



Leveraged Lion Capital

Fixed Income Research Report

02.03.20

LLC Portfolio Review

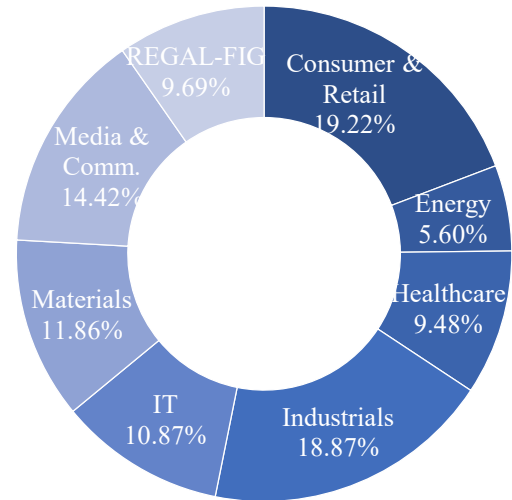
Portfolio Characteristics

Number of holdings	30
Average price	96.24
Average YTM	5.98%
Average total leverage	4.17x
Average interest coverage	5.46x

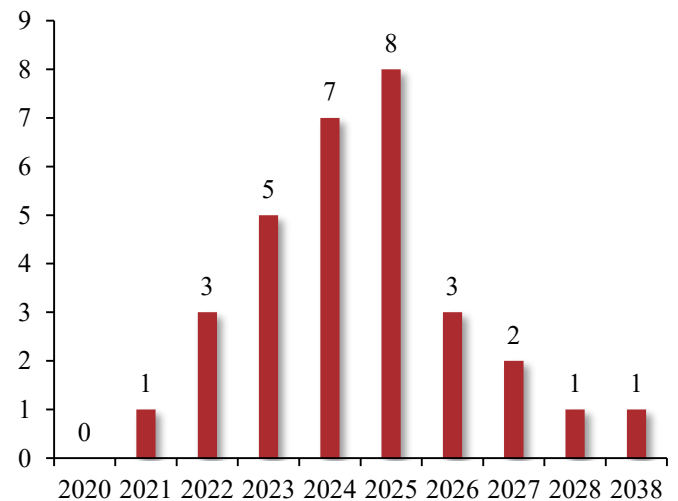
Credit Quality (# of holdings)

Bank Loans	63.37%
BBB-	9.63
BB+	5.04
BB	8.65
BB-	13.65
B+	11.18
B	15.18
High Yield Corporates	35.49%
BB-	12.86
B+	3.40
B	2.29
B-	9.51
CCC-	7.43
Cash & Cash Equivalents	0.87%

Sector Allocation (% of total assets)



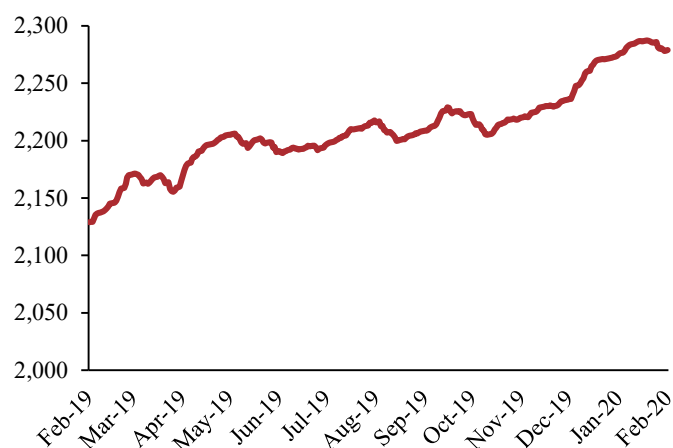
Maturity Distribution (# of holdings)



