



Leveraged Lion Capital Equity Research Report

7.13.20

Leveraged Lion Capital Equity Research – 7/13/20

Equity Markets

| Indices | 6/12/2020 | 1 Day | 1 Week | 1 Month | YTD |
|---------------|-----------|--------|--------|---------|---------|
| S&P 500 Index | 3,152.05 | -0.56% | 0.70% | -1.72% | -3.25% |
| DOW JONES | 25,706.09 | -1.39% | -0.47% | -5.74% | -10.96% |
| RUSSELL 2000 | 1,398.92 | -2.00% | -2.30% | -7.18% | -16.07% |
| NASDAQ | 10,547.75 | 0.53% | 3.33% | 5.97% | 16.01% |
| Euro Stoxx 50 | 3,261.17 | -0.76% | -1.77% | -1.79% | -14.03% |
| NIKKEI 225 | 22,529.29 | 0.40% | 1.73% | -2.43% | - |
| DAX INDEX | 12,489.46 | -0.04% | -0.94% | -1.02% | -6.70% |

S&P 500 Sector Performance

| Sector | % Change | Market Cap (\$Tn) |
|------------------------|----------|-------------------|
| Communication Services | 0.89 | 4.74 |
| Consumer Discretionary | 0.73 | 5.46 |
| Consumer Staples | -0.18 | 3.91 |
| Energy | -2.71 | 3.12 |
| Financials | 3.01 | 7.42 |
| Healthcare | 0.70 | 5.82 |
| Industrials | 1.95 | 4.42 |
| Information Technology | 1.34 | 8.72 |
| Materials | 1.94 | 1.92 |
| Real Estate | 3.16 | 1.39 |
| Utilities | -0.22 | 1.39 |

Prime Rates

| Rates | 7/9/2020 | 7/8/2020 | 7/2/2020 | 6/9/2020 | 1/2/2020 |
|------------------------------|----------|----------|----------|----------|----------|
| US Generic Govt 2 Year Yield | 0.15% | 0.16% | 0.15% | 0.20% | 1.57% |
| US Generic Govt 5 Yr | 0.28% | 0.30% | 0.30% | 0.40% | 1.67% |
| US Generic Govt 7 Yr | 0.46% | 0.50% | 0.50% | 0.64% | 1.79% |
| US Generic Govt 10 Yr | 0.61% | 0.66% | 0.67% | 0.83% | 1.88% |
| US Generic Govt 30 Yr | 1.31% | 1.40% | 1.43% | 1.58% | 2.33% |
| ICE LIBOR USD 1 Month | 0.18% | 0.19% | 0.16% | 0.19% | 1.73% |
| ICE LIBOR USD 3 Month | 0.27% | 0.27% | 0.30% | 0.31% | 1.90% |
| BUNDESREPUB. DEUTSCHLAND | -0.46% | -0.44% | -0.43% | -0.31% | -0.23% |
| JAPAN (10 YEAR ISSUE) | 0.02% | 0.02% | 0.03% | 0.01% | -0.02% |

Foreign Exchange Markets

| Cross | USD | EUR | JPY | GBP | CHF | CAD | AUD | NZD | HKD |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| HKD | 7.7508 | 8.8014 | 7.2280 | 9.7833 | 8.2360 | 5.7227 | 5.4070 | 5.1024 | |
| NZD | 1.5190 | 1.7250 | 0.0142 | 1.9173 | 1.6141 | 1.1216 | 1.0597 | | 0.1960 |
| AUD | 1.4335 | 1.6278 | 1.3368 | 1.8093 | 1.5232 | 1.0584 | | 0.9437 | 0.1849 |
| CAD | 1.3544 | 1.5380 | 0.0126 | 1.7094 | 1.4391 | | 0.9448 | 0.8916 | 0.1747 |
| CHF | 0.9411 | 1.0686 | 0.8777 | 1.1878 | | 0.6948 | 0.6565 | 0.6195 | 12.1420 |
| GBP | 0.7922 | 0.8997 | 0.7388 | | 0.8419 | 0.5850 | 0.5527 | 0.5216 | 0.1022 |
| JPY | 107.23 | 121.77 | | 135.35 | 113.95 | 79.17 | 74.81 | 70.59 | 13.83 |
| EUR | 0.8806 | | 0.8212 | 1.1115 | 0.9358 | 0.6502 | 0.6143 | 0.5797 | 0.1136 |
| USD | | 1.1356 | 0.0093 | 1.2622 | 1.0626 | 0.7384 | 0.6976 | 0.6583 | 0.1290 |

