



Leveraged Lion Capital

Fixed Income Research Report

03.16.20

LLC Portfolio Review

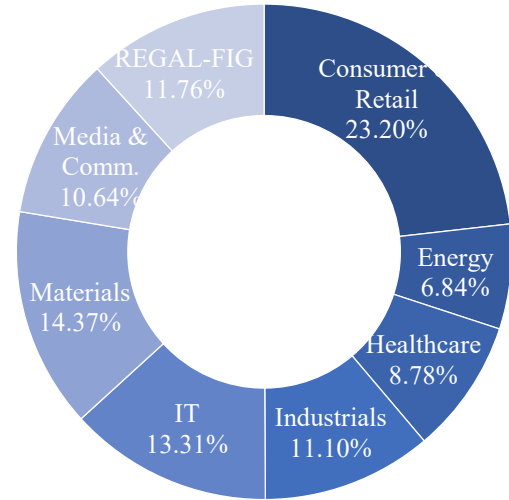
Portfolio Characteristics

Number of holdings	26
Average price	-
Average YTM	-
Average total leverage	4.17x
Average interest coverage	5.46x

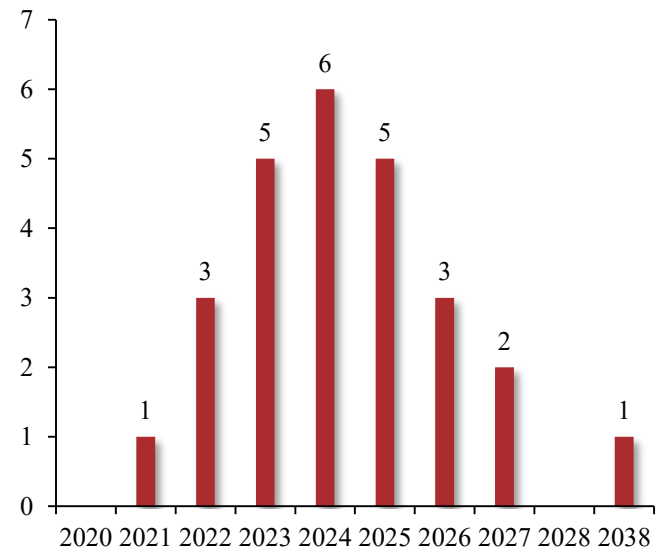
Credit Quality (# of holdings)

Bank Loans	57.08%
BB+	10.00
BB	15.00
BB-	10.00
B+	20.00
B	35.00
High Yield Corporates	22.60%
BB-	50.00
B+	16.67
B	16.67
B-	16.67
CCC-	0.00
Cash & Cash Equivalents	20.32%

Sector Allocation (% of total assets)



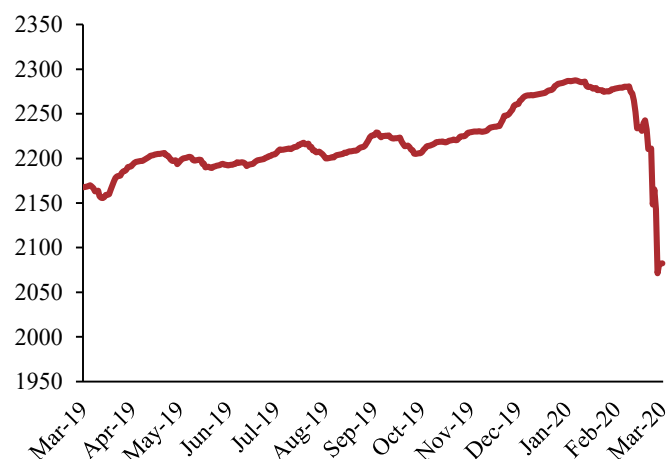
Maturity Distribution (# of holdings)