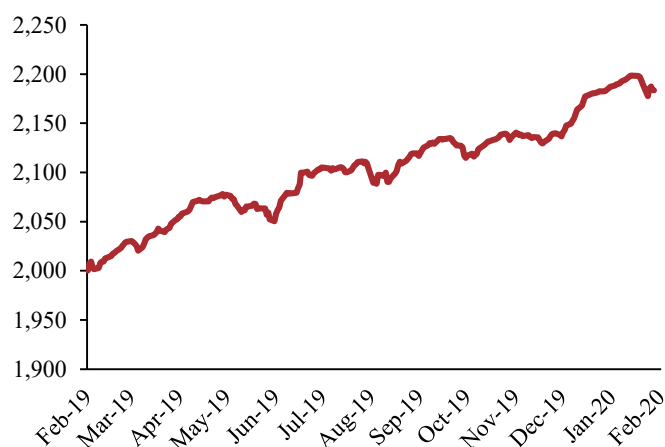
Loan & HY Bond Market Recap

- Loan funds saw another week of outflows totaling \$661 mm after starting the year with two weeks of inflows totaling \$780 mm
- Due to the shift to risk-off sentiment from investors at the end of the week, high-yield funds saw outflows of \$2.87 bn, while investment grade funds saw inflows of \$4.38 bn
- The January TTM default rate for leveraged loans ticked up to 2.1% after ending 2019 at 1.8%
- The US HY bond default rate ended 2019 at 3.3% which is above the non-recessionary level of 2.4%

S&P/LSTA US Leveraged Loan 100 Index



Bloomberg Barclays US Corp HY Index



Top Leveraged Loan Movers

Leaders:

1. Flexential Intermediate Corp's 2L TL +4.88% to 58.38
2. Dealer Tire LLC's 1L TLB +3.13% to 100.25
3. Fieldwood Energy LLC's 2L EXIT TL +1.75% to 61.63
4. Auris Luxembourg III Sarl's 1L TLB2 +1.63% to 99.75
5. Syniverse Holdings Inc's 2L TL +1.25% to 74.38

Laggards:

1. Foresight Energy LLC's 1L TLB -8.25% to 33.25
2. MLN US Holdco LLC's 2L TL -3.38% to 76.00
3. TKC Holdings Inc's 1L TL -2.63% to 91.00
4. Traverse Midstream Partners' 1L TLB -1.75% to 88.00
5. PHH Mortgage Corp's 1L TLB -1.75% to 98.75

S&P/LSTA U.S. Leveraged Loan 100

Bloomberg Barclays U.S. Corp HY

	S&P/LSTA U.S. Leveraged Loan 100	Bloomberg Barclays U.S. Corp HY
1-month	0.09%	-0.17%
YTD	0.22%	0.03%
Index value	2278.18	2183.35
52-week high	2287.33	2198.28
Wtd. avg. yield / YTW	5.64%	5.52%
OAS	-	3.90

