



# Leveraged Lion Capital

## Fixed Income Research Report

02.17.20

## LLC Portfolio Review

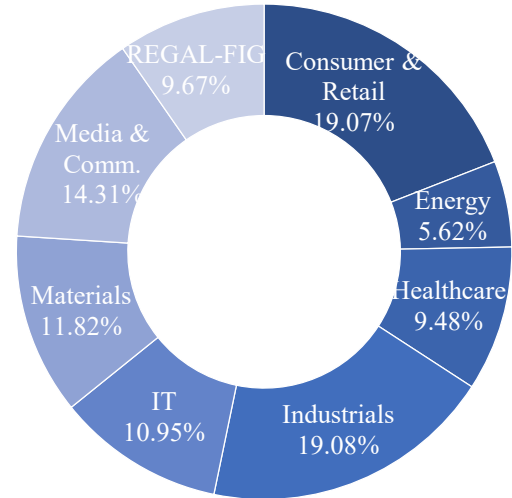
### Portfolio Characteristics

Number of holdings	27
Average price	99.11
Average YTM	5.89%
Average total leverage	4.17x
Average interest coverage	5.46x

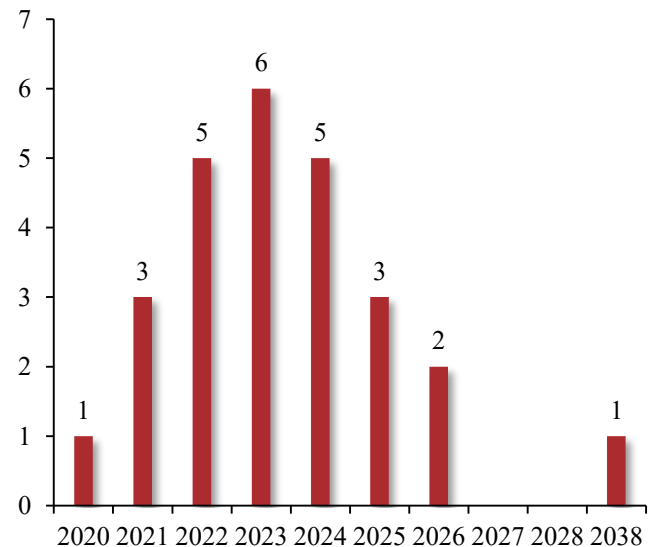
### Credit Quality (# of holdings)

<b>Bank Loans</b>	<b>71.80%</b>
BBB-	13.64
BB+	9.09
BB	13.64
BB-	9.09
B+	22.73
B	22.73
<b>High Yield Corporates</b>	<b>21.79%</b>
BB-	60.00
B+	20.00
B	20.00
B-	0.00
CCC-	0.00
<b>Cash &amp; Cash Equivalents</b>	<b>6.41%</b>

### Sector Allocation (% of total assets)



### Maturity Distribution (# of holdings)



### Loan & HY Bond Market Recap

- Loan fund outflows totaled \$163mm, marking the fourth straight week of outflows
- U.S. high-yield and investment grade funds saw inflows of \$2.83bn and \$6.23bn for the week. The inflows of \$6.23bn marks the fourth largest weekly influx on record for investment grade bond funds
- Leveraged loan launch volume declined to \$13.1 bn from 19 issuers, but the share of repricings making up launched volume is subsiding as repricings declined to \$7.1bn.
- January was the first month since November 2014 without a single default in the US HY bond market. However, even with no defaults last month, the default rate remains above 3%

### Top Leveraged Loan Movers

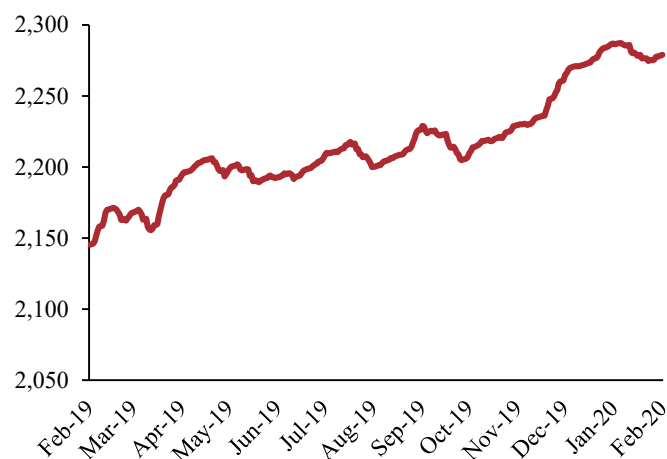
#### Leaders:

