US Loan Market Snapshot

Invesco Senior Secured Loans

Monthly US loan market update: September 2023

Loans delivered solid returns in September, gaining 0.88% during the month and bringing year-to date total returns to 9.91%.[1] Despite increased primary supply and weaker risk markets, loan prices edged up 0.11% during the month. More impactfully, coupon income contributed another 0.76% to September's total return. Meanwhile, the Federal Reserve (Fed) provided updated policy guidance at their September meeting which further signaled elevated base rates at least through 2024, implying today's high carry environment is expected to persist for the foreseeable future.

During September, loans outperformed high yield and investment grade, which returned -1.16% and -2.45%, respectively, and year-to-date are also outpacing the 5.97% and 0.45% returns for high yield and investment grade bonds respectively.[2] Within loans, "BBs" (0.54%) trailed "Bs" (0.95%) and "CCCs" (2.18%) in total return during the month.[1] The average price in the loan market rose 30 basis points (bps) to 94.83.[3] At their current average price, senior secured loans are providing a 10.11% yield inclusive of the forward curve.[3]

Fundamentals

- Economic data remained robust as the latest personal spending and retail sales data held up while labor markets showed persistent, albeit moderating, strength. Congress temporarily averted a government shutdown, reducing policy risk for the time being.
- The trailing 12-month par-weighted default rate dipped from 1.55% to 1.27% in September in the absence of new defaults.[4] Despite widely held expectations for the default rate to continue moving higher, the percentage of loans trading below $80 declined further from 5.10% to 4.36%.[4]

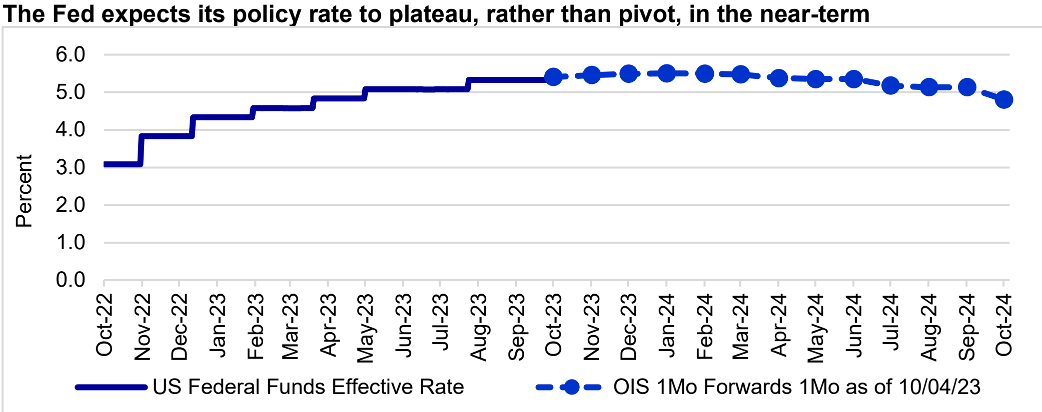
Technicals

- Solid demand matched higher supply, keeping market technicals balanced.
- CLO issuance was active, totaling $11.5bn gross across 26 deals (including $2.2bn of refinancings). Year-to-date, 213 CLOs have priced $91.8bn of issuance ($5.8bn of refinancing), which is -28% year-over-year.[3]
- Retail mutual funds and ETFs recorded a second straight small inflow of $0.6bn, leaving year-to-date withdrawals of $18.0bn.[3]
- Primary market activity increased in September, with gross issuance of $58.1bn up 40% from August and the largest issuance total since November 2021. Refinancings ($21.7bn) led in use of proceeds, followed by repricings ($19.0bn). This left $17.4bn of net new issuance. Year-to-date gross and net issuance are $257.9bn and $59.2bn, respectively, +26% and -59% versus the same period last year.[3]

Market opportunity

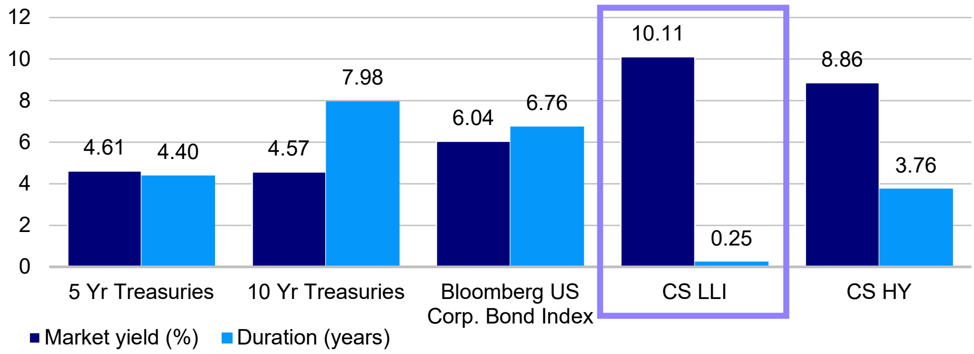
Continued economic resilience in the face of tighter monetary policy and disinflation taking root gradually have solidified "higher for longer" interest rate expectations in recent months. Rates moved sharply higher in September after the Fed signalled less than expected policy easing next year, resulting in forward rate curves that now reflect a policy rate above 5% through most of 2024. Such a scenario would keep SOFR elevated, enabling loan investors to continue clipping historically strong coupon income for the foreseeable future. For context, September's 0.76% loan coupon income is 9.12% on an annualized basis.[1] This compares to the 6.51% annualized run-rate coupon income in high yield bonds.[5] The exceptionally strong carry in loans has powered 2023's year-to-date return profile, comprising over 70% of the year-to-date total return, and we believe looks increasingly likely to create a similar return tailwind in 2024.

The Fed expects its policy rate to plateau, rather than pivot, in the near-term



Source: Bloomberg L.P. as of October 4, 2023. **Past performance is not a guarantee of future results**. An investment cannot be made directly in an index.

Loans offered investors a relatively high level of current income with short duration



Source: Credit Suisse and Bloomberg L.P. as of September 30, 2023. **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	100.02	4.61	—	4.40
10 Year Treasuries	94.16	4.57	—	7.98
Bloomberg US Aggregate Bond Index	86.33	5.39	T + 0.65	6.15
Bloomberg US Corporate Bond Index	86.97	6.04	T + 1.29	6.76
Credit Suisse High Yield Index	87.31	8.86	T + 4.14	3.76
Credit Suisse Leveraged Loan Index	94.83	10.11	T + 5.51	0.25

Source: Barclays, Credit Suisse and Bloomberg L.P. as of September 30, 2023. Loan "yield to worst" and "spread to worst" incorporate the SOFR forward curve.

1 Credit Suisse Leveraged Loan Index as of September 30, 2023.
2 Credit Suisse Leveraged Loan Index and Bloomberg as of September 30, 2023. High yield represented by BAML US High Yield Index; investment grade represented by the BAML Investment Grade Index.
3 JP Morgan as of September 30, 2023.
4 Pitchbook LCD as of September 30, 2023.
5 Bloomberg as of September 30, 2023. High yield represented by BAML US High Yield Index.

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.