Source: Bloomberg, FitchRatings

Pennsylvania State University

Leveraged Lion Capital

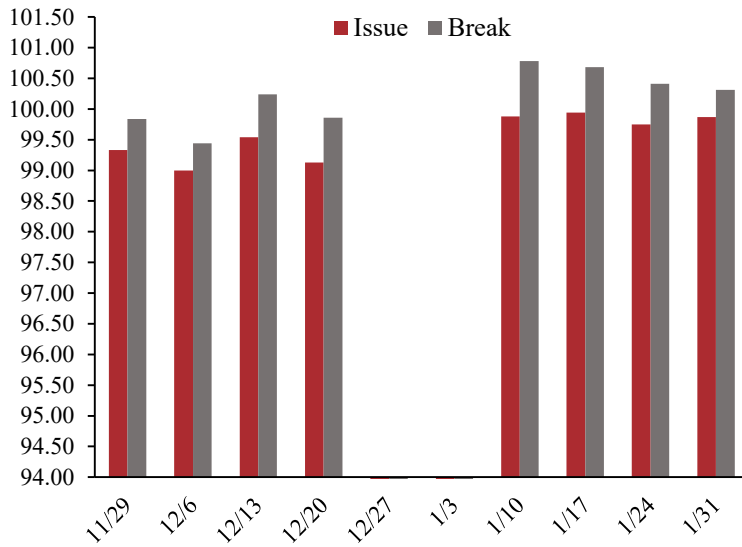
Fixed Income Weekly Report

+1.38%

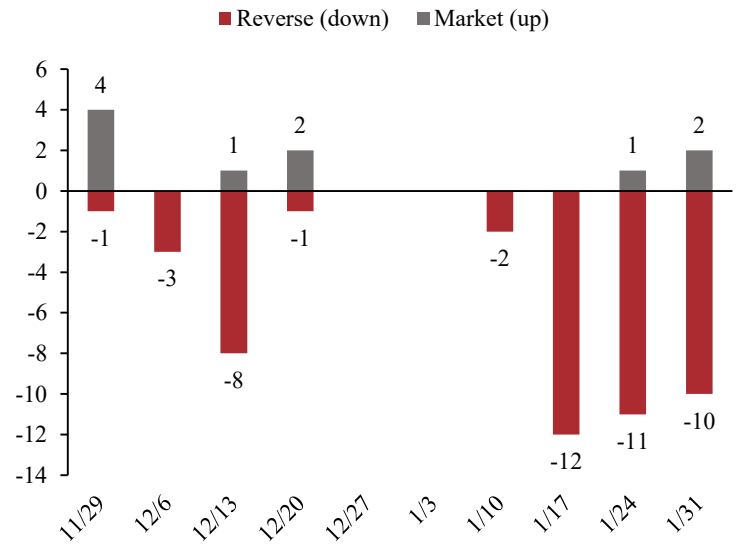
LLC

February 3, 2020

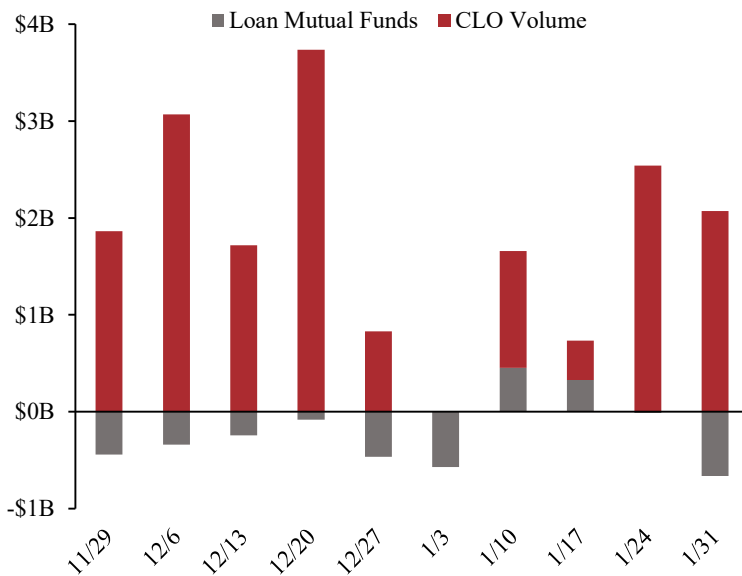
Prices (first-lien deals)