1. Ligado Networks LLC's 2L PIK-TL +3.50% to 20.77
2. Ligado Networks LLC's 1L PIK-TL + 3.25% to 64.25
3. Casa Systems Inc's 1L TLB +2.50% to 84.50
4. GIP III Stetson's 1L TLB +1.63% to 92.50
5. Steak n Shake's 1L TLB +1.38% to 71.88

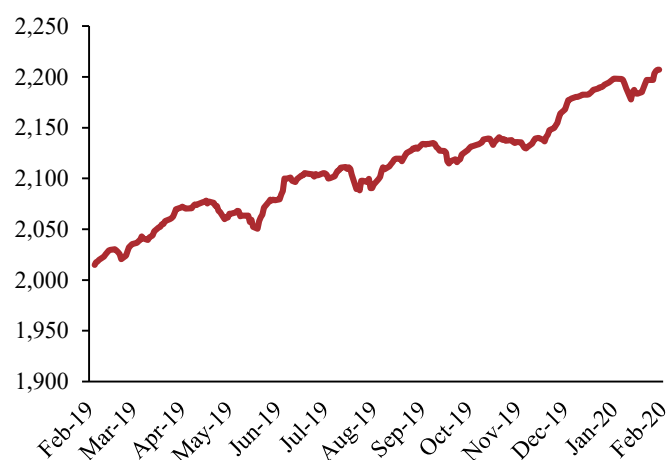
#### Laggards:

1. Longview Power LLC's 1L TLB -5.38% to 47.63
2. Men's Wearhouse's 1L TLB2 -3.00% to 79.13
3. Encino Acquisition Partners' 2L TL -1.75% to 68.00
4. Evergreen Skills' 2L TL -1.59% to 24.30
5. Crown Finance's 1L TLB -1.00% to 97.63%

### S&P/LSTA US Leveraged Loan 100 Index



### Bloomberg Barclays US Corp HY Index



#### 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	-0.36%	0.40%
YTD	0.22%	1.11%
Index value	2278.25	2207.09
52-week high	2287.33	2207.09
Wtd. avg. yield / YTW	5.57%	5.11%
OAS	-	3.44