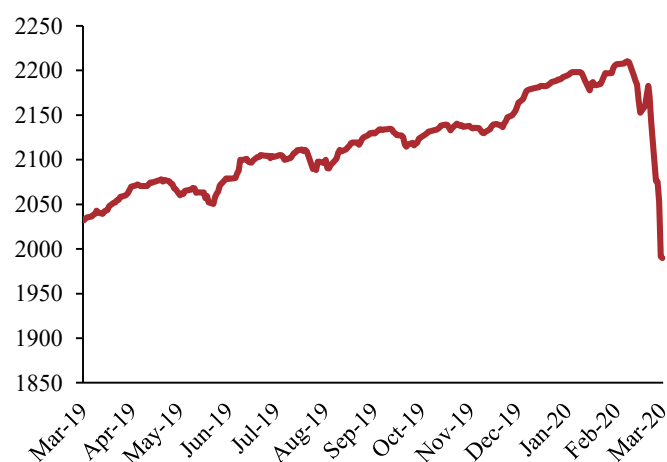
Loan & HY Bond Market Recap

- Over the past two weeks, as concerns over the coronavirus pandemic increased, leveraged loans and high yield bonds both saw their worst performance since the financial crisis
- The sectors in the secondary market that experienced the biggest losses are the industries directly affected by the virus, such as cruises, entertainment, gaming, and travel
- There were outflows from many asset classes including outflows of \$2.07 bn from loan funds just this past week
- The primary market for loans nearly saw no activity with just \$0.7 bn launched from 2 issuers in all of March so far

S&P/LSTA US Leveraged Loan 100 Index



Bloomberg Barclays US Corp HY Index



Foreign Central Bank Developments

ECB:

- Christine Lagarde said that the ECB would be willing to step in and support countries such as Italy if needed
- Kept interest rates steady but unveiled a modest stimulus measure in the form of cheap loans to banks at -.75% interest and stepping up bond purchases in its €2.6 trillion bond buying program

BOJ:

- Bank of Japan will double stock purchases from 6 trillion yen annually to 12 trillion yen annually, and help provide loans to companies

BOE:

- Cut interest rates to 0.25% and cut capital requirements

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

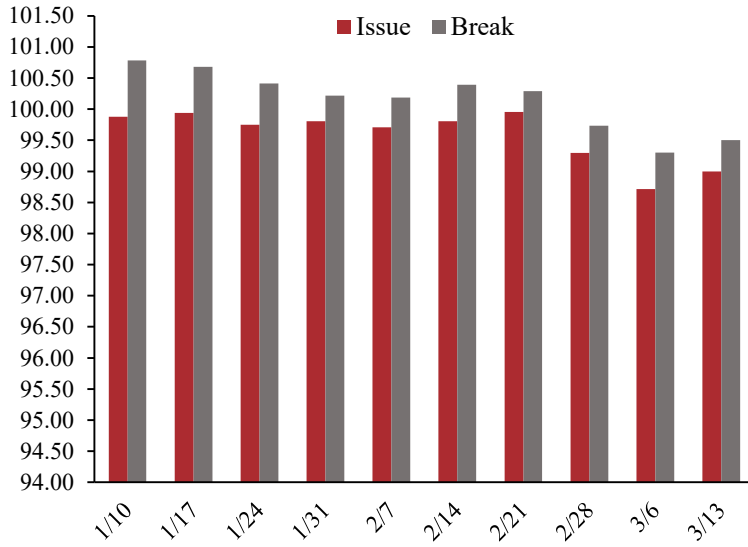
Bloomberg Barclays U.S. Corp HY

	S&P/LSTA U.S. Leveraged Loan 100	Bloomberg Barclays U.S. Corp HY
1-month	-8.61%	-9.84%
YTD	-8.39%	-8.84%
Index value	2082.46	1989.78
52-week high	2287.33	2210.18
Wtd. avg. yield / YTW	8.12%	-
OAS	-	-

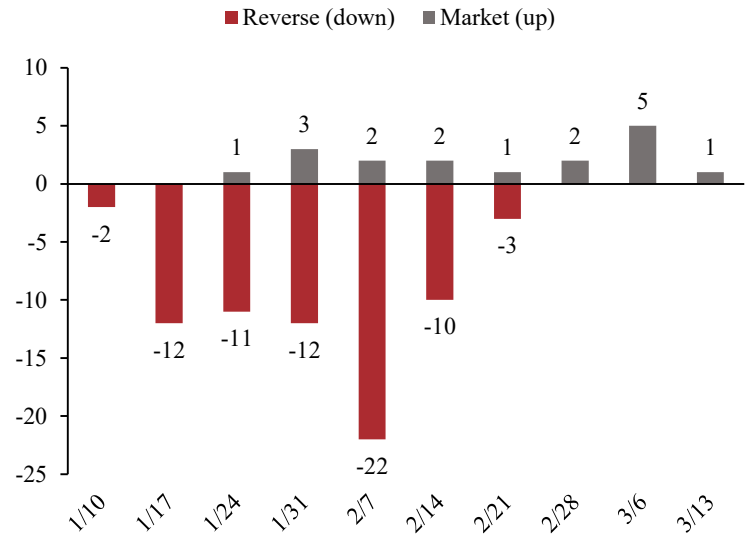
Source: LevFin Insights, S&P Global, Bloomberg

