US Loan Market Snapshot

Invesco Senior Secured Loans

Monthly US loan market update: June 2024

Loans gained 0.27% in June, raising year-to-date returns to 4.44%.[1] Returns were comprised of 0.72% in coupon income, offset by a 0.44% decline in principal return.[1] Secondary prices declined as demand from loan investors cooled from the multi-year highs reached in May. As a result, the percentage of loans trading above par decreased to 43%, vs. the mid-month high of 66% reached in May. With a still significant portion of the market trading above par, repricing activity has remained elevated; however the $379 billion of repricing activity year-to-date (representing nearly 30% of the asset class)[2] has only lowered the average spread in the loan market by 12 basis points (bps) to 386bps.[1] Together with 3-month SOFR above 5.3%, the average loan market coupon remains near historic highs at 9.2%.[1]

With loan prices and returns softening slightly, fixed rate portions of US credit outperformed loans for the month, with high yield returning 0.88% and investment grade returning 0.67% in June.[3] Within loans, “CCCs” (0.45%) led the way in total return during the month, followed by “Bs” (0.36%) and “BBs” (0.32%).[1] The average price in the loan market ended the month at 95.68.[1] At their current average price, senior secured loans provide a 9.36% yield inclusive of the forward curve.[1]

Fundamentals

- While recent economic data around consumer spending, confidence and housing has moderated slightly, corporate earnings estimates continue to be strong and inflation data continues to support maintaining current monetary policy in the near-term.
- The trailing 12-month par-weighted default rate fell from 1.08% to just 0.92% in June. While Oxea Group defaulted during the month, Diebold Nixdorf, Genesis Care, Lucky Bucks, and Cyxtera Technologies all rolled out of the calculation.[4] The pocket of distress in the market (i.e., the percentage of loans trading below $80) was relatively flat, down from 4.47% to 4.42%.[4]

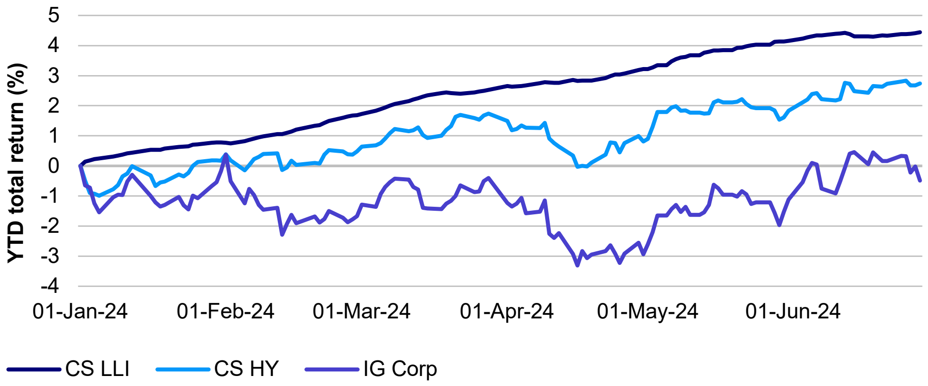
Technicals

- Technicals remained supportive of loan prices in June amid active, though slower, CLO origination, retail and institutional interest and persistently low net new supply. In combination, these allowed loan prices to ease slightly.
- CLO volume softened in June, with gross issuance of $38.0bn across 84 deals (including $27.0bn of refinancings and resets) down from $44.7bn across 97 deals in May.[2] Liability spreads grinded tighter, supporting new issuance which remains, even with slower issuance in June, on a record pace year-to-date.
- Retail mutual funds and ETFs inflows also eased in June. These funds recorded $1.0bn of inflows in June, down from $3.8bn in May, bringing year-to-date inflows to $12.1bn.[2]
- Primary activity was muted versus May, but still generated the second highest monthly volume on record with new issue remaining dominated by repricing and refinancing activity rather than net new supply. Gross issuance of $149.6bn declined 8% versus May.[2] This figure was comprised of $54.1bn and $84.4bn of refinancings and repricings, respectively, leaving $11.1bn of net new supply, flat month over month.[2]

Market opportunity

Despite the modest pullback in loan prices during June, the asset class continues to outperform fixed rate credit year-to-date as shown in Figure 1 below. This extends a pattern of loan outperformance versus high yield over the 1 year, 3 year, and 5 year time horizons, including within the BB, B, and CCC ratings cohorts.[5] Given the elevated base rate, shortage of net new issue supply, and stable credit fundamentals, loans remain on track to deliver another year of exceptional returns, particularly with the outlook for policy rate reductions moving further out on the horizon.

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



Source: Credit Suisse, Barclays, Bloomberg as of June 30, 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 (%)	Average Spread	Duration (years)
5 Year Treasuries	99.13	4.38	—	4.45
10 Year Treasuries	99.26	4.40	—	7.90
Bloomberg US Aggregate Bond Index	89.96	5.00	T + 0.49	6.13
Bloomberg US Corporate Bond Index	91.38	5.48	T + 0.94	6.92
Bloomberg US Corporate High Yield Index	93.07	7.91	T + 3.33	3.14
Credit Suisse Leveraged Loan Index	95.68	9.36	T + 3.86	0.25

Source: Barclays, Credit Suisse and Bloomberg L.P. as of June 30, 2024. Loan “yield to worst” incorporates the SOFR forward curve.

1 Credit Suisse Leveraged Loan Index as of June 30, 2024.
2 JP Morgan as of June 30, 2024.
3 Credit Suisse Leveraged Loan Index and Bloomberg as of June 30, 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 June 30, 2024.
5 Barclays Research, June 7, 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.