Source: Bloomberg

# Leveraged Lion Capital

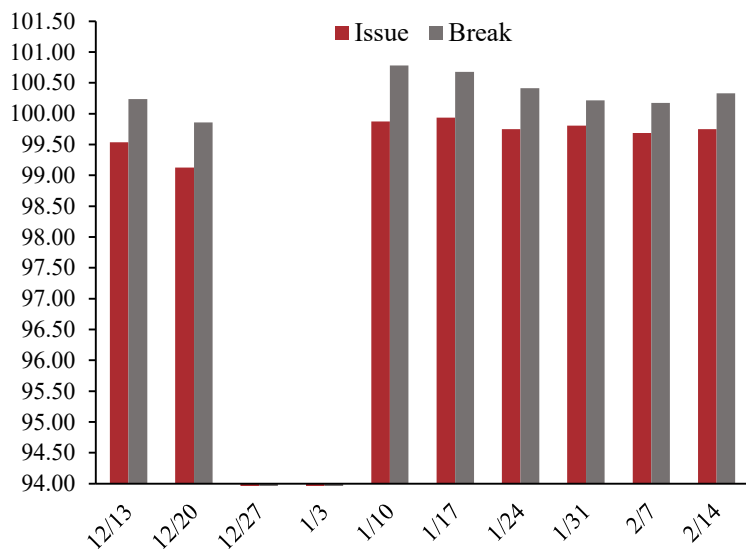
# LLC

Fixed Income Weekly Report

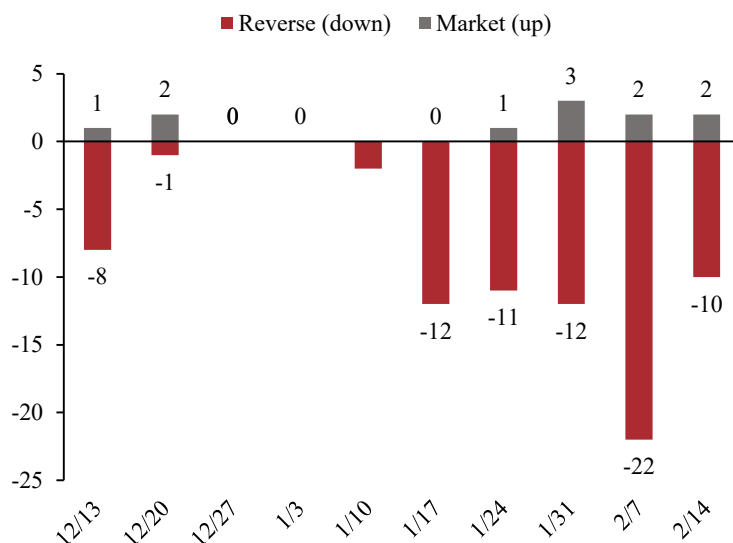
+1.38%

February 17, 2020

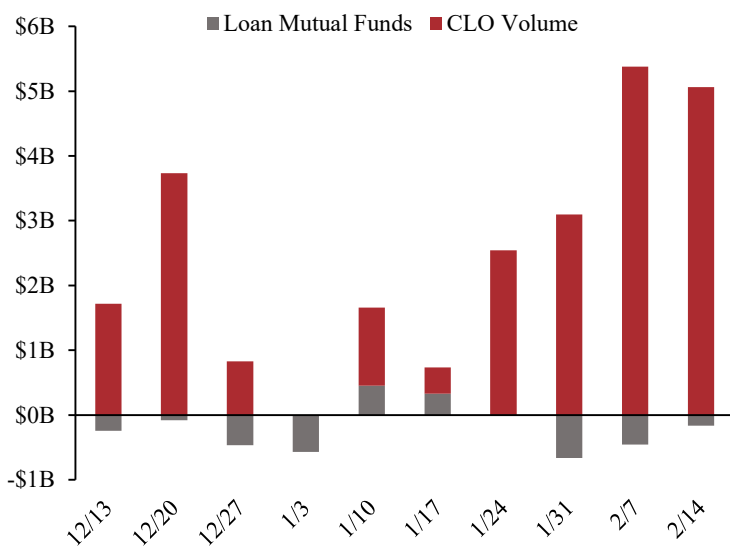
## Prices (first-lien deals)