+1.38%

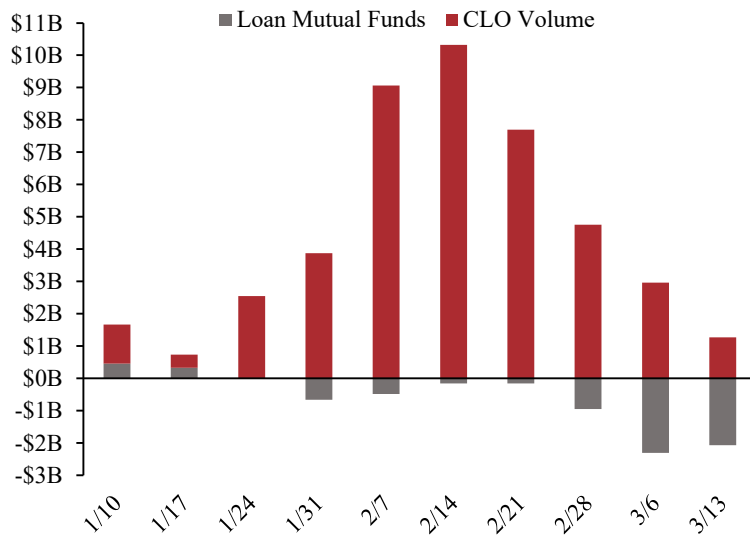
Prices (first-lien deals)



