European Loan Market Snapshot

Invesco Senior Secured Loans

Monthly European loan market update: November 2021

The Credit Suisse Western European Leveraged Loan Index ("CS WELLI" or "Index") returned 0.15% this month, generated by a principal return of -0.18% and interest return of 0.33%.[1]

Year-to-date ("YTD") total returns are 4.20%.[1]

During the month, market focus moved back to the increase in Covid-19 cases across Europe. Several Governments re-introduced 'soft' restrictions and the need for vaccination passports for many activities. Austria introduced a twenty-day lockdown that closed restaurants and non-essential shops and allowed social mobility for a limited number of reasons. Covid-19 vaccines have been made mandatory – drawing interest of several other European leaders.

In the last week of the month headlines were dominated by news of a new Covid variant named 'Omicron'. Initial data suggests that it may spread faster although causing less severe illness. Data is thin and uncertain, including the potential of 'Omicron' evading current vaccines. This led to a risk-off tone across markets. Furthermore, Euro Area ("EA") inflation was recorded at 4.9% - the highest since the Euro was introduced – and putting some pressure on the ECB to review its policy of ultra-low interest rates. The Europe Stoxx 600 was down 2.6%, during the month. [2]

The European leveraged loan market showed resilience given the broad macro developments.

New issue volumes remained strong at €7.9 billion more than double the amount the same period last year. This brings year-to-date volumes to €111 billion – an all-time high.

Average new issue spreads are Euribor (plus a 0% floor) + 407bps, down c. 0.1% since October but around 0.35% higher versus intra-year lows reached in the first quarter. At the end of the month new issue spreads widened due to the Omicron-induced volatility.

While the pipeline (forward calendar of expected deals) remains strong we believe there will be limited scope for new deal launches in December as arrangers wait for more favorable market conditions in the new year.

CLO markets painted a similar picture: new issue activity came in at €4.3 billion – more than double the same amount during November 2020 – and bringing year-to-date issuance to €35.4bn, 10% ahead of the all-time high set in 2007.

AAA liabilities widened slightly this month, however pricing remains below the 100bps mark. Omicron related volatility is likely to slow-down new issue activity heading into the new year.

The CS WELLI's nominal value was €371bn at month end, up by 16% YTD.[1]

Returns

- The Housing sector performed best during the month, returning 0.32%, followed by the Forest Products / Containers (0.30%) and Service (0.29%) sectors.[1] The worst performing sector was Gaming/Leisure returning negative 0.43%.[1] lead by the Omicron uncertainty in the travel (included in Leisure) sector.
- 'B' rated loans performed best this month, with a total return of 0.21%, as compared to 0.06% for 'BB' rated loans and -0.56% for 'CCC' rated loans.[1]
- At month end, the average price of the CS WELLI was €98.61 down by €0.15 during the month.[1] The CS WELLI's three-year discount margin was 4.13% (a 6bps increase during the month).[1] For comparison, the Credit Suisse Western European High Yield Index returned negative 0.43% for the month and had a spread-to-worst yield of 4.03%.[3]

Fundamentals

- November's EA core HICP (flash) inflation rose 58 basis-points to 2.6% year-over-year. Headline HICP inflation rose 83 bps to 4.9% year-over-year. Both metrics were above expectations. Details showed that services inflation rose to 2.7%, and non-energy industrial goods inflation rose to 2.4%. Of the non-core components, energy inflation rose almost 4 percent-points to over 27%.
- Covid cases have accelerated in some European countries, and hospitalizations have risen quickly, most notably in Germany, Austria, and the Netherlands. The new Omicron variant could increase these pressures. Additional targeted and regional restrictions, rather than full lockdowns, are at this stage (given the uncertainty about Omicron traits) most probable.
- The EA composite PMI was 55.4 in November, revised down 0.5 points ("pt") from flash estimations. The final release shows a relatively large downward revision in EA services (-0.6pt), partially reflecting continued deterioration due to Covid concerns. Despite the negative revisions, both EA services (+1.4pt vs. Oct.) and composite (+1.1pt vs. Oct.) levels show gains from October, and thus indicating that the recovery momentum remains in place. Importantly, supplier delivery times improved. These results do not factor in the new variant, the data collection ended on 25 November. The December release will provide insight into the fall-out from the new variant as well as the new restrictions, in particular the German lockdown of the unvaccinated but also rules elsewhere.
- The ECB have reiterated that it views current inflationary pressures as transitory, and it seems likely there will be only limited appetite for further large-scale quantitative easing at the December meeting.
- The last twelve-month default rate for the S&P European Leveraged Loan Index (based on principal amount) is 0.75%.[4] The historical average annual default rate is 3.21%.[4]

Index returns (%)

Name	2017	2018	2019	2020	Sep 2021	Oct 2021	Nov 2021
Credit Suisse Western European Leveraged Loan Index (EUR-HDG)	3.30	0.55	5.03	2.38	0.44	0.14	0.15
Credit Suisse Western European HY Index (EUR-HDG)	6.28	-3.85	11.05	1.95	0.11	-0.67	-0.43

Source: Credit Suisse, as of November 30, 2021. **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 November 30, 2021. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

2. STOXX Europe 600 Index and S&P 500 Index as of November 30, respectively. The STOXX Europe 600 Index has a fixed number of 600 components representing large, mid and small capitalization companies among 17 European countries, covering approximately 90% of the free-float market capitalization of the European stock market (not limited to the Eurozone). The S&P 500 Index is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

3. Credit Suisse Western European High Yield Index in EUR as of November 30.

4. S&P European Leveraged Loan Index, average default rates covering June 1, 2007 through November 30, 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 Euro and as of November 30, 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.**