Retail Investors Return to Loan Funds Amid Shifting Rate Expectations

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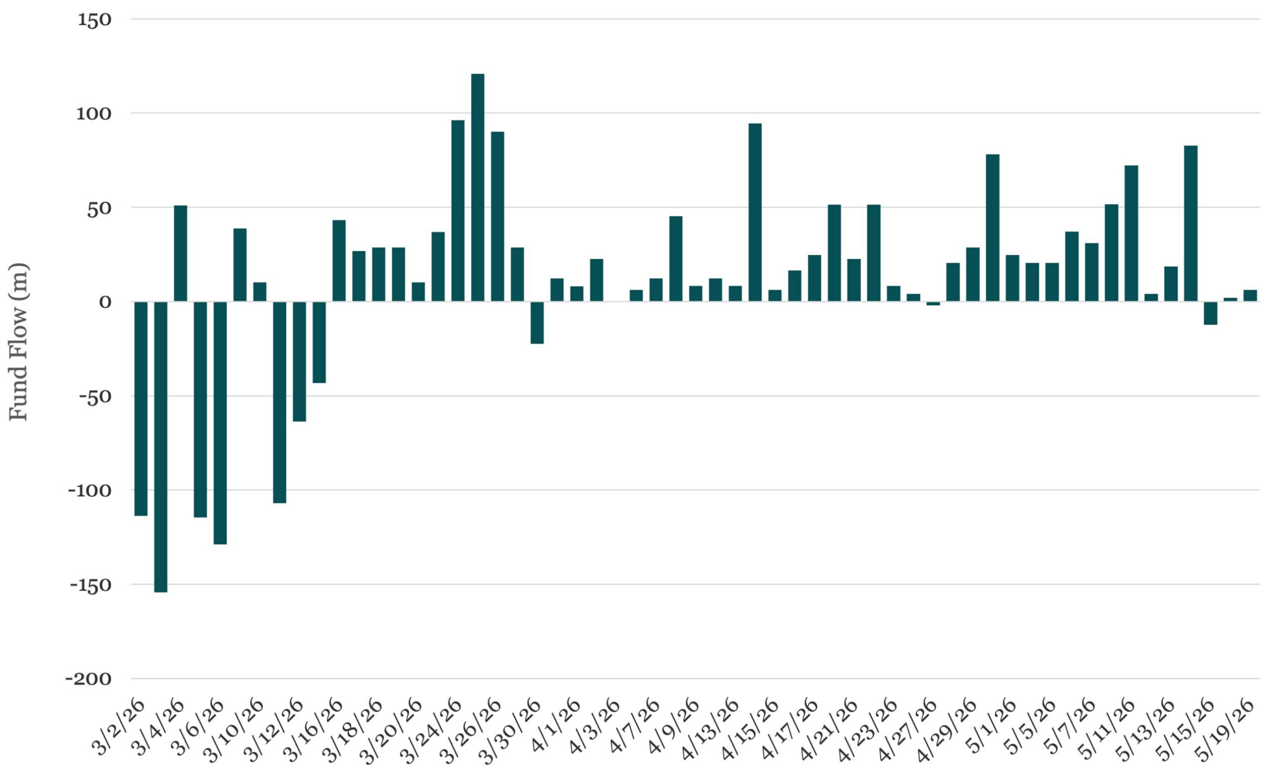

Source: BKLN US Equity

Retail investors have steadily returned to leveraged loan funds following two consecutive months of net redemptions. The Invesco Senior Loan ETF (BKLN) recorded $359m in inflows this month through May 19, building on $528m of inflows in April, and reversing the sharp redemptions seen in February and March when $1.073b was pulled by investors.

After beginning the year at an average price of 96.93, secondary market loan pricing declined to 94.60 on March 3 before rebounding to 95.57 by May 19, according to the Bloomberg US Leveraged Loan Index. Despite recent volatility, the index has delivered a year-to-date total return of 1.01%.

With fresh inflationary pressures weighing on the Federal Reserve, investors have scaled back expectations of near-term cuts to interest rates and are instead pricing in the possibility of future rate hikes. This dynamic should support the case for further loan investments as floating-rate instruments tend to outperform in higher-rate environments, such as they did in 2023 – as the Fed hiked rates to their highest level in decades, loans returned 12.84% to investors.