Rates Markets

| Rates | 6/12/2020 | 1 Day | 1 Week | 1 Month | YTD |
|-----------|-----------|-------|--------|---------|-----|
| US 2-Yr | 0.15% | | | | |
| US 5-Yr | 0.28% | | | | |
| US 7-Yr | 0.46% | | | | |
| US 10-Yr | 0.61% | | | | |
| US 30-Yr | 1.31% | | | | |
| 1Mo LIBOR | 0.18% | | | | |
| 3Mo LIBOR | 0.27% | | | | |
| GER 10-Yr | -0.46% | | | | |
| JGB 10-Yr | 0.02% | | | | |

Commodity Markets

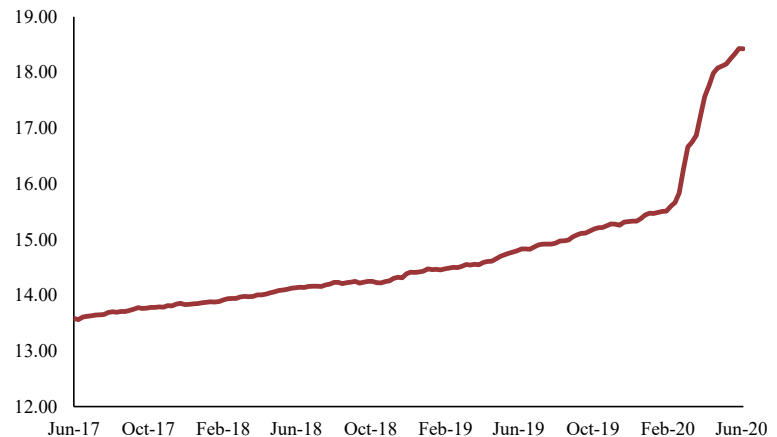
| Commodity | % Change | Price |
|-------------|----------|---------|
| Gold | -0.22 | 1798.00 |
| Silver | 0.21 | 18.68 |
| WTI | 2.37 | 40.57 |
| Brent | 2.17 | 43.29 |
| Copper | -1.52 | 2.91 |
| Natural Gas | 1.63 | 1.81 |
| Corn | -3.27 | 3.40 |
| Wheat | 1.68 | 5.44 |
| Soybean | -0.11 | 873.00 |
| Coffee | -1.45 | 92.74 |
| Sugar | -0.68 | 11.76 |

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Monetary Policy

- The rally over the last week and month can be pointed towards liquidity and positioning tailwinds
- Fed Vice Chair Richard Clarida mentioned the Fed has a lot of accommodation in place and will do more, saying there is “no limit” to bond buying or extensions
- We have seen the M2 money supply rise by \$3.00 tn in the U.S. which is looking to translate globally according to JPM
 - Money supply is up 25.00% y/y, which is the 10th time above 20.00% in the last 190 years
- Positioning of hedge funds and quantitative investors in regard to equities is low
 - Need to add ~\$400.00 bn in equity exposure to meet median exposure

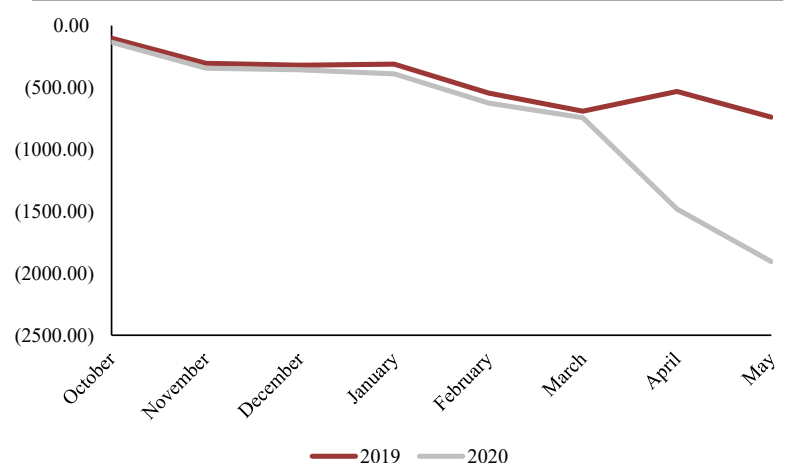
M2 Money Supply (\$ tn)



Fiscal Policy

- Headlines surrounding a 5th coronavirus relief bill which is expected to be ~\$1.00 tn
- This bill is below the ~\$3.00 tn bill passed by House Democrats
- Senate Majority Leader McConnell has suggested a restriction on the second round of stimulus checks with a 2019 income cap of ~\$40.00 k
- With some resistance to a continuation of an aggressive relief package could create concerns of a fiscal cliff that would headwind the recovery
- Former VP Biden has released his \$700.00 bn plan to “revitalize the economy” is focused on job recovery and the domestic manufacturing base
- Some see presidency as a headwind with tax rate increase to 28.00%

U.S. Budget Deficit



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Growth vs. Value

- Story so far has been a continued outperformance of growth over value
- Russell 1000 Growth gained 3.50% vs Russell 1000 value gained 0.20% as the outperformance of big tech due to liquidity and balance sheet strength
- Value has taken a hit and continues to underperform to rising fears in the South and West and no vaccine optimism
- Key value industries are financial companies, automakers, airlines, commodity producers
- P/B of value: 1.00, P/B of growth: 8.00
 - Value defense, oversold territory