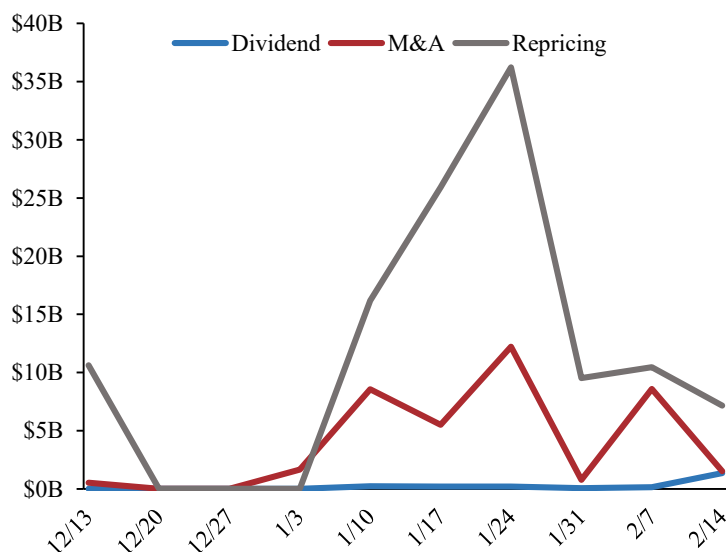
## Flex Activity



## Fund Flows

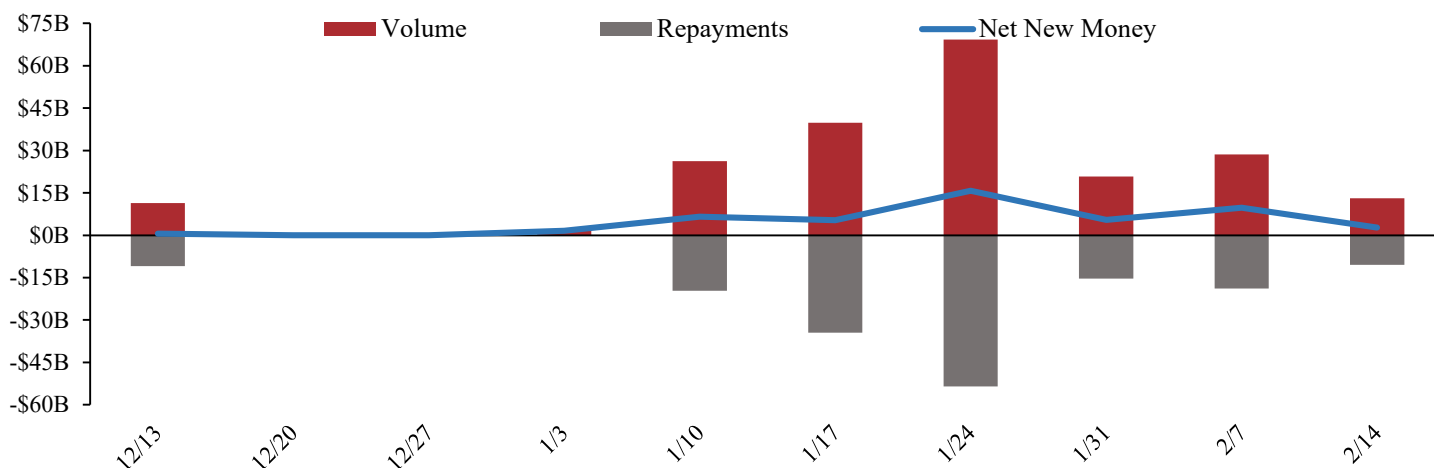


## Launched Deal Volume by Purpose



Source: LevFin Insights

### Net Launched Volume



### Recent Leveraged Loan Deals

Company	Purpose	Tranche Size	Spread (bps)	OID
ACProducts Inc	M&A	\$1,300.00 mm	L+650	102.00
Ceridian HCM	Repricing	\$672.00 mm	L+250	100.00
Idera Inc	Repricing	\$770.00 mm	L+400	100.00
Kindred Healthcare Inc	Refinancing	\$170.00 mm	L+500	99.00
Meredith Corp.	Repricing	\$1,063.00 mm	L+250	100.00
Plastipak	Refinancing	\$165.00 mm	L+250	99.01
Vast Broadband	Refinancing	\$237.50 mm	L+425	100.00
Verra Mobility	Repricing	\$894.00 mm	L+325	100.00

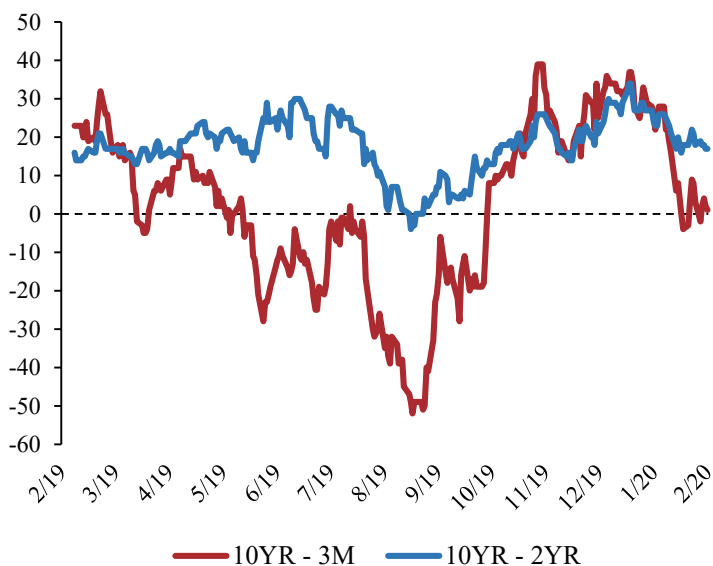
### Recent High-Yield Bond Deals

Company	Purpose	Tranche Size	Coupon	Issue Price
APX Group	Refinancing	\$600.00 mm	6.750%	100.00
Buckeye Partners	Refinancing	\$500.00 mm	4.125%	100.00
Buckeye Partners	Refinancing	\$500.00 mm	4.500%	100.00
HCA Holdings	Refinancing	\$2,700.00 mm	3.500%	100.00
LifePoint Health	Refinancing	\$600.00 mm	4.375%	100.00
Post Holdings Inc	Refinancing	\$1,250.00 mm	4.625%	100.00
Block Communications Inc	Refinancing	\$300.00 mm	4.875%	100.00
United Rentals Inc	Refinancing	\$750.00 mm	4.000%	100.00

