US Loan Market Snapshot

Invesco Senior Secured Loans

Monthly US loan market update: August 2021

Loans gained 0.47% in August, raising year-to-date returns to 3.76%.[1] Prices found support from record CLO issuance and steady retail flows while new issuance dwindled in the back half of the month. Risk sentiment also improved in August as concerns about potential market impact from the Delta variant and upcoming Federal Reserve asset purchase tapering eased.

Loans slightly underperformed high yield bonds (0.55%), but outpaced investment grade (-0.20%) in August.[2] Lower credit quality resumed its outperformance as “BBs” (0.41%) lagged “Bs” (0.45%) which lagged “CCCs” (0.95%) in total return.[1] The average price in the loan market increased by 18 basis points to $98.46.[3] At the current average price, senior secured loans are providing a 4.78% yield inclusive of the forward LIBOR curve.[3]

Fundamentals

- PMIs and labor market indices continued to indicate a stable and improving economic environment. Against this macro backdrop, loan issuers collectively reported 21% EBITDA growth in Q2 versus the prior year.[2]
- The trailing 12-month par-weighted default rate dropped further to 0.47% in August despite Glass Mountain Pipeline generating the first loan default since February. Robust market liquidity, an improving earnings backdrop, and vanishing traces of issuer distress have suppressed balance sheet restructurings throughout the year.[4]

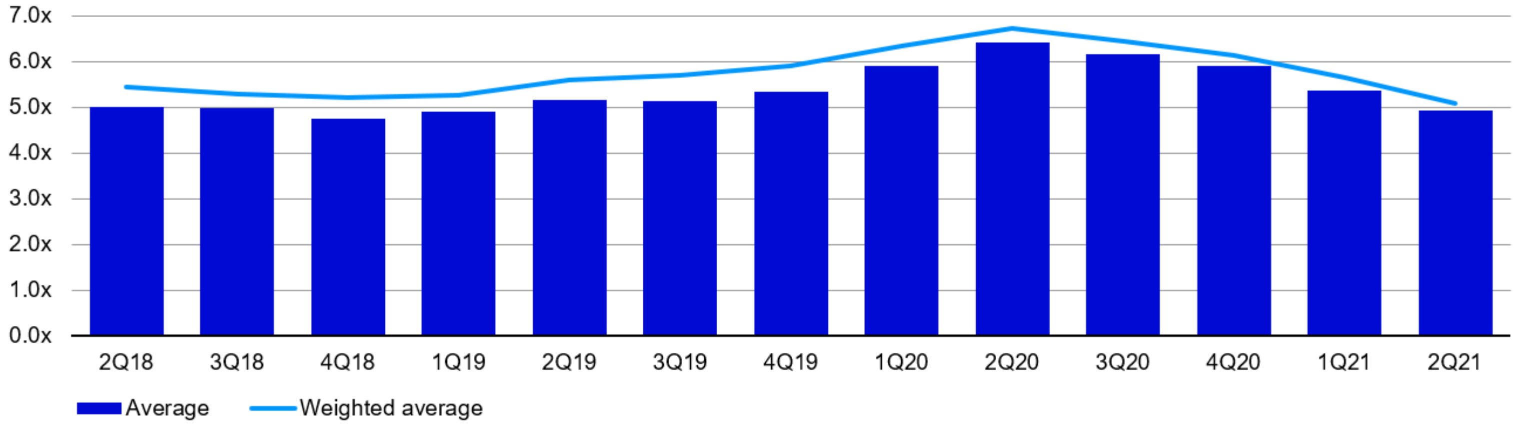
Technicals

- Strong CLO issuance and seasonally slowing new primary issuance defined the August technical environment for loans.
- Usually a seasonally slow month, August brought record CLO issuance as 68 deals priced $34.2 billion (bn) of gross issuance, including $18.5bn net of refinancings/resets.[3] This increased year-to-date gross issuance to $270.7bn across 596 deals, including $108.8bn net of refinancings.[3]
- Retail mutual funds and ETFs continued to attract new capital for a ninth consecutive month recording $1.5bn of inflows in August and bringing the year-to-date total to $31.4bn.[3]
- August saw the lightest primary market activity of the year with just $41.5bn of gross new issuance including $24.6bn of net new supply after excluding refinancings ($16.1bn) and repricings ($0.8bn). This brought year-to-date gross and net supply to $601.1bn and $246.3bn, up 115% and 153%, respectively, when compared to the same period last year.[3]

