



# Leveraged Lion Capital Equity Research Report

9.7.20

## Leveraged Lion Capital Equity Research – 9/7/20

### Equity Markets

Indices	9/7/2020	1-Day	1-Week	1-Month	YTD
S&P 500 Index	3,426.96	-0.81%	-2.31%	3.64%	6.07%
DOW JONES	29,551.42	-0.56%	-1.82%	4.86%	-1.42%
RUSSELL 2000	1,552.48	-0.76%	-1.61%	4.37%	-6.86%
NASDAQ	12,056.44	-1.27%	-3.40%	3.41%	26.09%
Euro Stoxx 50	3,259.75	-0.43%	-1.37%	-4.28%	-14.06%
NIKKEI 225	22,920.30	0.17%	-1.58%	0.16%	-
DAX INDEX	12,764.80	-0.51%	-1.06%	-3.09%	-4.64%

### S&P 500 Sector Performance

Sector	% Change	Market Cap (\$Tn)
Communication Services	0.97	5.39
Consumer Discretionary	0.53	7.13
Consumer Staples	-0.13	3.67
Energy	-1.42	2.01
Financials	0.27	5.93
Healthcare	0.70	6.63
Industrials	-0.09	4.29
Information Technology	0.52	11.61
Materials	-0.32	2.02
Real Estate	0.30	1.25
Utilities	-0.92	1.42

### Rates Market

Rates	8/21/2020	8/20/2020	8/14/2020	7/21/2020	1/2/2020
US Generic Govt 2 Year Yield	0.14%	0.14%	0.15%	0.14%	1.57%
US Generic Govt 5 Yr	0.26%	0.27%	0.29%	0.26%	1.67%
US Generic Govt 7 Yr	0.44%	0.46%	0.50%	0.45%	1.79%
US Generic Govt 10 Yr	0.63%	0.65%	0.71%	0.60%	1.88%
US Generic Govt 30 Yr	1.34%	1.38%	1.45%	1.31%	2.33%
ICE LIBOR USD 1 Month	2.05%	2.05%	0.15%	0.18%	1.73%
ICE LIBOR USD 3 Month	2.14%	2.14%	0.27%	0.26%	1.90%
BUNDESREPUB. DEUTSCHLAND	-0.51%	-0.50%	-0.42%	-0.46%	-0.23%
JAPAN (10 YEAR ISSUE)	0.03%	0.03%	0.05%	0.01%	-0.02%

### Foreign Exchange Markets

Cross	USD	EUR	JPY	GBP	CHF	CAD	AUD	NZD	HKD
HKD	7.7502	9.1591	7.2961	10.1951	8.5308	5.8803	5.5842	5.0870	
NZD	1.5235	1.8005	0.0143	2.0042	1.6770	1.1560	1.0977		0.1966
AUD	1.3879	1.6402	1.3065	1.8257	1.5277	1.0531		0.9110	0.1791
CAD	1.3180	1.5576	0.0124	1.7337	1.4507		0.9496	0.8651	0.1701
CHF	0.9085	1.0737	0.8553	1.1951		0.6893	0.6546	0.5963	11.7223
GBP	0.7602	0.8984	0.7156		0.8368	0.5768	0.5477	0.4990	0.0981
JPY	106.22	125.53		139.74	116.92	80.60	76.54	69.72	13.71
EUR	0.8462		0.7966	1.1131	0.9314	0.6420	0.6097	0.5554	0.1092
USD		1.1818	0.0094	1.3155	1.1007	0.7588	0.7205	0.6564	0.1290

### Prime / Repo / CP Markets

	Latest Value	1 Year Prior
US Prime Rate	3.25	5.25
CAN Prime Rate	2.45	3.45
UK Prime Rate	1.10	1.75
JPN Prime Rate	1.00	0.95
GER Prime Rate	1.93	2.02
CHF Prime Rate	2.64	2.43
Govt Bond Repo Overnight	0.11	2.30
CP A2/P2 Rate (3 Mo)	0.24	2.52
CP A1/P1 Rate (3 Mo)	0.12	2.26