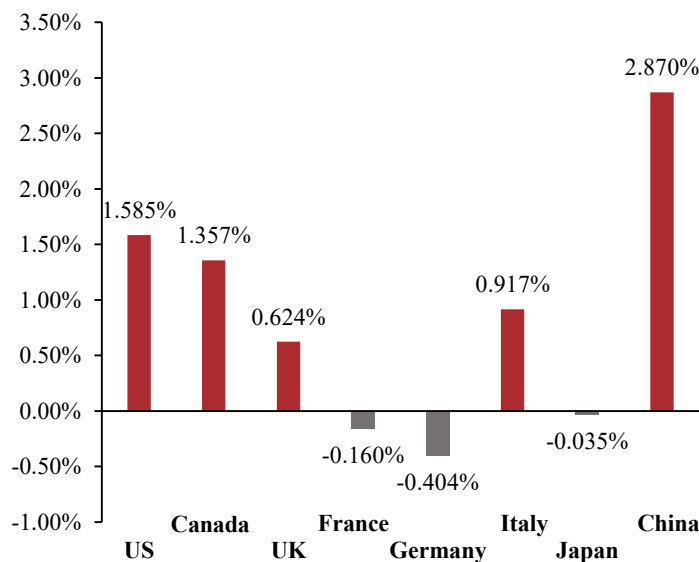
Source: LevFin Insights



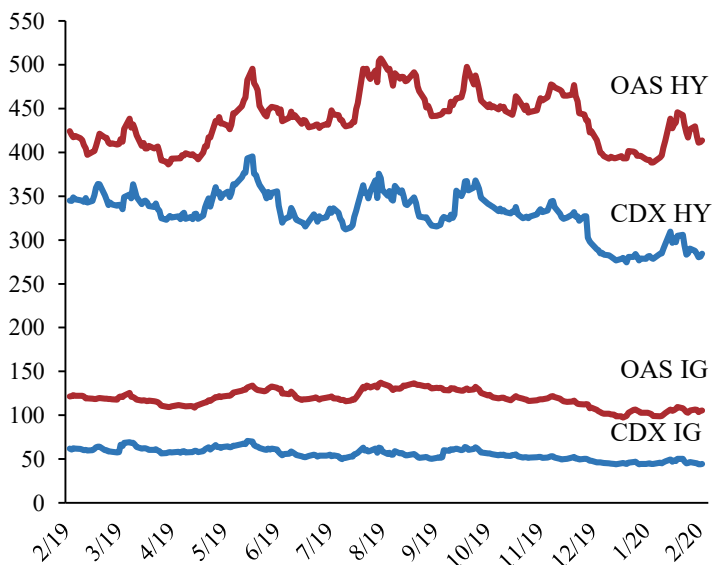
### Treasury Yield Curve Spreads



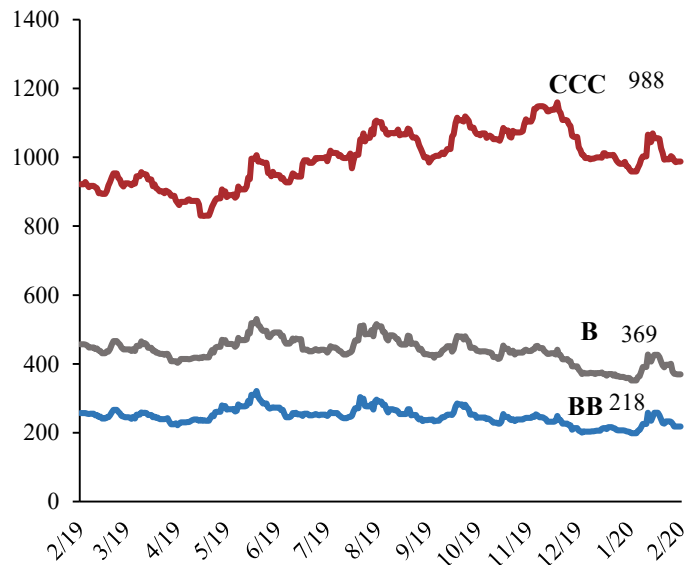
### 10-year Government Bond Yields



### Corporate Credit OAS & CDS Spreads



### ICE BofAML US High-Yield Index YTW



Source: Bloomberg & FactSet

## Special Topics & Notable Developments

### Dovish Tone Harming the Loan Market

- Leveraged loans are currently underperforming high yield bonds
- Although junk bond spreads widened last month, prices have recovered most of the losses
- As long as the Federal Reserve remains focused on increasing inflation and the market remains optimistic junk bonds are likely to continue doing well
  - With investors remaining risk-on, CCC names have outperformed, while BB and B spreads are slightly wider
- The primary market for leveraged loans is also dependent on CLO demand which results in a limited investor base
  - 15% of global CLOs are owned by Japanese banks and these investors typically buy AAA tranches
  - CLO creation is expected to slow this year, with YTD CLO creation only at \$6.2 bn compared to \$9.5 bn from this point last year

### Kraft-Heinz Becomes Newest Fallen Angel

- After struggling to keep up with consumer preferences since the merger five years ago, 3G went on cost-cutting spree but is now left with just under \$30 bn in debt
  - Fitch and S&P Global downgraded Kraft-Heinz from BBB- to BB+
  - Names rated BBB, makes up about half of the investment grade market which stands at \$5.9 trillion
  - Although this \$30 bn doesn't represent a huge portion of the investment grade market, it will become one of the top three high yield players
- Kraft-Heinz debt has already been trading similarly to junk debt with its notes due in 2029 yielding around 3.5% compared to the BBB average 2.88%
  - This has occurred since the company has written down its brand portfolio by more than \$15 bn, leaving it with a portfolio of tired brands
  - According to Fitch, Kraft-Heinz will have to divest major parts of its business to reduce debt and it also needs to cut its dividends, but the Company announced last week that it would maintain the \$2 bn annual dividend
