing exposure to rising short term interest rates.

Figure 2: Loans offered investors a high level of current income with short duration



Source: JP Morgan and Bloomberg L.P. as of February 28, 2022. **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	Duration
5 Year Treasuries	100.24	1.72	—	4.74
10 Year Treasuries	100.14	1.83	—	9.03
Bloomberg US Aggregate Bond Index	100.85	2.33	T + 0.60	6.59
Bloomberg US Corporate Bond Index	103.19	2.99	T + 1.20	8.02
JPM US High Yield Bond Index	98.25	5.99	T + 4.39	4.35
JPM US Leveraged Loan Index	97.80	6.07	T + 4.39	0.25

Source: Barclays, JP Morgan and Bloomberg L.P. as of February 28, 2022. Loan "yield to worst" and "spread to worst" incorporate the LIBOR forward curve.

1 S&P/LSTA Leveraged Loan Index as of February 28, 2022.

2 S&P/LSTA Leveraged Loan Index and Bloomberg as of February 28, 2022. High yield represented by BAML US High Yield Index; investment grade represented by the BAML Investment Grade Index.

3 JP Morgan as of February 28, 2022.

4 S&P LCD as of February 28, 2022.

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.