### Commodity Markets

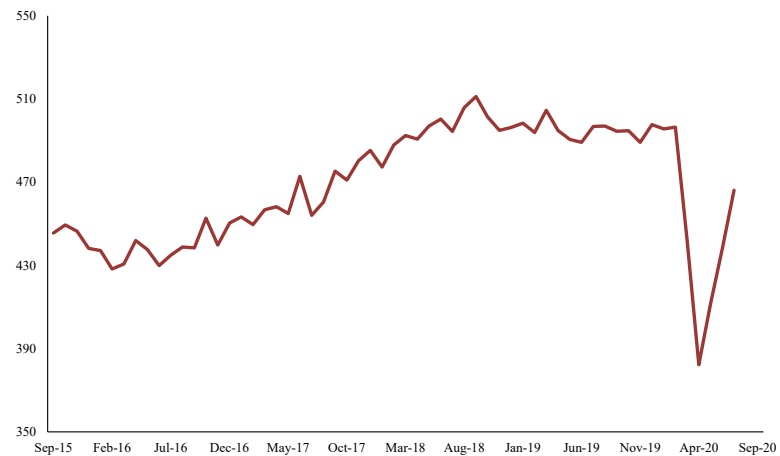
Commodity	% Change	Price
Gold	0.18	1937.60
Silver	-0.32	26.82
WTI	-3.97	39.70
Brent	-3.36	42.56
Copper	0.85	2.95
Natural Gas	4.10	2.59
Corn	1.01	3.49
Wheat	1.43	5.50
Soybean	0.22	922.25
Coffee	0.26	112.20
Sugar	0.39	12.76

## Leveraged Lion Capital Equity Research – 9/7/20

### Economic Situation

- Strong economic data has been flooding in recently easing fears on the current situation
  - ISM Manufacturing Index up 1.8 points m/m to 56.0, which is above consensus estimates of 54.5
  - New Orders Index up 6.1 points to 67.6, the highest since 2003 which is a leading indicator for economic growth
- Jobs data is coming in strong but we still have 7.8 mm additional people unemployed since February of this year
  - Monthly jobs additions for August were inline at 1.37 mm vs. 1.35 mm consensus with UR dropping to 8.4%
- Big things to look forward to is inflation numbers on Thursday and Friday

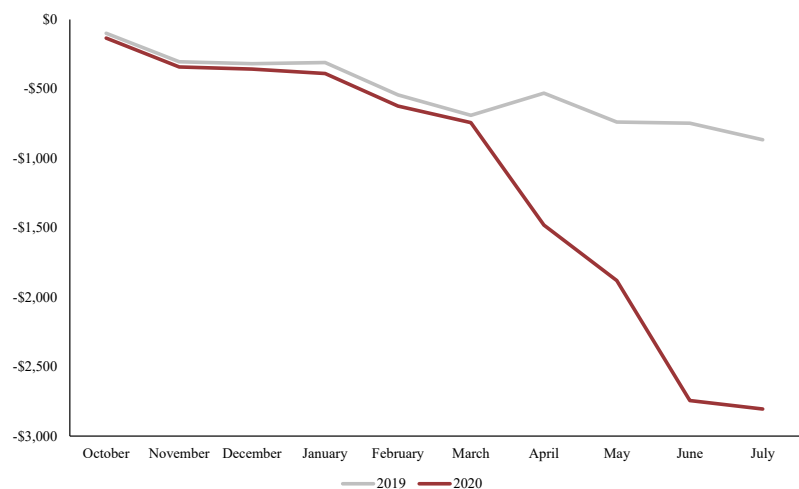
### New Orders (\$ bn)



### Fiscal Policy

- Headlines surrounding a 5<sup>th</sup>
- What is interesting with fiscal policy right now is the question of how much of the rebound was supported by fiscal stimulus vs. other measures
  - The absence of \$600/week for the unemployed over the last month shows the economy is able to stand up on its own two feet
  - Still an enormous amount of liquidity in the system with ZIRP and QE measures in place
- Current deficit numbers coming in at a 16% budget deficit in 2020 and an 8% deficit in 2021
  - Risks with a continued deficit is the countermeasures of increased taxes and reduced spending

### U.S. Monthly Budget Deficit



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## Rotation Bias

- Saw slight correction late last week with equity indices trading down
  - Cyclical/Value groups (Banks, Industrials, etc.) outperforming growth/momentum groups
- Possibility of a continued rotation due to Treasury yields jumping to 72 bps vs 62 bps which was seen on Thursday last week
  - Significance of this is the movement out of risk-off assets
- Solid movement for the recovery story but this performance makes it harder for the passage of additional fiscal stimulus