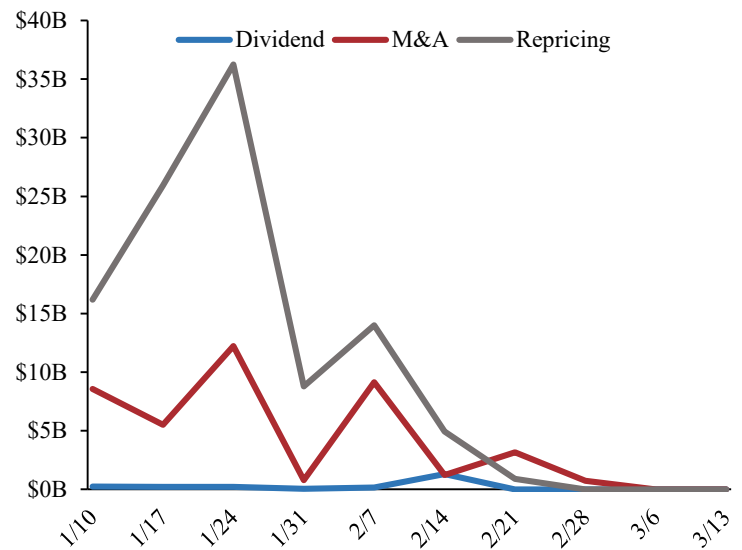
Flex Activity



Fund Flows

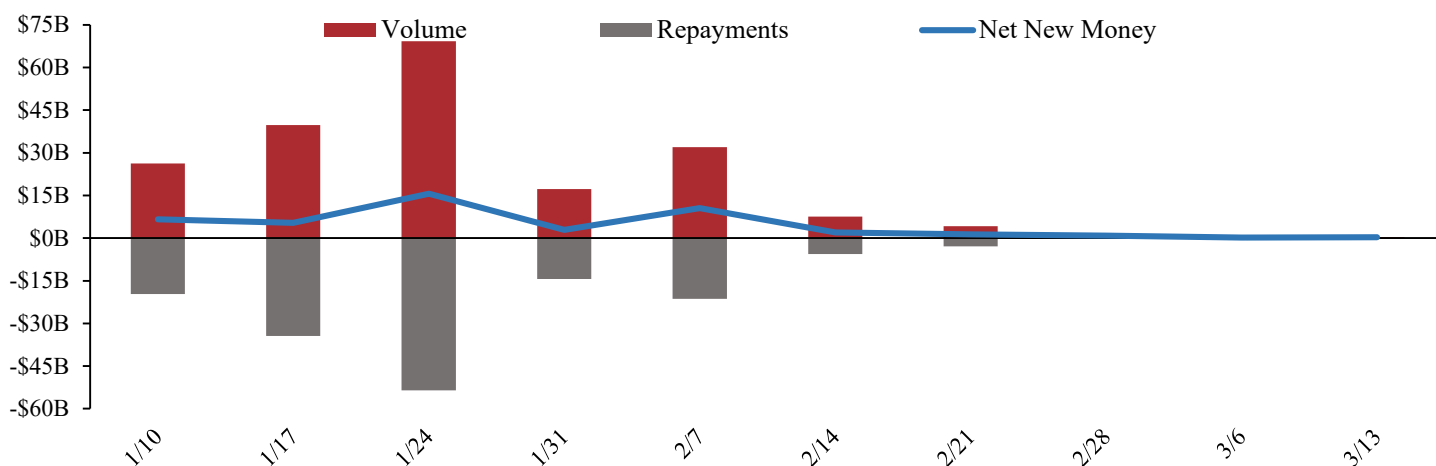


Launched Deal Volume by Purpose



Source: LevFin Insights

Net Launched Volume



Recent Leveraged Loan Deals

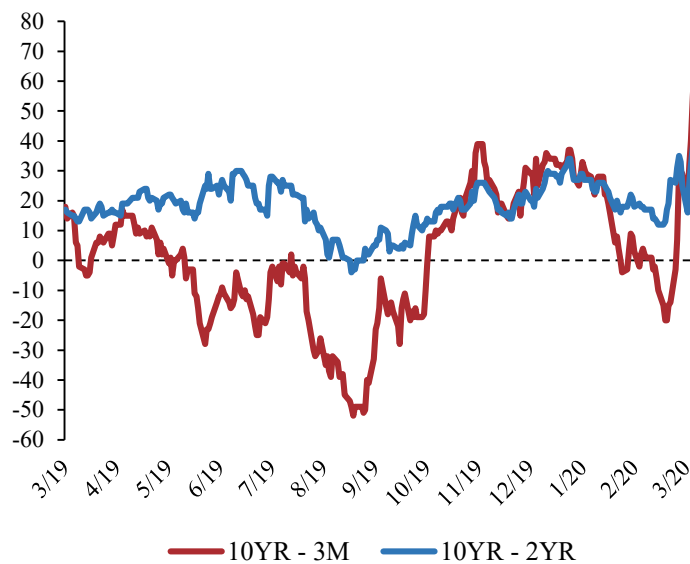
Company	Purpose	Tranche Size	Spread (bps)	OID
Service Logic	M&A	\$140.00 mm	L+425	99.00
Open Lending LLC	Dividend	\$170.00 mm	L+650	96.50
Tosca Services LLC	M&A	\$310.00 mm	L+500	97.00
Genesis HealthCare	M&A	\$350.00 mm	L+500	98.50
Science Applications (SAIC)	M&A	\$600.00 mm	L+225	99.00
Kissner Group Holdings	LBO	\$900.00 mm	L+450	99.00
Sundyne	LBO	\$535.00 mm	L+425	99.00
Duravant LLC	M&A	\$155.00 mm	L+425	99.50