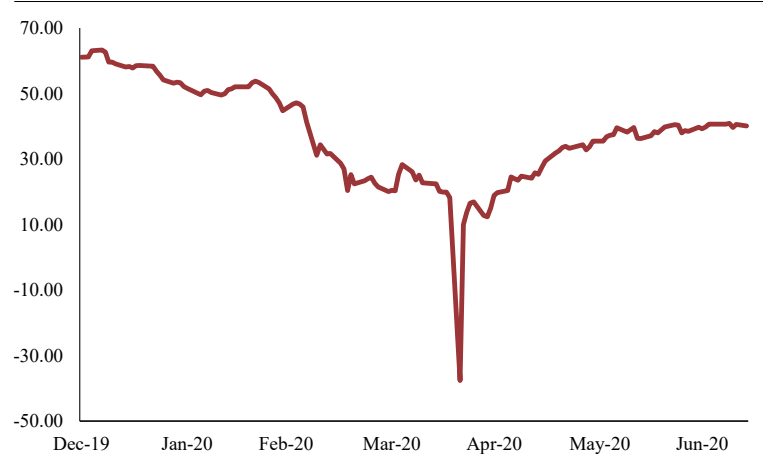
MSCI World Growth Value Spread



Energy Markets

- This Wednesday, OPEC+ will convene for a meeting in which the group may announce to start tapering cuts
 - Saudi Arabia proposed a 2.00 MM Bbls/d decrease in cuts bringing total to 7.7 MM Bbls/d
- The International Energy Agency (IEA) released its monthly report detailing a plunge in 1H2020 crude demand by 10.75 MM Bbls/d (11.00% y/y) and by 5.10 MM Bbls/d in 2H2020 bring annual decline to ~8.00 MM Bbls/d
- However, OPEC+ has seen 106.00% compliance from members including Iran, Iraq, and Nigeria
- Missile strike on a 400.00 k Bbl/d refinery, an increase in attacks with some missiles reaching Saudi capital
- Pipeline setbacks in Northern U.S. will aid in capping U.S. production and may never return to 13.00 MM Bbls/d

Price of WTI Crude Oil



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China Heats Up

- Shanghai Composite was up 7.50% this week and rallied 16.50% over eight days which did lead to some outperformance in U.S. indices such as S&P 500 and Dow
- Improving COVID-19 and economic data has led to investor confidence
- However, two government-owned funds announced plans to trim positions of stock that surged over the week
 - This created some fears of a crazy rally which is not supported yet

Focus on Q2 Earnings

- The focus this week will be on bank earnings with the kickoff of Q2 earnings season with NIM pressure
- Estimates are coming in with an expected decline of ~44.00% in Q2
 - This would be the largest y/y decline since 2008
 - The pace of negative revisions have slowed in the recent weeks
- Bank earnings will come down to credit driven by reserves
- Have seen five companies (CRTO, FCX, HIMX, SBH, TMO) report surprises to the upside which eased concerns moving into this week
- Continued stimulus, stronger economic data (ex: ISM), drug release data, and decreasing fatalities have led to a slowing in earning negativity

Shanghai Composite



S&P 500 Index



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Economic Calendar (Week of 7/13/20)

| Date | Event | Time | Consensus |
|--------------------------|--------------------------|---------|--------------|
| Monday, July 13, 2020 | Treasury Budget | 2:00 pm | -\$751.50 bn |
| Tuesday, July 14, 2020 | Core CPI Y/Y | 8:30 am | 1.10% |
| Tuesday, July 14, 2020 | CPI Y/Y | 8:30 pm | 0.55% |
| Wednesday, July 15, 2020 | Industrial Production | 9:15 am | 4.40% |
| Wednesday, July 15, 2020 | Manufacturing Production | 9:15 am | 5.60% |
| Thursday, July 16, 2020 | Initial Jobless Claims | 8:30 am | 1250.00 k |

Economic Calendar (Week of 7/6/20)

| Date | Event | Time | Consensus | Result |
|------------------------|-----------------------------|----------|-----------|-----------|
| Monday, July 6, 2020 | ISM Non Manufacturing | 10:00 am | 50.00 | 57.10 |
| Thursday, July 9, 2020 | U.S. Initial Jobless Claims | 8:30 am | 1375.00 k | 1314.00 k |
| Thursday, July 9, 2020 | Wholesale Inventories | 10:00 am | -1.20% | -1.20% |
| Friday, July 10, 2020 | PPI ex Food & Energy Y/Y | 8:30 am | 0.08% | 0.60% |
| Friday, July 10, 2020 | PPI NSA Y/Y | 8:30 am | -0.84% | -0.25% |