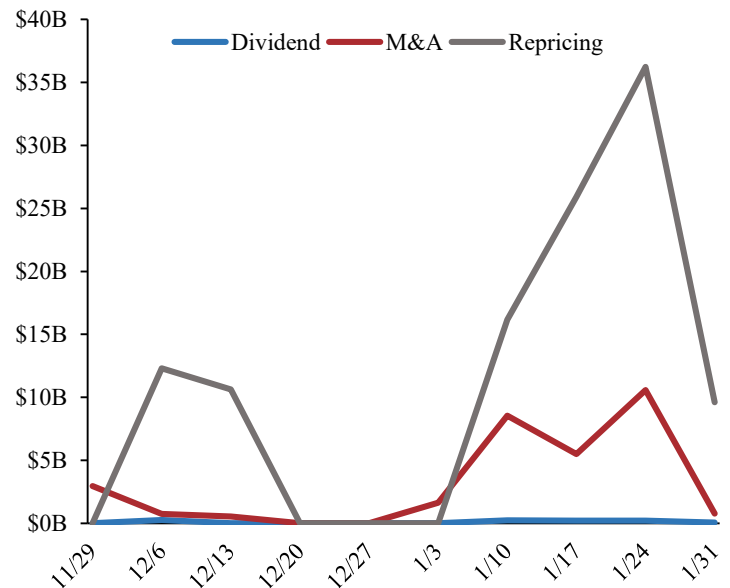
Flex Activity



Fund Flows

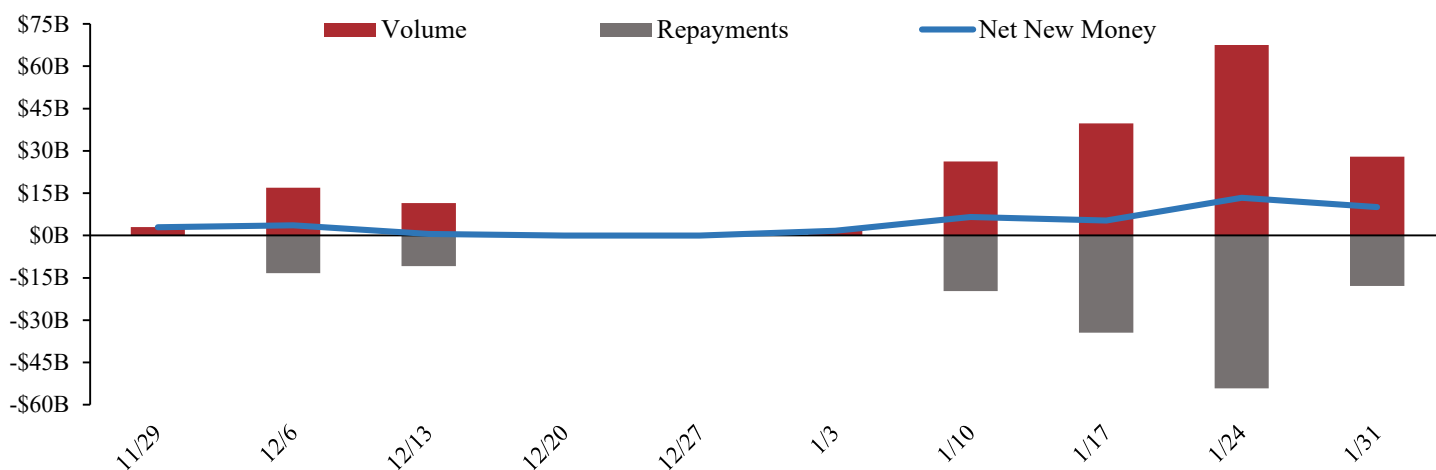


Launched Deal Volume by Purpose



Source: LevFin Insights

Net Launched Volume



Recent Leveraged Loan Deals

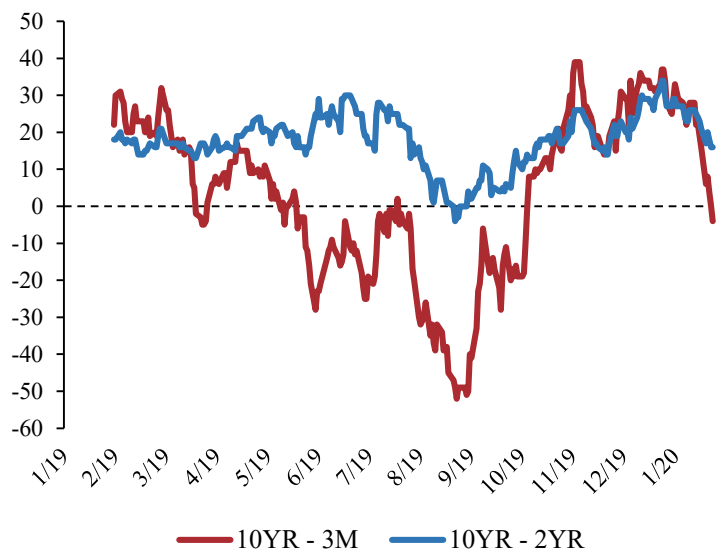
Company	Purpose	Tranche Size	Spread (bps)	OID
Acrisure LLC	Refinancing	\$3,175.00 mm	L+350	99.75
Atlantic Broadband	Repricing	\$1,670.00 mm	L+200	100.00
Avis Budget Group Inc.	Refinancing	\$1,216.00 mm	L+175	99.75
Golden Nugget	Repricing	\$2,593.00 mm	L+250	100.00
Jane Street Group LLC	Amendment	\$1,589.00 mm	L+300	99.75
Pixelle Specialty Solutions	M&A	\$255.00 mm	L+650	98.00
Radiology Partners	Repricing	\$1,340.00 mm	L+425	100.00
Wells Enterprises Inc.	Refinancing	\$50.00 mm	L+300	100.00