Recent High-Yield Bond Deals

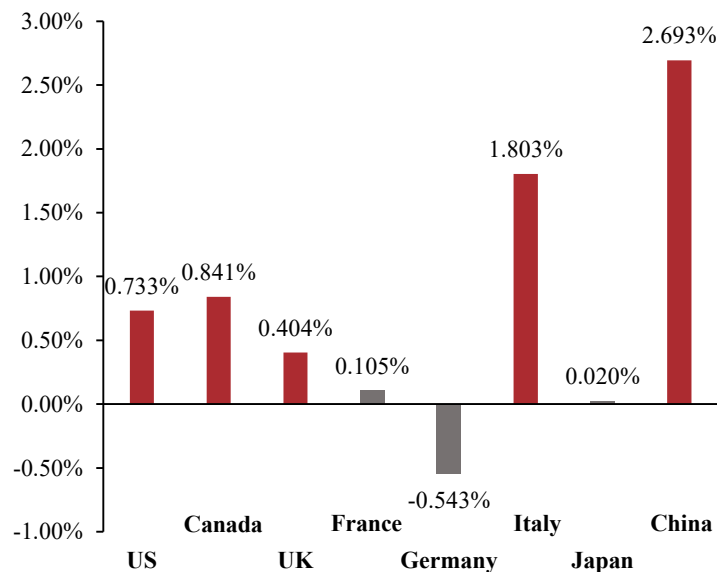
Company	Purpose	Tranche Size	Coupon	Issue Price
Charter Communications	GCP	\$1,100.00 mm	4.500%	102.50
Charter Communications	GCP	\$1,400.00 mm	4.500%	100.00
Science Applications (SAIC)	M&A	\$400.00 mm	4.875%	100.00
Cleveland-Cliffs Inc	M&A	\$725.00 mm	6.750%	98.783
Graphic Packaging	Refinancing	\$450.00 mm	3.500%	100.00
American Airlines Group Inc	GCP	\$500.00 mm	3.750%	100.00
Zayo Group LLC	LBO	\$1,500.00 mm	4.000%	100.00
Zayo Group LLC	LBO	\$1,080.00 mm	6.125%	100.00

Source: LevFin Insights

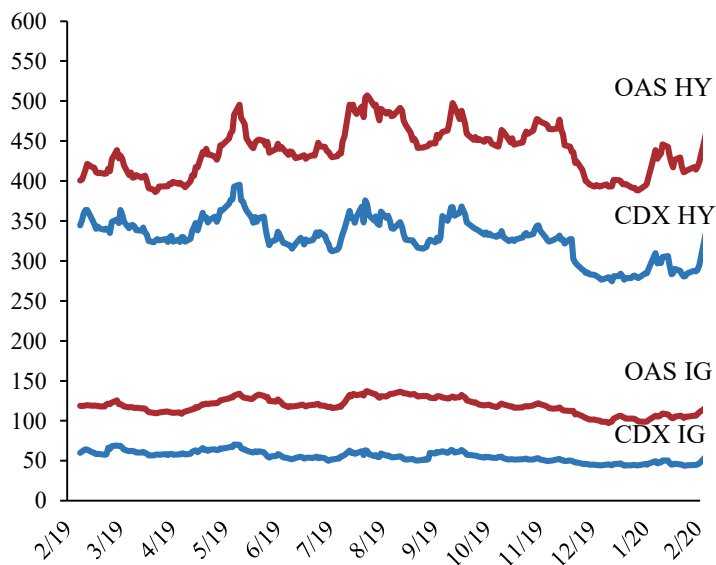
Treasury Yield Curve Spreads



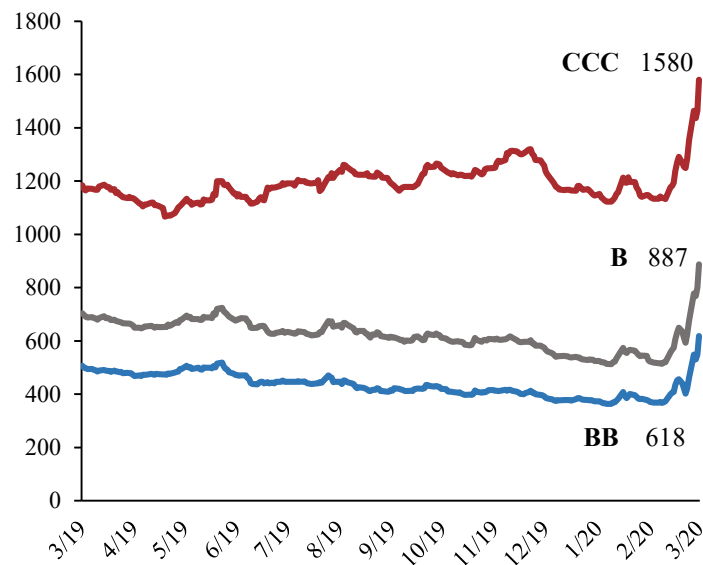
10-year Government Bond Yields



Corporate Credit OAS & CDS Spreads



ICE BofAML US High-Yield Index YTW



Source: WSJ & St. Louis Fed

Special Topics & Notable Developments

Fed Cuts Interest Rates to Zero Bound

- On March 3rd, the Federal Reserve called for the first intermeeting emergency rate cut since the financial crisis, and cut its overnight interest rate by 50 bps to a target range of 0.5% to 0.75%
- In an unprecedented move, FOMC called for an additional emergency cut and a new quantitative easing program, despite the official FOMC meeting being scheduled on March 17th
 - The new announcement from the Fed consisted of another 50 bps rate cut, which has resulted in the US overnight rate returning to zero bound, and a new bond buying program consisting of at least \$500 bn in Treasury bond purchases and \$200 bn in mortgage-backed securities
- The Fed will also continue to maintain adequate liquidity in the money markets, providing \$1.5 trillion in injections into the repo market
- Additionally, in his conference call proceeding the latest emergency cut, Jerome Powell said the Fed has called off its scheduled meeting for March 17th-18th