  - This along with the fears that Kraft-Heinz may struggle through a transformation in the midst of a slowing economy
- The downgrading of Kraft-Heinz demonstrates the broader fear of fallen angels in the investment grade market
  - UBS Group strategists predict that there could be as much as \$90 bn in debt moving from investment grade to the high yield space
  - That figure is relatively high compared to the \$22 bn in fallen angels in 2019
  - Although this downgrading may have been avoided through actions other at-risk investment grade companies have taken such as selling assets or cutting dividends

Source: Bloomberg & WSJ

### Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Tuesday 2/18	8:30 am	Empire State Manufacturing	February	4.8	5.1
Wednesday 2/19	8:30 am	Housing Starts	January	16.9%	-11.7%
Wednesday 2/19	8:30 am	Building Permits	January	-3.7%	2.2%
Wednesday 2/19	8:30 am	PPI	January	1.3%	1.7%
Wednesday 2/19	8:30 am	Core PPI	January	1.1%	1.3%
Wednesday 2/19	2:00 pm	FOMC Minutes	1/29	-	-
Thursday 2/20	8:30 am	Initial Jobless Claims	2/15	205K	215K
Thursday 2/20	8:30 am	Philadelphia Fed Manufacturing	February	17	12
Friday 2/21	9:45 am	Markit Manufacturing PMI	February	51.9	51.1
Friday 2/21	9:45 am	Markit Services PMI	February	53.4	53.2
Friday 2/21	9:45 am	Markit Composite PMI	February	53.3	52.8
Friday 2/21	10:00 am	Existing Home Sales	January	5.45 mm	5.42 mm

### Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Monday 2/10	11:00 am	Consumer Inflation Expectations	January	2.53%	2.50%
Tuesday 2/11	6:00 am	NFIB Business Optimism Index	January	102.7	104.3
Tuesday 2/11	10:00 am	JOLTs Job Openings	December	6.787 mm	6.423 mm
Thursday 2/13	8:30 am	CPI	January	2.3%	2.5%
Thursday 2/13	8:30 am	Core CPI	January	2.3%	2.3%
Thursday 2/13	8:30 am	Initial Jobless Claims	2/8	203K	205K
Friday 2/14	8:30 am	Retail Sales	January	5.5%	4.4%
Friday 2/14	8:30 am	Import Prices	January	0.5%	0.3%
Friday 2/14	8:30 am	Export Prices	January	-0.9%	0.5%
Friday 2/14	9:15 am	Industrial Production	January	-0.9%	-0.8%
Friday 2/14	10:00 am	Consumer Sentiment	February	99.8	100.9