Recent High-Yield Bond Deals

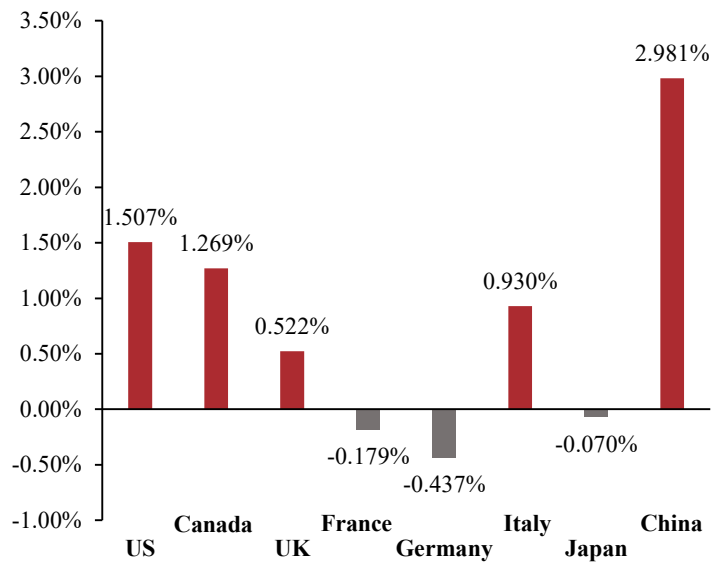
Company	Purpose	Tranche Size	Coupon	Issue Price
Flexidental Intermediate	Refinancing	\$250.00 mm	11.250%	97.00
PTC Inc	Refinancing	\$500.00 mm	3.625%	100.00
PTC Inc	Refinancing	\$500.00 mm	4.00%	100.00
Sprint Communications	Refinancing	\$1,000.00 mm	7.250%	100.00
Allied Universal Holdco	Refinancing	\$540.00 mm	6.625%	105.75
Dealer Tire LLC	M&A	\$350.00 mm	8.000%	100.00
QVC	Refinancing	\$575.00 mm	4.750%	100.00
Radiology Partners	Refinancing	\$710.00 mm	9.250%	100.00

Source: LevFin Insights

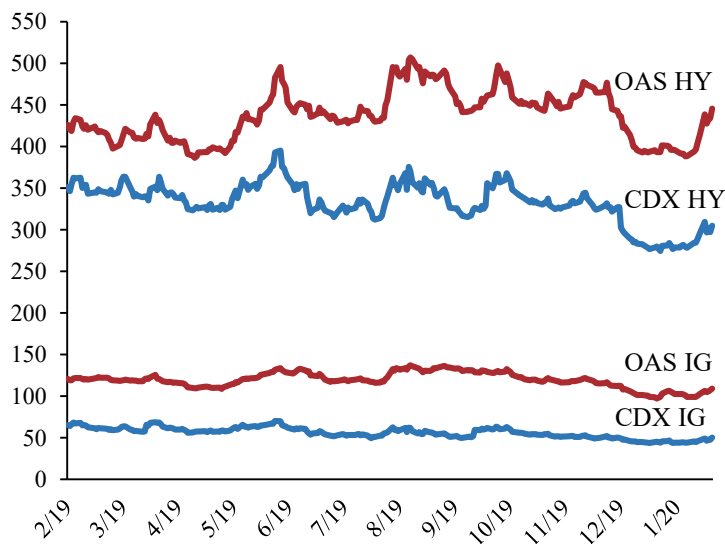
Treasury Yield Curve Spreads



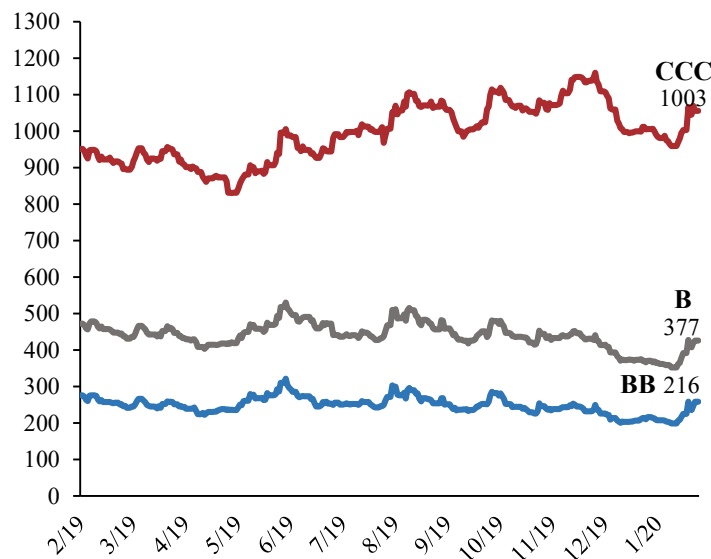
10-year Government Bond Yields



Corporate Credit OAS & CDS Spreads



ICE BofAML US High-Yield Index YTW



Source: Bloomberg & FactSet

Special Topics & Notable Developments

Investors Uneased Over Slight Shift in Fed's Statement

- Jerome Powell was questioned specifically about the change in wording regarding the Fed's stance on its inflation target. The central bank's policy stance is to now get "inflation returning to" 2% instead of "near" that inflation rate.
- Although he did not make any significant remarks regarding the questions, he did state that the Fed "wanted to underscore [their] commitment to 2% not being a ceiling." It is important to consider that this shift in policy is at a time where the Fed is undergoing a review of its framework, which could involve certain strategies to bring inflation to a faster pace.
- Investors saw the remarks as likely to change the Fed's interest rate trajectory, resulting in investors flocking to US Treasuries and crashing real yields.
- In the federal funds futures market, the spread between May and August, near the time the Fed's review of its framework is expected to be finalized, is currently at -12.5 bps.