Large Portion of Investment Grade Debt May Turn to Junk

- The combined effect of the pandemic's impact on the global economy and a price war in the oil markets puts many BBB rated companies at risk of falling to high yield
 - For example, more than 80 bonds saw price drops of over 20 points, most severely experienced by the notes of issuers with high debt levels and with exposure to oil prices, such as the notes of Callon Petroleum, Oasis Petroleum, Matador Resources, and Nabors Industries
- The current market value of BB rated bonds is around \$3.4 trillion, but around \$868 bn is rated just one category above junk, putting many companies in at-risk industries in danger of becoming fallen angels
- BBB rated bonds experienced a 0.5% jump in yield to 3.24% over a two-day period last week, marking the biggest two-day jump since the financial crisis
- Furthermore, many banks are already internally rating many of these BBB companies as junk, before the ratings companies begin downgrades
- The problem of fallen angels may be magnified in the current state of the market, because the IG bond market is much larger than it was during previous recessions
 - The IG market currently makes up about 50% of the market compared to around 36% a 3 years before the financial crisis

Volatility From Coronavirus Causing Large Swings in Treasuries

- On Thursday, the 10 year yield increased to 0.842% by market close, despite equities seeing losses
- Typically, yields and equity performance have a direct relationship, but in cases such as Thursday where the equity market saw steep losses, investors may have needed to sell Treasuries to offset losses
- Another reason for selling the Treasuries could be that investors may think that yields were pushed far too low, especially due to the fact that the 10 year yield reached below 0.4% earlier in the week

Source: WSJ & LevFin Insights

Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Monday 3/16	8:30 am	NY Empire State Manufacturing	March	12.90	5
Tuesday 3/17	8:30 am	Retail Sales (MoM)	February	0.3%	0.1%
Tuesday 3/17	8:30 am	Retail Sales Ex Autos (MoM)	February	0.3%	0.2%
Tuesday 3/17	9:15 am	Industrial Production (YoY)	February	-0.8%	-0.3%
Tuesday 3/17	9:15 am	Manufacturing Production (YoY)	February	-0.8%	-0.6%
Tuesday 3/17	9:15 am	Capacity Utilization	February	76.8%	76.9%
Tuesday 3/17	10:00 am	Business Inventories (MoM)	January	0.1%	-0.1%
Wednesday 3/18	8:30 am	Building Permits (MoM)	February	9.2%	-3.4%
Wednesday 3/18	8:30 am	Housing Starts (MoM)	February	-3.6%	-4.6%
Wednesday 3/18	2:00 pm	Fed Interest Rate Decision	-		
Thursday 3/19	8:30 am	Initial Jobless Claims	3/14	211K	219K
Thursday 3/19	8:30 am	Philadelphia Fed Manufacturing	March	36.7	15
Friday 3/20	10:00 am	Existing Home Sales (MoM)	February	-1.3%	0.5%

Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Monday 3/9	11:00 am	Consumer Inflation Expectations	February	2.50%	2.54%
Tuesday 3/10	6:00 am	NFIB Business Optimism Index	February	104.3	104.5
Wednesday 3/11	8:30 am	CPI (YoY)	February	2.5%	2.3%
Wednesday 3/11	8:30 am	Core CPI (YoY)	February	2.3%	2.4%
Thursday 3/12	8:30 am	Initial Jobless Claims	3/7	215K	211K
Thursday 3/12	8:30 am	PPI (YoY)	February	2.1%	1.3%
Thursday 3/12	8:30 am	Core PPI (YoY)	February	1.7%	1.4%
Friday 3/13	8:30 am	Export Prices (YoY)	February	0.4%	-1.3%
Friday 3/13	8:30 am	Import Prices (YoY)	February	0.3%	-1.2%