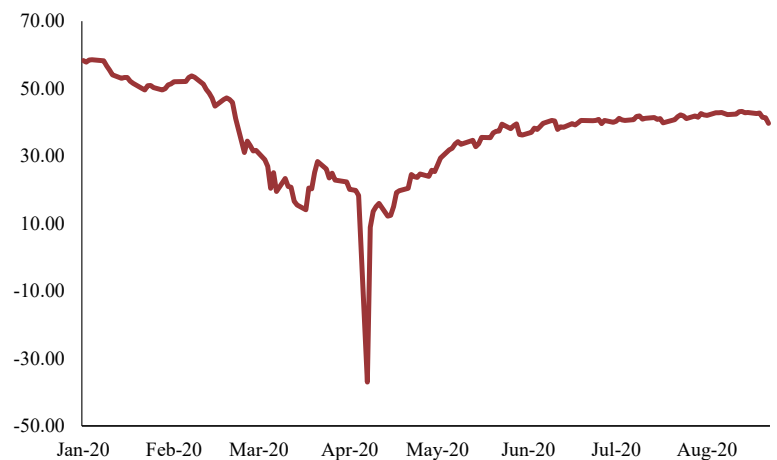
## TSY 10-YR Yield



## Energy Markets

- Supply and demand dynamics continue to be unbalanced as oversupply persists
- China is looking to import less crude in the coming months following the binge buying earlier this year to meet quotas
  - Increased exports from Chinese refiners will continue to flood end markets especially gasoline
  - Prices at the pump are ~\$2.22 per gallon which is the lowest for this time of year since 2004
- Holding crude around \$45-\$50 per Bbl of WTI is crucial for any sustained increases in hedging or drilling activity as that is around the domestic breakeven price
  - This is the level that drilling and growth CapEx can lead to FCF
- Hurricane Laura update: exports are expected to rebound quickly after damage was somewhat mitigated and shut-ins starts to come back online

## Price of WTI Crude Oil





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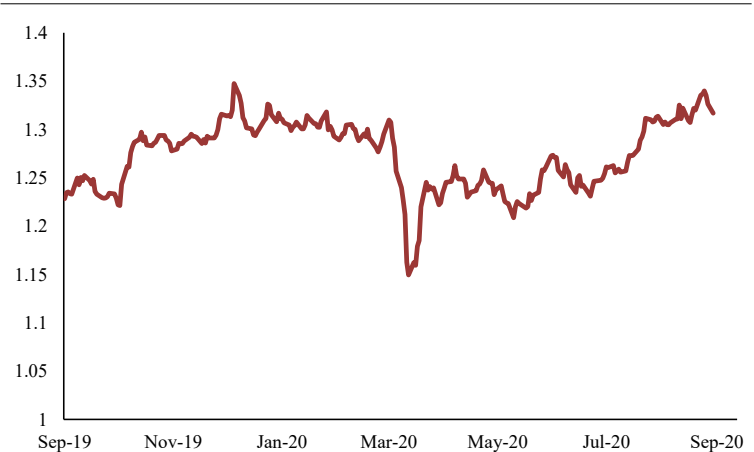
### Resurgence of Brexit

- Most have forgotten about Brexit as the world is gripped with many events
  - Current expectations of a trade deal between the UK and the EU is sitting around 30-40%
  - Compromises are slow and neither side is looking to budge
- Next week is a critical round of negotiations with Boris Johnson, but he prepares his country for a no-deal scenario
- Risks: UK is a financial hub, trade conflicts among EU/UK/US

### Tech Rally Culprit

- The tech rally has been a hot story in the equity markets, and it was unveiled that Softbank had some pull in this movement
  - The bank purchased options tied to around \$50 bn worth of individual tech stocks
  - This massive options purchase was not disclosed with the \$4 bn purchase of tech giants such as Amazon, Microsoft, Netflix, and Tesla
- This led to large volume at the top of U.S. equity indices as large-cap tech dominates
- Hedging activity to cover these options contracts from brokerages add to the rally
  - Selling call options and going to the secondary market to go long underlying
  - As option goes further in money gamma comes into play showing the brokerage that they will need to increase their hedge position

### GBP/USD Performance (1 yr)



### IT Sector vs. S&P 500



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**Economic Calendar (Week of 9/7/20)**

Date	Event	Time	Consensus
Tuesday, September 8, 2020	EU GDP Y/Y	5:00 am	-15.0%
Tuesday, September 8, 2020	Consumer Credit	3:00 pm	\$14.0 bn
Wednesday, September 9, 2020	Bank of Canada Interest Rate	10:00 am	-
Thursday, September 10, 2020	Initial Jobless Claims	8:30 am	835.0 k
Friday, September 11, 2020	Core CPI Y/Y	8:30 am	1.60%

**Economic Calendar (Week of 8/31/20)**

Date	Event	Time	Consensus	Result
Tuesday, September 1, 2020	PMI Manufacturing Index	9:45 am	53.6	53.1
Tuesday, September 1, 2020	ISM Manufacturing Index	10:00 am	54.4	56.0
Wednesday, September 2, 2020	Durable Orders M/M	10:00 am	11.2%	11.4%
Thursday, September 3, 2020	Initial Jobless Claims	8:30 am	950.0 k	881.0 k
Friday, September 4, 2020	Unemployment Rate	8:30 am	9.8%	8.4%