Relative value/market opportunity

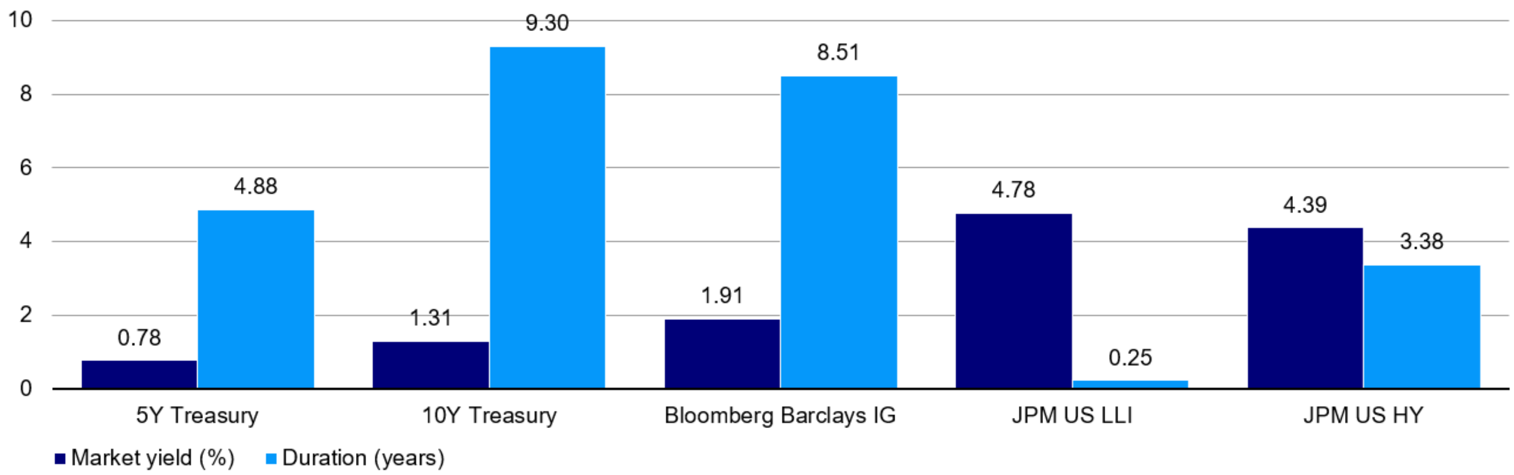
All signs point to an active primary market following Labor Day; however, loan market technicals are poised to remain well balanced due to robust demand for the asset class. Year-to-date CLO creation has already outpaced 2020's total and is on track to exceed 2018's annual issuance record. With the total number of outstanding warehouses still hovering near an all-time high at over 210, the pipeline of CLO formation is well stocked for the rest of 2021.[5] In addition to robust demand, loan fundamentals are also supportive of price stability. As shown in Figure 1 below, issuer leverage has declined precipitously since the depths of the pandemic as earnings have recovered. This indicates healthy issuer balance sheets and supports the minimal levels of distress in the market.

Figure 1: Leverage levels in the loan market have normalized



Source: LCD, an offering of S&P Global Market Intelligence. Data through June 30, 2021.

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



Source: Barclays, JP Morgan and Bloomberg L.P. as of August 31, 2021. **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 (years)
5 Year Treasuries	99-28	0.78	—	4.88
10 Year Treasuries	99-14	1.31	—	9.30
Bloomberg Barclays US Agg. Index	106.72	1.42	T + 0.54	6.65
Bloomberg Barclays IG Index	111.87	1.91	T + 0.84	8.51
JPM US HY Bond Index	104.27	4.39	T + 3.86	3.38
JPM US Leveraged Loan Index	98.46	4.78	T + 4.28	0.25

Source: Barclays, JP Morgan and Bloomberg L.P. as of August 31, 2021. Loan "yield to worst" and "spread to worst" incorporate the LIBOR forward curve.

1. S&P/LSTA Leveraged Loan Index as of August 31, 2021.
2. S&P/LSTA Leveraged Loan Index and Bloomberg as of August 31, 2021. High yield represented by BAML US High Yield Index; investment grade represented by the BAML Investment Grade Index.
3. JP Morgan as of August 31, 2021.
4. S&P LCD as of August 31, 2021.
5. Morgan Stanley Research as of August 27, 2021.

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 is US dollar and as of August 31, 2021, unless otherwise noted. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

This document is written, unless otherwise stated, by Invesco professionals. The opinions expressed herein are based upon current market conditions and are subject to change without notice. This document does not form part of any prospectus. This document contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns. This document is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments.

As with all investments, there are associated inherent risks. This document is by way of information only. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell financial instruments.

This document is intended only for investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for certain specific institutional investors in Malaysia upon request, for certain specific institutional investors in Indonesia and for qualified buyers in Philippines for informational purposes only. This document is not an offering of a financial product 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 unauthorized person 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.

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 solicitation 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.

This document is issued in the following countries:

- in Hong Kong by Invesco Hong Kong Limited景順投資管理有限公司, 41/F, Champion Tower, Three Garden Road, Central, Hong Kong. This document has not been reviewed by the Securities and Futures Commission.

- in Singapore by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.

- in Taiwan by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**

202108(AP1266)