More Bond-for-Loan Issuances Expected in 2020

- Low financing rates are drawing in both high yield and investment grade issuers to switch loan debt to fixed rate bonds in the midst of record low yields, especially in Europe
 - Kevin Foley, the head of loan and high yield capital markets EMEA at J.P. Morgan stated, "We expect the trend of borrowers refinancing their loans into bonds to continue and anticipate more to come amid such attractive refinancing rates in the high-yield market."
- This has led to notion that reverse Yankee issuances are set to continue in 2020
 - A reverse Yankee issuance is a bond, typically investment grade, that is issued by a US company in a different country and not denominated in the USD
 - Over half of euro-denominated investment grade issuances last year were made up of US companies, and with the US 10 year Treasury yield above most of developed counterparts, euro-denominated investment grade debt is attractive for multinational companies
- A common reluctance for high yield borrowers to issue bonds is the lack of flexibility and the presence if a non-call period
 - However, as seen in the leveraged loan market with weakening covenant documentation, call protection in the US high yield bond market is also growing weaker. There is a recent trend in issuances with shorter non-call periods that companies are looking to take advantage of.
- In addition, investors have been being experiencing declining compensation figures for buying leveraged loans
 - Although the leveraged loan secondary market has been positive, investor compensation has decline 0.6% in less than 4 months due to the inadequate call-protection that loans have compared to bonds
 - The influx of recent repricings have reduced the average loan's yield spread by 35 bps

Source: Bloomberg & WSJ

Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Monday 2/3	9:45 am	Markit Manufacturing PMI	January	51.7	51.7
Monday 2/3	10:00 am	ISM Manufacturing PMI	January	47.2	48.5
Tuesday 2/4	10:00 am	Factory Orders	December	-0.70%	1.1%
Wednesday 2/5	8:30 am	Trade Balance	December	-\$43.1 bn	-\$44.6 bn
Wednesday 2/5	9:45 am	Markit Services PMI	January	53.2	53.2
Wednesday 2/5	10:00 am	ISM Nonmanufacturing Index	January	55	55.1
Thursday 2/6	8:30 am	Initial Jobless Claims	1/31	216,000	-
Friday 2/7	8:30 am	Nonfarm Payrolls	January	145,000	156,000
Friday 2/7	8:30 am	Average Hourly Earnings	January	2.9%	3.0%
Friday 2/7	8:30 am	Labor Force Participation Rate	January	63.2%	63.1%
Friday 2/7	8:30 am	Unemployment Rate	January	3.5%	3.5%

Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Monday 1/27	10:00 am	New Home Sales	December	719,000	730,000
Monday 1/27	10:30 am	Dallas Fed Manufacturing Index	January	-3.2%	-3.1%
Tuesday 1/28	8:30 am	Durable Goods Orders	December	-3.1%	0.50%
Tuesday 1/28	10:00 am	Consumer Confidence Index	January	128.2	131.6
Wednesday 1/29	8:30 am	Goods Trade Balance	December	-\$62.99 bn	-\$68.75 bn
Wednesday 1/29	10:00 am	Pending Home Sales	December	1.2%	0.50%
Wednesday 1/29	2:00 pm	Fed Interest Rate Decision	1/29	1.5%-1.75%	1.5%-1.75%
Thursday 1/30	8:30 am	Core PCE Prices	Q4	2.10%	1.70%
Thursday 1/30	8:30 am	GDP	Q4	2.10%	2.10%
Thursday 1/30	8:30 am	Initial Jobless Claims	1/25	211,000	215,000
Friday 1/31	8:30 am	Employment Wages	Q4	0.90%	0.70%
Friday 1/31	8:30 am	Personal Income	December	0.50%	0.30%
Friday 1/31	8:30 am	Personal Spending	December	0.40%	0.30%