



# Invesco Loan Market Snapshot

## Invesco Senior Secured Loans

### Monthly Loan Market Update: July 2012

Senior secured loans exhibited a “de-coupling” from the broader capital markets in June as loan prices were less reactive to macro-economic headlines from abroad. Senior secured loans returned 0.69% in June, bringing the year to date total to 4.54%.<sup>1</sup> While there are concerns that global economic uncertainty will pressure corporate earnings, senior secured loans continue to attract investors in search of attractive yields with low volatility and minimal duration risk. Market technicals continued to provide a supportive bid in June with demand driven by new CLO issuances, mutual fund inflows, and continued strong demand from institutional investors. At the current price of \$95.2<sup>2</sup>, senior secured loans are providing 5.2% of current income with a 6.6% yield.

#### Historical Price Data

	Date	Price	Discount Margin
Average		95.05	L + 440
High	3/2005	101.01	L + 251
Low	12/2008	63.08	L + 1641
Current	6/2012	95.21	L + 579

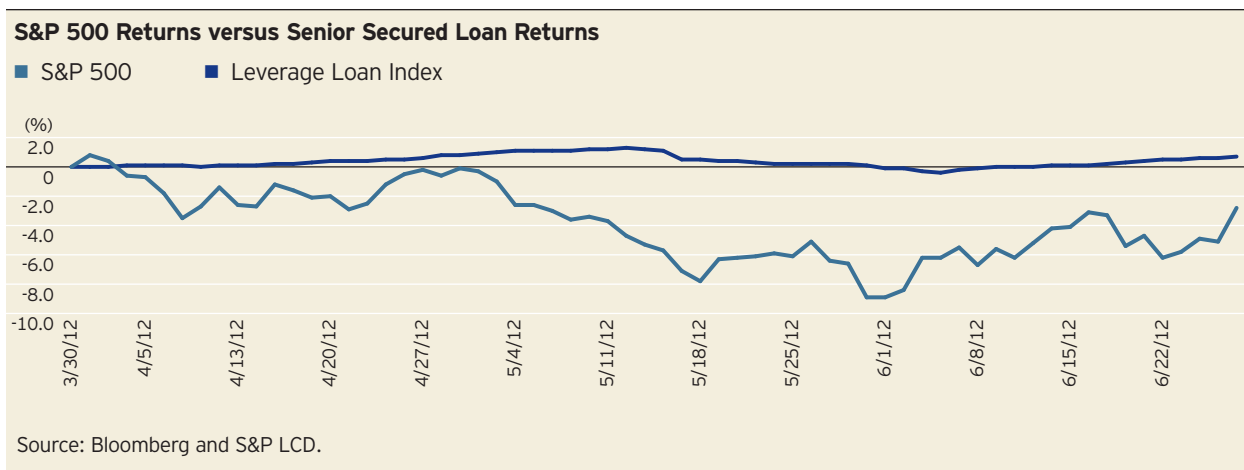
Source: S&P LCD January 1997 - June 2012

#### Fundamentals

- Senior secured loan issuers' 11 quarter trend of positive EBITDA growth is in jeopardy this quarter as Europe's debt crisis and global economic uncertainty pressure corporate outlooks. Analyst estimates for the S&P 500, a proxy for global issuers, call for EBITDA to grow by 0.25% this quarter<sup>3</sup>.
- The default rate remained relatively flat at 1.04%<sup>4</sup> in June with ATI Enterprise's \$155.5 million term loan the only new default. We expect the default rate to remain below the 3.4% historical average as fundamentals should still work in the anticipated low growth environment.
- The new issue market was accommodating to high quality deals in June. Deals were executed at terms tighter than originally marketed, but absolute spreads remain above historical averages. Zayo Group priced a \$120mm add-on term loan with a spread of L+587.5 at par vs. 99.5 initial guidance. This compares to a 98 offer price for the original term executed earlier in June. WireCo WorldGroup's new loan priced at L+475 with a 1.25% LIBOR floor and a 99 offer price vs. original terms of L+500 and 98.5 offer price. Some opportunistic deals were not well received as 19% of new issues flexed up. WideOpenWest's financing for its acquisition of Knology was delayed due to investor pushback on terms.

#### Market technicals

- Senior secured loan performance exhibited a “de-coupling” from the broader capital markets as technicals remained supportive in June. \$4 billion of CLO's were issued during the month bringing the year to date total to \$17.9 billion, exceeding the \$12.3 billion issued in 2011.



- In addition to strong institutional demand, loan mutual fund inflows reversed a 4 week trend of outflows during the month. During the weeks ended June 20 and June 27, loan fund inflows were \$46 million and \$267 million respectively. The \$267 million in the last week of June was the 2nd largest weekly inflow of the year. Year to date there have been \$1.1 billion of inflows into senior secured loan funds<sup>5</sup>.

## Relative value

- Senior secured loans provide a high current income and yield with a short duration profile. We continue to view loans as an attractive relative value on both a risk adjusted and absolute basis.

	Yield	Spread	At Forward Libor	Duration (Years)
5 Year Treasuries	0.67%			4.90
10 Year Treasuries	1.59%			9.09
Barclays US Agg	1.94%	T + 1.27%		5.11
ML US HY Index	7.37%	T + 6.55%		4.21
<b>S&amp;P LSTA Index</b>	<b>L + 5.79%</b>	<b>T + 6.01%</b>	<b>6.57%</b>	<b>45-60 Days</b>

Source: Standard & Poor's LCD, Barclays and Bloomberg, June 30, 2012  
 Note: Yield on Leverage Loans is calculated based on average yield to maturity and 90 day Libor

1 Source: Standard & Poor's LCD 6/29/2012

2 Source: Standard & Poor's LCD 6/29/2012, excludes defaulted loans

3 Bloomberg 6/29/2012

4 Source: Standard & Poor's LCD 6/29/2012

5 Source: EPFR Global 6/27/2012

## Important Information

All data provided by Invesco unless otherwise noted. Data as of July 4, 2012, unless otherwise noted. The senior secured loan asset class is represented by the S&P/LSTA Leveraged Loan Index. High yield is represented by the BAML High Yield Master Index. Average loan price includes all loans Jan. 1997 through June 2012.

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